

Company Registration No. 03849133

TalkTalk Communications Limited

Annual Report and Financial Statements

For the year ended 28 February 2022



TalkTalk Communications Limited

Annual Report and Financial Statements for the year ended 28 February 2022

Contents	Page
Officers and professional advisers	1
Strategic report	2
Section 172 report	9
Directors' report	14
Directors' responsibilities statement	16
Income statement	17
Balance sheet	18
Statement of changes in equity	20
Notes to the financial statements	21

TalkTalk Communications Limited

Officers and professional advisers

Directors

T A Harrison
P Eayres (Appointed 12 March 2021)
K Ferry (Resigned 12 March 2021)

Company Secretary

T S Morris

Registered office

Soapworks
Ordsall Lane
Salford
United Kingdom
M5 3TT

Bankers

HSBC Bank plc
8 Canada Square
London
E14 5HQ

TalkTalk Communications Limited

Strategic report (continued)

Principal activities

The principal activities of the TalkTalk Communications Limited ("the Company") continue to be the provision of telecommunication services in the United Kingdom. The Company is part of the Tosca IOM Group ("the Group").

Business review and outlook

The revenue of the Company is generated through the sale of services (telephone, broadband/fibre and ethernet) within the telecommunications business to business (B2B) market and through recharges to other Group entities for the provision of the Company's network. The costs incurred by the Company are mostly the costs directly incurred in generating its revenue, depreciation of the Company's network and the costs of its maintenance. In addition, recharges from other Group entities for provision of the TalkTalk brand and an allocation of the Group overheads.

The B2B offering is organised around our products and channels to market and is a significant part of the Group. Through our Partner channel we provide both 'managed' and 'wholesale' solutions. Voice and Data revenues are generated through long term relationships, several of which are multi-year contracts. Our managed partners primarily address the consumer and small business market, delivering voice services, broadband and fibre. Having a wholesale offering allows us to work with systems integrators, which often combine connectivity and data solutions from multiple providers to offer large customers a bespoke solution. Through these partners, we are the UK's largest provider of wholesale broadband to businesses and consumers, with 60% market share. The Company also provides voice interconnect services to a range of international mobile operators terminating calls in the UK.

The performance of the Group, which includes the Company, is discussed in the 2022 Annual Report of the Group, which does not form part of this report.

In the prior period the Company changed its financial year-end date from 31 March to 28 February. Therefore, all 2021 metrics include eleven months compared to twelve months for the 2022 financial year.

The Company's Directors believe that the financial key performance indicators of the business are as follows:

	Year ended 28 February 2022	Eleven-month period ended 28 February 2021
Revenue (£'000)	1,199,419	1,080,828
Gross profit (%)	35.3	35.7
Loss before taxation (£'000)	46,078	59,254

Revenue amounted to £1,199,419,000 representing a 11.0% increase on the prior year. This increase is largely due to the prior period consisting of eleven months compared to twelve in the current year. The Company recorded a loss before taxation of £46,078,000 in the period compared to loss before taxation of £59,254,000 in the prior period driven by ongoing cost efficiencies in cost to serve and management overheads as benefits continue to be realised through our cost transformation programmes.

As at 28 February 2022, the Company had net assets of £403,947,000 (2021: £429,166,000).

TalkTalk Business is already Britain's largest provider of wholesale broadband, with 60% market share. The channel allows us to retain a simple, cost-effective business model which can address the needs of businesses as well as reaching a larger consumer base whereby our network of partners takes responsibility for providing the complex range of additional products. With clients consuming more data and higher speed connections the Company will also continue to focus with the upgrade of customers to higher speed Fibre and Data products and in the year the majority of new customers in our partner business are now joining on Fibre products.

Business review and outlook (continued)

Our core strategy for our network remains the provision of fixed line connectivity, affordable for all. This means network expansion to stay ahead of demand is our core investment priority to meet rising demand. Crucially, we are doing this more efficiently by exploiting new technology to reduce our cost per Gb, whilst driving industry changes along the way. Given the focus on core connectivity it is essential that foundations are strong and that the Company is able to adapt to the changing needs of our customers, whilst continuing to scale. As such, the Company Company Registration No. 03849133

TalkTalk Communications Limited

Strategic report (continued)

concluded our multi-year network and IT transformation programme in the prior year, which fundamentally restructured the Company's network, IT infrastructure and technology organisation. The company incurred costs in the period ended 28 February 2022 of £nil (2021: £8,719,000) relating to this programme.

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 over the coming years. 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. The Company has incurred £31,062,000 (2021: £nil) of transformation costs in FY22 which primarily relate to dual running costs where we continue to operate both the legacy and Fibre-based exchange estates during the Fibre transition period. These costs have been recognised as adjusting items from the year ended 28 February 2022 as the plan for the transformation has formalised.

Risk management

Funding for all subsidiaries of the Group, including the Company, is arranged centrally. Due to the nature of the Company's business and the assets and liabilities contained within the Company's balance sheet the main financial risks the Directors consider relevant to this Company are credit risk, liquidity risk and interest rate risk. Credit risk is mitigated by the Company's credit control policies and the Group regularly monitors interest rate risk. Liquidity risk is monitored by a central treasury function through regularly assessing the Group's short-term working capital and long-term funding requirements. Material transactions in foreign currencies are hedged using forward purchases or sales of the relevant currencies and are recognised in the financial statements at the exchange rates obtained. The Group does not trade or speculate in any derivative financial instruments.

The Company is co-guarantor of the debt facilities of the Group at 28 February 2022. Details of the debt facilities are contained in the 2022 Annual Report of the Group. The Group's net borrowings, including leases at 28 February 2022 was £1,102 million (2021: £972 million).

Although not fully quantifiable at present, high inflation & cost of living pressures may result in financial risks due to revenue pressures and an increasing cost base.

