Company Registration No. 03849133

TalkTalk Communications Limited

Annual Report and Financial Statements

For the year ended 29 February 2024

TalkTalk Communications Limited

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TalkTalk Communications Limited

Officers and professional advisers

Directors

T A Harrison
J D Smith
P J Eayres – Resigned 29 February 2024

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

Company Registration No. 03849133

TalkTalk Communications Limited

Strategic report

Principal activities

The Company is part of the TalkTalk Holdings Limited ("the Group"). The principal activities of the TalkTalk Communications Limited ("the Company") is the provision of wholesale telecommunication services through a nationwide platform for partners which aggregates both incumbent and AltNet Full Fibre networks. The Company also runs the Telecommunications network on behalf of the Group and receives income from other group companies for providing this service.

Business review and outlook

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

	Year ended 29 February 2024	Year ended 28 February 2023
Revenue (£'000)	**1,237,895**	**1,242,388**
Gross profit (%)	**36.4**	**36.7**
Loss before taxation (£'000)	**(144,514)**	**(16,555)**

TalkTalk Communications has cemented itself in the wholesale market and partners with highly reputable brands serving both consumer and business customers. It generates revenue through Connectivity (Copper and Fibre Broadband), Ethernet and Voice serving business to business and business to consumer partners across the UK and international carriers.

Cost of goods sold are generated from telecommunications providers and include rental charges and costs to connect. Operational costs are a combination of headcount costs, marketing, acquisitions, and network costs, with inflationary impacts offset by careful cost management.

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 jointly and severally liable under cross guarantees within the Group for lease obligations, senior notes, revolving credit facility, receivables purchase facility and supplier working capital. The total Group borrowings (including those held within the Company), amounted to £1,516m (2023 restated: £1,611m).

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
Changing market structure 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 Group 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. 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.
Regulatory compliance Failure to comply with regulatory obligations may result in negative customer impact and/or significant regulatory fines.	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. Plans are also in place to deliver further regulatory changes which come into force over the next twelve to eighteen months, including implementing the required system changes to integrate with the industry IT switching hub once it goes live.
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.	The Group 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.
Resilience and business continuity The Group 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.	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.

TalkTalk Communications Limited

Strategic report (continued)

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 2024 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 FY25 and beyond, we are excited to be at the centre of a fundamental re-set of the telecommunications industry. Our nationwide platform for partners aggregates both incumbent and AltNet Full Fibre network assets and leaves us well placed to benefit from the industry wide transition to 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:

J D Smith
Director
18 July 2024

TalkTalk Communications Limited

Section 172 Report

Stakeholder management is dealt with by the Group Board. 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 2024 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 20.

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.

Customers

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.

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.

Suppliers

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;

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 TalkTalk Holdings Limited Group annual report.

Communities

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.

TalkTalk Communications Limited

Section 172 Report

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.

Government

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.

How the Board engages

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

Regulators

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.

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 for the period ended 29 February 2024.

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 section 414c of the Companies Act 2006.

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 (2023: £nil).

Going concern

The Company is part of the TalkTalk Holdings Limited ("Group") and the Company's going concern position is linked to the future of the Group. Consolidated financial statements for the Group have been prepared on the going concern basis.

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

In considering the going concern basis of the financial statements, the Directors assessed three main risks that indicate a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern :

- The Group's ability to manage its liquidity to meet payments in the period from signing these financial statements through to an expected refinancing event;
- The forecast breach in the base case of the net debt to EBITDA covenant under the Group's revolving credit facilities on 31 August 2024 (which would be reported to lenders on 30 November 2024) and thereafter; and
- The Group's ability to refinance its RCF, shareholder loans and loan notes, which have maturities within the going concern period of November 2024 and February 2025.

The Group is currently negotiating with providers of new equity and debt capital to refinance the facilities with near term maturities and provide additional liquidity to the business. In parallel with progressing these plans for raising new capital to refinance existing Group facilities, the Group is also engaged with its key stakeholders (including its existing lenders of the Group facilities) on alternative or complementary proposals, which may include proposals to extend the maturities of the Group's existing debt facilities. As at the date of this report, sufficient new sources of financing have not yet been committed and the process to raise these is uncertain including whether it will successfully complete or, if it does, on what terms. The Directors have a reasonable expectation based on discussions to date, that the refinancing process will be successful, allowing the Group to continue to prepare the