In addition to financial risk, there are other risks and uncertainties affecting the Company that could have a consequential impact on its performance. The key risks have been outlined as follows:

Risk and impact	Mitigation
Customer trust and brand reputation 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.	 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 20-point improvement in our NPS. This has also been supplemented by our lowest ever level of customer complaints. 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. The Group has attractive customer offerings (see Competitive Landscape Risk) and the organisation

TalkTalk Communications Limited

Strategic report (continued)

Risk and impact	Mitigation
	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 which 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.
People capability 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.	TalkTalk has refreshed 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. 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.
Competitive landscape 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	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

Company Registration No. 03849133

TalkTalk Communications Limited

Strategic report (continued)

Risk and impact	Mitigation
<i>further intensify the competitive landscape.</i>	<i>winning zero router to customers to create an outstanding in-home connectivity solution. We also launched our broadband partnership with Netflix which means our customers can add a Netflix subscription to their TalkTalk bill and save money.</i> 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.
Changing market structure The Government and Ofcom are committed to promoting investment in Full Fibre networks through infrastructure competition in the UK telecommunications 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.	TalkTalk continues to be a vocal advocate of competition and is well placed to benefit from the increasing trend towards a more pro-competition regulatory framework. This poses a risk to incumbent players in the market, whilst presenting potentially valuable opportunities for challengers. The business is actively engaging with external stakeholders, particularly Ofcom and Government, to share views and attempt to deliver the best market and customer outcomes, as well as to proactively understand and respond to the opportunities and challenges presented by structural market changes. TalkTalk is well placed to benefit from the transition Full Fibre networks as customers continue to demand even faster, more reliable services; a trend accelerated by the pandemic. Our longer term ambition is to transition all customers to new FTTP networks as quickly as possible. We are now offering Full Fibre products on both Openreach and CityFibre networks. We have signed a wholesale agreement with CityFibre to connect customers onto their network in their roll-out areas at a competitive price. This agreement demonstrates how TalkTalk can benefit from increased network competition. We continue to discuss potential commercial arrangements with other FTTP network owners to ensure the optimal mix of suppliers.
Regulatory compliance The telecommunications sector is highly regulated, with compliance over key customer-focused regulations monitored by the governing body, Ofcom. Another of the key governing bodies relevant to the Company is the Information Commissioner's Office (ICO). The regulations and laws that TalkTalk must comply with,	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

TalkTalk Communications Limited

Strategic report (continued)

Risk and impact	Mitigation
including Ofcom 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. Failure to comply with regulatory obligations may result in negative customer impact and/or significant regulatory fines.	and there has been continued focus on embedding processes and controls to maintain compliance to industry regulations including focus on delivering improvements in our complaint handling processes and reducing complaint volumes. Plans are also in place to deliver further regulatory changes which come into force over the next twelve to eighteen months. TalkTalk has established structured programmes to deliver changes resulting from Ofcom's end-to-end review of its General Conditions. The progress of this activity will be governed by the existing Compliance Committee to ensure effective delivery. We have regular dialogue with Ofcom and Government on regulatory issues to aid our internal compliance regime.
Data and cyber security Security of customer, commercial and colleague data poses increasing reputational and financial risk to all businesses and the gross risk remains high. In particular, cyber and data related threats, crime security 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. Further to DCMS's UK telecom supply chain review in July 2019, the Government announced the establishment of a new, robust security framework for the UK telecoms sector, marking a significant shift from the current model known as Telecom Security Act (TSA). 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.	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. Investment is also planned to continue in the new financial year and beyond leveraging an updated Security Strategy centred around five focus areas: • Governance and Visibility; • Protective Controls; • Security Testing and Vulnerability Management; • Telecom Security Regulation readiness; and • Customer Security. 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. 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.

TalkTalk Communications Limited

Strategic report (continued)

Risk and impact	Mitigation
Resilience and business continuity 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.	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 to 8.4 Tbps (FY21: 7.6 Tbps). The TalkTalk network has remained resilient with underlying connectivity performance of 99.998%. We are proud of our role in keeping the nation connected.
Change delivery and execution 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	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.

TalkTalk Communications Limited

Strategic report (continued)

Risk and impact	Mitigation
deliver performance objectives and limit TalkTalk's competitive position in the market.	During FY22 a new Group Transformation Executive Committee Role was introduced to reflect the continuing focus and priority given to ensuring successful project delivery. The Group Transformation function remains a key effective control for facilitating prioritisation discussions to ensure people and financial resources are appropriately engaged, allocated and focused. Performance measures for key change projects are defined and monitored and regularly reviewed by Group 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.

Environment

A full analysis of the environmental, social and community issues relating to the Company and, where relevant, the industry in which it operates are described in the 2022 Annual Report of the Group, which does not form part of this report. As a subsidiary entity, the Company operates in accordance with the policies of the Group.

Future developments

As we look forward to FY23 and beyond, we are excited to be at the centre of a fundamental re-set of the telecommunications industry, with the transition to Full Fibre in full swing. We believe we are now on a more secure footing and with the Group under private ownership can accelerate our FTTP plans to grow market share to cement our position as the UK's only affordable provider of nationwide Full Fibre.

The Directors will continue to monitor both the Company's and its investments' key performance indicators, principal risks and uncertainties and develop the Company as opportunities arise.

Approved by the Board of Directors and signed on its behalf by:



P Eayres
Director
18 July 2022

TalkTalk Communications Limited

Section 172 Report

Valuing our stakeholders

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 Company's operations on the environment, adherence to responsible business practices and ethical values and expectations are described in the 2022 Annual Report of the Group, which does not form part of this report.

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 strategic objectives. The company's ultimate parent undertaking and controlling party are disclosed in note 19.

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.

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;
- 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.

TalkTalk Communications Limited

Section 172 Report (continued)

Customers (continued)

How we engage

- We focus on 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 B2B;
- We monitor and track CSAT and NPS scores for benchmarking purposes in 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;
- 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.

TalkTalk Communications Limited

Section 172 Report (continued)

Suppliers (continued)

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.
- Our supplier payment policy can be seen in our Directors’ Report on page 30 of the Tosca IOM Limited Group annual report.

How they influence the Board’s decision making

- The Board recognises that relationships with suppliers are vital to the Company’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

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 major charity partners:
 - Ambitious about Autism, the Internet Watch Foundation and Internet Matters; and
 - providing financial investment as well as support in kind.
- Regular engagement with external stakeholders from a range of communities to assess our performance and hear directly from our relevant communities;

TalkTalk Communications Limited

Section 172 Report (continued)

Communities (continued)

How we engage (continued)

- 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
- 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.

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.

TalkTalk Communications Limited

Section 172 Report (continued)

Regulators

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; and
 - The desirability of encouraging investment and innovation in relevant markets.
- 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.

TalkTalk Communications Limited

Directors' report

The Directors present their annual report on the affairs of the Company, together with the financial statements and the auditor's report for the period ended 28 February 2022.

Certain disclosure requirements of the Directors' report are included in the Strategic report and Section 172 report, such items have not been repeated in this report as per s414c of the Companies Act 2006.

On 15 March 2021 TalkTalk was officially de-listed from the London Stock Exchange, following the acquisition of the Company by Tosca IOM Limited.

Directors

The Directors who served throughout the period, and subsequently, are shown on page 1.

Dividends

The Directors do not recommend the payment of a dividend for the period (2021: £nil).

Going concern

The Directors have acknowledged the guidance 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009', published by the FRC in October 2009.

The Company's balance sheet shows a net current liability position of £232,449,000 (2021: £216,709,000). The Companies ultimate parent company, Tosca IOM Limited, has formally indicated in writing that it is committed to provide sufficient funding to the Company, to enable it to meet its liabilities as they fall due for the foreseeable future.

The Group's financial position, cash and borrowing facilities are described within the business review in the 2022 Annual Report.

The financial statements have been prepared on a going concern basis. In adopting the going concern basis the Directors have 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.

The Group has committed financing facilities at the date of this going concern assessment of £1,381m and further information is provided in the Tosca IOM Annual Report 2022 notes 18 and 19 of the financial statements on the Group's borrowings, cash and financial risk management objectives.

The Group's long range forecasts, being the annual budget combined with the annual three year plan, which are both approved by the Board, have been used to measure the going concern and future viability of the Group. These cash flow forecasts have taken into account typical cash cycles of the Group, timings of cash inflows and outflows and their effect on period end/covenant date net debt positions and cash management activities of the Group. Due to these factors net debt drawn under the Group's facilities fluctuates throughout the period and may be higher than the amount reported at 28 February 2022.

The assessment has been carried out taking into account the potential impact of certain scenarios arising from the principal risks and uncertainties. In particular, the Board has considered 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 in the strategic report. The specific scenarios considered are set at a level considered to be sufficiently severe but reflective of a reasonable downside scenario.

If faced with the reasonable worst-case scenario, the Board also considered possible mitigating actions available to the Group to maintain liquidity, such as utilising uncommitted facilities, short term cost reduction actions and reducing or delaying capital expenditure. Where relevant, communication of exceptional covenant adjustments is made with lenders.

TalkTalk Communications Limited

Directors' report (continued)

Based on this assessment, 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.

Employees

The Company did not have any employees during the current or prior period.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its Directors which were made during the period and remain in force at the date of this report.

Future developments

Details of the future developments of the Company are explained on page 8 within the Strategic report and form part of this report by cross reference.

Risk management

Details of the risk management of the Company are explained on pages 2 to 8 within the Strategic report and form part of this report by cross reference.

Approved by the Board of Directors and signed on its behalf by:



P Eayres
Director
18 July 2022

TalkTalk Communications Limited

Directors' responsibilities 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 Company's ability to continue as a going concern.

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

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

TalkTalk Communications Limited

Income statement

For the year ended 28 February 2022

	Notes	Year ended 28 February 2022 £'000	Eleven month period ended 28 February 2021 £'000
Revenue		1,199,419	1,080,828
Cost of sales		(776,274)	(695,005)
Gross profit		423,145	385,823
Operating expenses		(412,535)	(418,683)
Adjusting items	5	(42,347)	(16,818)
Operating (loss)/profit	2	(31,737)	(49,678)
Finance costs	3	(14,341)	(9,576)
(Loss)/profit before taxation		(46,078)	(59,254)
Taxation	4	20,859	2,685
(Loss)/profit for the financial period/year attributable to the owners of the Company		(25,219)	(56,569)

The accompanying notes on pages 21 to 42 form an integral part of the financial statements.

All results for the current and prior period arose from continuing activities.

There is no other comprehensive income or expenses recognised in either period other than shown in the income statement, consequently no Statement of Comprehensive Income has been presented.

TalkTalk Communications Limited

Balance sheet

As at 28 February 2022 (continued)

		28 February 2022 £'000	28 February 2021 £'000
	Notes		
Non-current assets			
Investments	8	12,307	5,678
Non-operating intangibles	9	53,878	53,878
Other intangible assets	9	163,671	188,720
Property, plant and equipment ⁽¹⁾	10	306,360	318,609
Trade and other receivables	12	3,918	11,140
Contract costs	13	198,413	182,075
Deferred tax asset	4	61,398	38,957
		<u>799,945</u>	<u>799,057</u>
Current assets			
Inventories	11	503	527
Trade and other receivables	12	561,022	494,357
Cash and cash equivalents		3,720	3,494
		<u>565,245</u>	<u>498,378</u>
Total assets		1,365,190	1,297,435
Current liabilities			
Trade and other payables	14	(709,711)	(633,308)
Contract liabilities	13	(24,679)	(19,786)
Lease liabilities	15	(63,118)	(61,827)
Provisions	16	(186)	(166)
		<u>(797,694)</u>	<u>(715,087)</u>
Net current liabilities		(232,449)	(216,709)
Total assets less current liabilities		567,496	582,348
Non-current liabilities			
Lease liabilities	15	(162,256)	(151,579)
Provisions	16	(1,293)	(1,603)
		<u>(163,549)</u>	<u>(153,182)</u>
Total liabilities		(961,243)	(868,269)
Net assets		403,947	429,166
Equity			
Called-up share capital	17	100,001	100,001
Share premium		74	74
Retained earnings and other reserves	17	303,872	329,091
Total equity		403,947	429,166

(1) Right of use assets are included within property, plant and equipment.

TalkTalk Communications Limited

Balance sheet

As at 28 February 2022 (continued)

For the year ending 28 February 2022, the Company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies.

The Directors have not required the Company to obtain an audit of its financial statements for the period in question in accordance with section 476.

The Directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of financial statements.

The accompanying notes on pages 21 to 42 form an integral part of the financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 18 July 2022 and signed on its behalf by:



P Eayres
Director

TalkTalk Communications Limited

Statement of changes in equity For the year ended 28 February 2022

	Called-up share capital £'000	Share premium £'000	Capital contribution reserve £'000	Retained earnings £'000	Total £'000
At 1 April 2020	100,001	74	248,000	137,660	485,735
Total comprehensive income for the period	-	-	-	(56,569)	(56,569)
At 28 February 2021	100,001	74	248,000	81,091	429,166
Total comprehensive expense for the year	-	-	-	(25,219)	(25,219)
At 28 February 2022	100,001	74	248,000	55,872	403,947

The accompanying notes on pages 21 to 42 form an integral part of the financial statements.

TalkTalk Communications Limited

Notes to the financial statements For the year ended 28 February 2022

1. Accounting policies and basis of preparation

a) *Authorisation of financial statements and statement of compliance with FRS 101*

The financial statements of TalkTalk Communications Limited ("the Company") for the year ended 28 February 2022 were authorised for issue by the Board of Directors on 18 July 2022 and the balance sheet was signed on the Board's behalf by P Eayres. Tosca IOM Limited ("the Group") is incorporated and domiciled in England and Wales under the Companies Act 2006. The Group was de-listed from the London Stock Exchange on 12 March 2021. The registered office of the Company is Soapworks, Ordsall Lane, Salford, United Kingdom, M5 3TT. The principal activities of the Company are the provision of telecommunication services to B2B customers and provision of network services to other Group companies.

The Company is a private company limited by shares and incorporated in the United Kingdom under the Companies Act 2006. The Company is registered in England and Wales.

Consolidated financial statements

The Company is exempt from preparing and delivering consolidated financial statements under Section 400 of the Companies Act 2006 as it is included in the consolidated financial statements of the larger group headed by Tosca IOM Limited.

b) *Basis of preparation*

During the prior period, the financial year end of the Company was changed from 31 March to 28 February. Accordingly, the 2021 financial statements are prepared for the eleven month period ended 28 February 2021 compared to the twelve month period ended 28 February for the 2022 comparatives. As a result, the comparative figures stated in the income statement, statement of changes in equity, and the related notes are not comparable.

The accounting policy which follow set out those policies which apply in preparing the financial statements for the period ended 28 February 2022. The financial statements have been prepared on the historical cost basis, except for revaluation of certain financial instruments. The financial statements are prepared in Sterling and are rounded to the nearest thousand pounds (£'000) unless otherwise stated, because that is the currency of the principal economic environment in which the Company operates.

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.

- 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 the consolidated financial statements of the Group, in which the Company is consolidated;
- iii. the requirements of paragraphs 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - Paragraph 79(a)(iv) of IAS 1;
 - Paragraph 73(e) of IAS 16 Property Plant and Equipment;
 - Paragraph 118(e) of IAS 38 Intangible Assets; and
 - the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1;
- iv. the requirements of IAS 7 Statement of Cash Flows;
- v. the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- vi. the requirements of IAS 24 related party transaction

TalkTalk Communications Limited

Notes to the financial statements

For the year ended 28 February 2022 (continued)

1. Accounting policies and basis of preparation (continued)

b) *Basis of preparation (continued)*

- vii. the requirements of IAS 36 paragraphs 134 and 135;
- viii. the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers; and
- ix. the requirements of paragraph 52, 58, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases.

c) *Application of significant new or amended accounting standards*

At the date of authorisation of these financial statements, the Company 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';
- IFRS 10 and IAS 28 'Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture';
- Amendments to IFRS 3 'Reference to the Conceptual Framework';
- Amendments to IAS 1 'Classification of Liabilities and as Current or Non-current';
- Amendments to IAS 37 'Onerous Contracts – Cost of Fulfilling a Contract';
- Amendments to IAS 16 'Property, Plant and Equipment – Proceeds before Intended Use';
- Annual improvements to IFRS Standards 2018-2020 cycle – 'Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture';
- Amendments to IAS 1 and IFRS Practice Statement 2 'Disclosure of Accounting Policies';
- Amendments to IAS 8 'Definition of Accounting Estimates'; and
- Amendments to IAS 12 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction'

The following amended standards and interpretations were effective during the period, however, they have not had a material impact on the Company's financial statements.

- Amendments to IFRS 3 'Definition of a Business'
- Amendments to IAS 1 and IAS 8 'Definition of Material'
- Conceptual Framework 'Amendments to References to the Conceptual Framework in IFRS Standards'

d) *Accounting policies*

The Company's accounting policies are set out below. Where an accounting policy is generally applicable to a specific note, the policy is described within that note.

Revenue

Revenue is presented net of VAT and other sales related taxes. Revenue is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a good or service to a customer. Revenue is wholly attributable to the principal activity of the Company, and includes revenue recognised for provision of services to other intragroup entities.

Nature of goods and services

The Company's revenues are earned from the provision of fixed connectivity services. The typical length of a contract for bundled packages is 12–36 months. Contracts often include multiple goods and services, which are generally capable of being separately identifiable or distinct and accounted for as separate performance obligations.

TalkTalk Communications Limited

Notes to the financial statements

For the year ended 28 February 2022 (continued)

1. Accounting policies and basis of preparation (continued)

d) *Accounting policies (continued)*

Nature of goods and services (continued)

For bundled packages, including monthly service fees and activation fees from contract subscribers, the Company 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 Company identifies the following primary performance obligations: supply of connectivity services (Broadband, Fibre, Ethernet, etc.) and the supply of hardware (routers, 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, 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 Company and where collectability is identified not to be probable, revenue is recognised only when the cash is received from the customer.

Financial instruments

Financial assets and financial liabilities, in respect of financial instruments, are recognised in the Company balance sheet when the Company 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.

TalkTalk Communications Limited

Notes to the financial statements

For the year ended 28 February 2022 (continued)

1. Accounting policies and basis of preparation (continued)

d) Accounting policies (continued)

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 Company 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, the Company 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 default event to occur, adjusted for specific factors, general economic conditions of the industry in which the receivables operate and assessment of both the current and the forecast direction of conditions at the reporting date.

The Company 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.

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

Occasionally, the Company 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 includes 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.

Financial liabilities

Financial liabilities are generally classified as subsequently measured at amortised cost. Financial liabilities not measured at amortised cost include, derivatives held for trading and other financial liabilities designated as such at initial recognition, which are measured at fair value through profit and loss. Financial liabilities are derecognised when they are extinguished.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities and includes no obligation to deliver cash or other financial assets. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

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

Measurement

The financial instruments included on the Company 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

TalkTalk Communications Limited

Notes to the financial statements

For the year ended 28 February 2022 (continued)

1. Accounting policies and basis of preparation (continued)

d) *Accounting policies (continued)*

- 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.

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 Company. 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 Company.

The Company 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.

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 Company 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 Company 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.

The Company has entered into lease agreements as a lessor with respect to property which it leases (the Company sub-leases some property). As the Company 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 Company's net investment in the leases.

e) *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.

The principal items in the financial statements involving critical accounting judgements are as follows:

Going concern – ultimate parent company support and 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 Directors report for further detail.

TalkTalk Communications Limited

Notes to the financial statements

For the year ended 28 February 2022 (continued)

1 Accounting policies and basis of preparation (continued)

e) Critical accounting judgements and key sources of estimation uncertainty (continued)

Taxation

The recognition of deferred tax assets may be uncertain as the extent to which tax losses can be utilised depends on future taxable profits and on the tax legislation then in force.

Recovery of the deferred tax asset relating to tax losses is estimated using an extrapolation of the Group's three-year plan. Sensitivities have been applied to these forecasts. Accordingly, an increase or decrease in future profitability would increase or decrease the asset recognised.

Supplier arrangements

The Company 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, 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 customer tenure or instead recognised upfront in the period incurred. For income received a judgement is made as to whether this relates to future or past events and the timing of recognition will reflect this assessment.

Capitalisation of customer premise equipment

The terms and conditions offered to customers state that where replacement hardware is issued to customers, it remains the property of the Company and should be returned to the Company once the customer contract term has been completed. Judgement has been applied in concluding this hardware remains an asset of the Company and as at 28 February 2022 such assets had a net book value of £6,627,000 (2021: £9,777,000) and are recognised within property, plant and equipment. The key factors in determining this treatment are the enforceability of the contractual provisions in place per the amended terms and conditions evidenced by return rates in respect of customers that have churned and the ability to de-mobilise hardware not returned.

Adjusting items

Adjusting items are identified by their size, nature and/or incidence and assessed to warrant separate disclosure to provide supplementary information to support the understanding of the underlying trading results and performance. In determining whether an event or transaction is exceptional, the Directors consider both quantitative and qualitative factors such as the nature of the item and the frequency or predictability of occurrence.

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

Recognition of revenue

The application of IFRS 15 requires the Company 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**

Contract costs are deferred and recognised over the expected duration of the customer relationship. The estimate of the expected average duration of customer relationship is based on customer churn relative to the size of the customer base and is currently determined to be 50–120 months depending on the product and channel. However, such rates are subject to fluctuation and may be impacted by future events such as new product launches, an increase in competition in the market or wider macroeconomic factors. A lower average customer tenure would mean that deferred costs are amortised over a shorter period of time and could result in an impairment of the asset in lower profitability channels. A six-month reduction in customer tenure, which is considered a reasonably possible movement, would not result in an impairment charge.

TalkTalk Communications Limited

Notes to the financial statements

For the year ended 28 February 2022 (continued)

1. Accounting policies and basis of preparation (continued)

e) Critical accounting judgements and key sources of estimation uncertainty (continued)

- **Collectability**

The probability of collectability is assessed across the Company. Revenue is recognised when the performance obligation is complete.

- **Agent vs principal**

Consideration is given to arrangements in the partner channel to assess who is the Company'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 Company accepts the order, each party defines its obligations, the contract terms are defined and the Company provides its services.

The principal items in the financial statements involving key sources of estimation uncertainty are:

Recognition of revenue

The application of IFRS 15 requires the Company to make certain estimates that affect the determination of the amount and timing of revenue and costs from contracts with customers. These include:

Contract costs and customer life-time value analysis

Contract costs are deferred and recognised over the expected duration of the customer relationship. The estimate of the expected average duration of customer relationship is based on customer churn relative to the size of the customer base and is currently determined to be 50–120 months depending on the product and channel. However, such rates are subject to fluctuation and may be impacted by future events such as new product launches, an increase in competition in the market or wider macroeconomic factors. A lower average customer tenure would mean that deferred costs are amortised over a shorter period of time and could result in an impairment of the asset in lower profitability channels. A six-month reduction in customer tenure which is considered a reasonably possible movement would not result in an impairment charge.

Service related credits

The Company continues to recognise certain service related credits from suppliers where the supplier has not operated within the contractual terms of these arrangements. The resolution of existing claims may give rise an increase or decrease to the current amount recognised. This is without prejudice to the Company's legal position.

TalkTalk Communications Limited

Notes to the financial statements For the year ended 28 February 2022 (continued)

2. Operating profit

Operating profit is stated after charging:

	Year ended 28 February 2022 £'000	Eleven month period ended 28 February 2021 £'000
Depreciation of property, plant and equipment (note 10)	46,468	48,057
Depreciation of right of use assets (notes 10 and 15)	72,426	59,240
Amortisation of other operating intangible assets (note 9)	76,176	62,168
Expected credit losses recognised on trade receivables	4,158	5,120
Cost of inventories recognised in expenses	1,345	1,298
Lease expenses under the low value exemption	5,668	4,965

3. Finance costs

Finance costs are analysed as follows:

	Year ended 28 February 2022 £'000	Eleven month period ended 28 February 2021 £'000
Interest charge from group undertakings	2,646	303
Interest on lease liabilities	9,805	7,572
Other finance costs	1,890	1,701
Total finance costs	14,341	9,576

TalkTalk Communications Limited

Notes to the financial statements

For the year ended 28 February 2022 (continued)

4. Taxation

Accounting policies

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 Company'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 Company 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 Company 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.

TalkTalk Communications Limited

Notes to the financial statements

For the year ended 28 February 2022 (continued)

4. Taxation (continued)

Tax in the income statement

The major components of income tax credit are:

	Year ended 28 February 2022	Eleven-month period ended 28 February 2021
	£'000	£'000
Current tax:		
Adjustments in respect of prior years	1,493	-
Total tax charge	<u>1,493</u>	<u>-</u>
Deferred tax:		
Origination and reversal of timing differences	(10,622)	(1,315)
Effect of change in tax rate	(12,186)	-
Adjustments in respect of prior years	368	4,000
Total tax charge/(credit)	<u>(22,440)</u>	<u>2,685</u>
Total tax charge/(credit)	<u>(20,947)</u>	<u>2,685</u>

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.

TalkTalk Communications Limited

Notes to the financial statements For the year ended 28 February 2022 (continued)

4. Taxation (continued)

The principal differences between the tax credit and the amount calculated by applying the standard rate of corporation tax of 19% (2021: 19%) to the profit/(loss) before taxation are as follows:

	Year ended 28 February 2022 £'000	Eleven-month period ended 28 February 2021 £'000
(Loss)/profit before taxation	(46,078)	(59,254)
Tax at standard UK corporation tax rate of 19% (2021: 19%)	8,755	11,258
Items attracting no tax relief or liability	(1,222)	(1,443)
Group relief surrendered for nil consideration	(1,000)	(11,130)
Effect of change in tax rate	16,275	-
Adjustments in respect of prior periods	(1,861)	4,000
Total tax credit	20,947	2,685

The deferred tax assets is analysed as follows:

	IFRS16 £'000	Timing Difference in respect of capital allowances and depreciation £'000	Short term timing differences £'000	Total £'000
At 1 March 2021	310	38,647	-	38,957
Adjustments in respect of prior years	68	(1,330)	895	(367)
Effect of change in tax rate (Charge)/credit to income statement	120 (23)	11,784 10,099	282 546	12,186 10,622
At 28 February 2022	475	59,200	1,723	61,398

At 28 February 2022, the Company had an unrecognised deferred tax asset of £5,956,000 (2021: £4,526,000). This relates to the trading loss of the Pipex Communications Services trade which was transferred to the Company during the year ended 31 March 2014. This deferred tax asset is not recognised due to uncertainty over future trading profits arising from the Pipex Communications Services trade.

Short term timing differences relate to the Research and Development Expenditure Credit.

TalkTalk Communications Limited

Notes to the financial statements For the year ended 28 February 2022 (continued)

5. Adjusting items

	Year ended 28 February 2022 £'000	Eleven month period ended 28 February 2021 £'000
Network transformation	-	8,719
Impairment of contract assets	11,285	8,099
Copper to Fibre programme	31,062	-
	<u>42,347</u>	<u>16,818</u>

Network transformation

During the prior period, the Company concluded its multi-year transformation programme which fundamentally restructured the Company's network, IT infrastructure and technology organisation.

This programme has resulted in a £nil (2021: £8,719,000) of costs including project management, consultancy, dual running costs and decommissioning costs.

A total taxation credit of £nil has been recognised on these costs in the period ended 28 February 2022 (2021: £1,657,000).

Impairment of contract assets

During the prior period, a material customer contract was terminated early giving rise to an impairment charge of £nil (2021: £8,099,000) against the deferred cost asset held in respect of that contract. Amortisation of the remaining value of the deferred cost asset has been accelerated to match the contribution to profits of the contract during the year. This acceleration resulted in an incremental charge of £11,285,000 being recognised in the current year. Deferred costs relating to this contract are fully amortised at the end of the year.

A total taxation credit of £2,144,000 has been recognised on these costs in the period ended 28 February 2022 (2021: £1,538,000).

Copper to Fibre programme

During the year ended 28 February 2022 the Company defined its multi-year programme to exit the legacy copper business in line with the industry transition to Full Fibre broadband. Given the formalisation of our plans, the costs of operating and exiting services using copper infrastructure have been reflected as non-headline since 1 March 2021. 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. Costs relating to this project totalled £31,062,000 (2021: £nil) for the current period.

A total taxation credit of £5,902,000 has been recognised on these costs in the period ended 28 February 2022 (2021: £nil).

6. Employee costs

The Company had no employees during the current or prior period. The Company utilises employees that are employed by TalkTalk Group Limited which is a member of the same Group as the Company. TalkTalk Group Limited recharges the Company a proportion of the employee costs it incurs for the Company utilising its employees.

7. Directors' remuneration

The Directors received no remuneration in the current or prior period for services to the Company. Details of Directors' remuneration can be found in the financial statements of Tosca IOM Limited. No recharges were made to the Company in respect of these costs.

TalkTalk Communications Limited

Notes to the financial statements For the year ended 28 February 2022 (continued)

8. Non-current asset investments

Accounting policy

Investments, other than subsidiaries, are initially recognised at cost, being the fair value of the consideration given plus any transaction costs associated with the acquisition.

Investments categorised as available for sale are recorded at fair value. Changes in fair value, together with any related taxation, are taken directly to equity and recycled to the income statement when the investment is sold or determined to be impaired. No investments were categorised as available for sale in the current or prior period.

a) Investments

	28 February 2022 £'000	28 February 2021 £'000
Opening balance	5,678	5,678
Additions	6,629	-
Closing balance	12,307	5,678

The Company had direct investments in the following subsidiary undertakings at 28 February 2022:

Subsidiary undertakings	Country of incorporation or registration	Registered office	Principal activity	Percentage of Ordinary shareholding
CPW Network Services Limited ⁽¹⁾	England & Wales	Soapworks ⁽²⁾	Telecommunications	100
tIPicall Limited ⁽¹⁾	England & Wales	Soapworks ⁽²⁾	Telecommunications	100
Adventure Telecom Limited ⁽¹⁾	England & Wales	Soapworks ⁽²⁾	Telecommunications	100
Treetop Telecom Limited ⁽¹⁾	England & Wales	Soapworks ⁽²⁾	Dormant	100
TalkTalk Business Direct Limited ⁽¹⁾	England & Wales	Soapworks ⁽²⁾	Telecommunications	100
OB Telecom ⁽¹⁾	England & Wales	Soapworks ⁽²⁾	Telecommunications	100

(1) Directly held subsidiary

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

b) Additions – OB Telecom

On 24 September 2021, the Company acquired 100% of the issued share capital obtaining control of OB Telecom Limited, a retailer and distributor of Telecommunications. The acquisition is complimentary to the Company's existing business model.

The entire purchase consideration for the investment 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. The fair value of the contingent consideration has been assessed as £6,629,000 and is held within other payables.

9. Intangible assets

Accounting policy

Operating intangibles

Operating intangibles include internal infrastructure and design costs incurred in the development of software for internal use. Internally generated software is recognised as an intangible asset only if it can be separately identified, it is probable that the asset will generate future economic benefits, and the development cost can be measured reliably. Where these conditions are not met, development expenditure is recognised as an expense in the period in which it is incurred. Any research expenditure is also expensed in the period in which it is incurred. Directly attributable costs that are capitalised include employee costs specifically incurred in the development of the intangible asset. Operating intangibles are amortised on a straight line basis over their estimated useful economic lives of up to eight years.

TalkTalk Communications Limited

Notes to the financial statements

For the year ended 28 February 2022 (continued)

9. Intangible assets (continued)

Operating intangibles (continued)

The Company reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss at each reporting date. Where an indicator of impairment exists, the Company makes a formal estimate of the asset's recoverable amount and the extent of any impairment loss.

Non-operating intangibles

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.

Goodwill is not subject to amortisation but is tested for impairment annually or whenever there is an indication that the asset may be impaired.

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 on a straight line basis.

Impairment reviews

The Company is required to test for impairment when carrying amounts of assets 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 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.

	Non- operating intangibles £'000	Operating intangibles £'000	Total £'000
Cost			
At 1 March 2021	55,308	769,754	825,062
Additions	-	52,400	52,400
Disposals		(1,273)	(1,273)
At 28 February 2022	<u>55,308</u>	<u>820,881</u>	<u>876,189</u>
Amortisation			
At 1 March 2021	(1,430)	(581,034)	(582,464)
Charge for the year	-	(76,176)	(76,176)
At 28 February 2022	<u>(1,430)</u>	<u>(657,210)</u>	<u>(658,640)</u>
Net book value			
At 28 February 2022	<u>53,878</u>	<u>163,671</u>	<u>217,549</u>
At 28 February 2021	<u>53,878</u>	<u>188,720</u>	<u>242,598</u>

TalkTalk Communications Limited

Notes to the financial statements

For the year ended 28 February 2022 (continued)

10. Property, plant and equipment

Accounting policy

Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life from the date it is brought into use, as follows:

Fixtures and fittings and short leasehold improvements shorter	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.

Right of use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right of use asset reflects that the Company expects to exercise a purchase option, the related right of use asset is depreciated over the useful life of the underlying asset.

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.

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.

The Company 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 Company uses the same methodology as set out in note 9 for operating intangibles.

	Land & Buildings	Short leasehold improvements £'000	Fixtures and fittings £'000	Network equipment and computer hardware £'000	Total £'000
Cost					
At 1 March 2021	35,375	3,239	26,778	1,409,364	1,474,756
Additions	859	1,283	362	123,433	125,937
Disposals	-	-	(89)	(19,203)	(19,292)
At 28 February 2022	36,234	4,522	27,051	1,513,594	1,581,401
Depreciation					
At 1 March 2021	(3,340)	(1,154)	(22,755)	(1,128,898)	(1,156,147)
Charge for the year	(1,470)	(356)	(2,154)	(114,914)	(118,894)
At 28 February 2022	(4,810)	(1,510)	(24,909)	(1,243,812)	(1,275,041)
Net book value					
At 28 February 2022	31,424	3,012	2,142	269,782	306,360
At 28 February 2021	32,035	2,085	4,023	280,466	318,609

Refer to note 15 for further details in relation to right of use assets included within property, plant and equipment.

TalkTalk Communications Limited

Notes to the financial statements

For the year ended 28 February 2022 (continued)

11. 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.

	28 February 2022 £'000	28 February 2021 £'000
Goods for resale	503	527

12. Trade and other receivables

	28 February 2022 £'000	28 February 2021 £'000
Non-current		
Other receivables	3,918	1,813
Amounts owed by Group undertakings	-	9,327
Total non-current trade and other receivables	3,918	11,140
Current		
Trade receivables	43,691	49,189
Amounts owed by Group undertakings	374,773	320,708
Amounts owed by Group undertakings in relation to receivable purchase agreement	42,839	41,324
Prepayments and accrued income	33,401	33,410
Other receivables	66,318	49,726
Total current trade and other receivables	561,022	494,357
Total trade and other receivables	564,940	505,497

The company sells its receivables via the TalkTalk Telecom Group Limited purchase agreement signed in September 2016, the Company as a seller in the agreement has the ability on a rolling basis to sell its receivables to a third party vehicle. In November 2021, the Company signed an extension to the receivables purchase agreement which matures in September 2023. As TalkTalk Telecom Group Limited is deemed to control the third party vehicle the Company continues to recognise the relevant receivables on the grounds that substantially not all the risks and rewards of ownership have been transferred under the programme. The receivable above represents the amounts owed from the servicer (TalkTalk Telecom Group Limited) who receives the financing from the issuer on the Company's behalf.

The interest rate applied to amounts due from certain Group undertakings is determined by reference to the Group's external borrowing costs which are comprised of a mixture of fixed rate interest at 3.875% and variable rate interest which is at a margin over LIBOR (the actual margin applicable to any drawing depends on the Group's ratio of net debt to EBITDA calculated in respect of the most recent accounting period).

The remaining intercompany balances are repayable on demand and do not attract interest.

Included in other receivables at 28 February 2022, are lease receivables totalling £4,533,000 (2021: £2,529,000) with £614,000 (2021: £716,000) classified as current and £3,918,000 (2021: £1,813,000) classified as non-current.

TalkTalk Communications Limited

Notes to the financial statements

For the year ended 28 February 2022 (continued)

12. Trade and other receivables (continued)

Service level related disputes

The Company's results include the recognition of certain service level related credits from suppliers to compensate the Company 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 2022, a receivable of £16,592,000 (2021: £13,595,000) existed in relation to such claims, the resolution of which may give rise to an increase or decrease in the level of receivable recognised. This is without prejudice to the Company's legal position.

13. Contract balances

Contract assets and liabilities

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

Contract costs

Contract costs eligible for capitalisation as incremental costs of obtaining a contract comprise commission costs directly attributable to obtaining contracts or pools of contracts. Contract costs are capitalised in the month of service activation if the Company 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 Company'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 Company has determined that average customer tenure (50–60 months for broadband and 120 months for Ethernet) is an appropriate period to amortise cost to obtain and fulfil a contract. This reflects the fact that incremental commissions are typically not paid on customer renewals or extensions. Likewise, connection costs support a customer over their tenure and are not required again because a customer renews or goes beyond their minimum contract term. These costs are accounted for on a portfolio basis, and are reviewed for impairment, taking into account the Company's customer life-time value analysis.

As at 28 February 2022, the Company had contract liabilities of £24,679,000 (2021: £19,786,000).

The movement on contract liabilities can be explained as below:

	28 February 2022 £'000	28 February 2021 £'000
Opening balance	(19,786)	(22,726)
Additions	(36,855)	(27,244)
Amortisation	31,962	30,184
Closing balance	<u>(24,679)</u>	<u>(19,786)</u>

TalkTalk Communications Limited

Notes to the financial statements

For the year ended 28 February 2022 (continued)

13. Contract balances (continued)

Contract costs (continued)

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 2022 is £24,510,000 (2021: £19,003,000). This relates to service contracts and equipment and will substantially be recognised as revenue within three years.

Revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period was £19,785,000 (2021: £19,074,000).

The movement on contract costs can be explained as follows:

	Costs to obtain £'000	Costs to fulfil £'000	Total £'000
Opening balance at 1 March 2021	57,154	124,921	182,075
Additions	38,128	44,650	82,778
Amortisation	(21,851)	(36,494)	(58,345)
Impairment charge	-	(8,095)	(8,095)
Closing balance at 28 February 2022	73,431	124,982	198,413

	Costs to obtain £'000	Costs to fulfil £'000	Total £'000
Opening balance at 1 April 2020	43,235	125,726	168,961
Additions	28,094	38,245	66,339
Amortisation	(14,175)	(30,951)	(45,126)
Impairment	-	(8,099)	(8,099)
Closing balance at 28 February 2021	57,154	124,921	182,075

Contract costs have increased during the period due to an increase in costs to obtain and the timing of the amortisation of such costs.

14. Trade and other payables

	28 February 2022 £'000	28 February 2021 £'000
Trade payables	211,819	248,019
Amounts owed to Group undertakings	367,858	264,778
Amounts owed to Group undertakings in relation to receivable purchase agreement	42,839	41,324
Accruals and deferred income	80,567	77,143
Other payables	6,628	2,044
	<u>709,711</u>	<u>633,308</u>

Through the TalkTalk Telecom Group Limited receivable purchase agreement signed in September 2016, the Company received financing from the issuer (third party vehicle), the payable above in relation to the receivable purchase agreement represents the deemed loan liability to the issuer. In November 2021, the Company signed an extension to the receivables purchase agreement which matures in September 2023.

TalkTalk Communications Limited

Notes to the financial statements

For the year ended 28 February 2022 (continued)

14. Trade and other payables (continued)

The interest rate applied to amounts due to certain Group undertakings is determined by reference to the Group's external borrowing costs which are comprised of a mixture of fixed rate interest at 3.875% and variable rate interest which is at a margin over LIBOR (the actual margin applicable to any drawing depends on the Group's ratio of net debt to EBITDA calculated in respect of the most recent accounting period).

The remaining intercompany balances are repayable on demand and do not attract interest.

The Company 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 Company 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 even on the original invoice due date. The supplier will manage the timing profile of when they receive funds directly with the sponsoring bank independently of TalkTalk, if election to receive payment early is made, they will receive funds from the sponsoring bank less a discount agreed between the bank and the supplier. The Company continues to have the payment obligation and will pay the sponsoring bank (invoice owner) on the original commercially agreed payment terms.

15. Leases

The Company has used the exemption for leases of low value assets resulting in an expense being recognised straight line in operating expenses. The Company has applied this exemption to tie cables and laptops leading to an expense of £5,668,000 (2021: £4,965,000) being recognised in operating expenses.

The Company has entered into lease agreements as a lessor with respect to property which it leases (the Company subleases some property). As the Company 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 Company's net investment in the leases.

Lease liabilities at 28 February 2022 totalled £225,374,000 (2021: £213,406,000). This balance comprises £63,118,000 (2021: £61,827,000) of current liabilities and £162,256,000 (2021: £151,579,000) of non-current liabilities. The total cash outflow for leases in the year ended 28 February 2022 was £68,302,402.

TalkTalk Communications Limited

Notes to the financial statements For the year ended 28 February 2022 (continued)

Right of use asset movements in the year ended 28 February 2022 are illustrated below.

	Land & Buildings	Network equipment and computer hardware £'000	Total £'000
Cost			
At 1 March 2021	35,375	295,342	330,717
Additions	859	102,867	103,726
Disposals	-	(19,200)	(19,200)
At 28 February 2022	36,234	379,009	415,243
Depreciation			
At 1 March 2021	(3,340)	(119,884)	(123,224)
Charge for the period	(1,470)	(70,956)	(72,426)
At 28 February 2022	(4,810)	(190,840)	(195,650)
Net book value			
At 28 February 2022	31,424	188,169	219,593
At 28 February 2021	32,035	175,458	207,493

16. Provisions

Accounting policy

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company 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).

	28 February 2022 £'000	28 February 2021 £'000
Current	186	166
Non-current	1,293	1,603
	<u>1,479</u>	<u>1,769</u>
		28 February 2022 £'000
At 1 March 2021		1,769
Charged to the income statement		686
Released to income statement		(844)
Provision utilised		(132)
At 28 February 2022		<u>1,479</u>

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.

TalkTalk Communications Limited

Notes to the financial statements

For the year ended 28 February 2022 (continued)

Provisions (continued)

Onerous property contracts are expected to be utilised over the next five years. Dilapidation provisions are expected to be utilised as and when properties are exited. These provisions include the costs of exiting our Warrington and Irlam sites, as the Company relocated to one site at the Soapworks in Salford.

17. Called-up share capital and reserves

	28 February 2022 £'000	28 February 2021 £'000
Authorised, issued and fully paid:		
10,000,055,000 (2021: 10,000,055,000) 'A' ordinary shares 1p each	100,001	100,001
45,000 (2021: 45,000) 'B' ordinary shares of 1p each	-	-
Total	100,001	100,001

The A ordinary shares and the B ordinary shares rank equally in all respects notwithstanding their distinct classes.

Capital contribution reserve

The capital contribution reserve is as a result of a capital contribution received from TalkTalk Telecom Holdings Limited of £248,000,000. The capital contribution reserve is deemed to be distributable.

Retained earnings

The gain on disposal, in the year ended 31 March 2019, of the trade and assets of Company's B2B Direct business of £154,767,000 is not considered distributable. The remaining retained earnings reserves are considered to be distributable.

18. Capital commitments

The Company has in the normal course of business entered into various multi-year supply and working capital agreements for core network, IT and customer equipment. As at 28 February 2022, expenditure contracted but not provided for in these financial statements amounted to £30,054,000 (2021: £54,742,000). Of this amount, £nil (2021: £nil) related to supply for core network, IT and customer equipment and £30,054,000 (2021: £54,742,000) related to capital commitments.

19. Ultimate parent undertaking and controlling party

The Company is a direct subsidiary of TalkTalk Group Limited. The ultimate parent undertaking and controlling party is Tosca IOM Limited, company incorporated in England and Wales. The full year results of the Company are included in the 2022 Annual Report of Tosca IOM Limited.

The principal place of business and registered address of Tosca IOM 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 Tosca IOM Limited.

20. Related party transactions

The Company has taken advantage of the exemption under IAS 24 'Related Party Disclosures' for related party transactions with other group companies and with Directors who are also Group Directors, as 100% of the voting rights are controlled within the Group. Tosca IOM Limited, the ultimate parent Company has prepared consolidated financial statements which include the results of the Company for the period and are available to the public.

TalkTalk Communications Limited

Notes to the financial statements

For the year ended 28 February 2022 (continued)

21. Contingent liability

The Company is jointly and severally liable under cross guarantees within the Group for lease obligations, loans, and overdrafts. The total Group borrowings (including those held within the Company) at the period-end amounted to £1,102m (2021: £972m).

The weighted average interest rate paid during the period on the bank loans was 4.2% (2021: 4.0%).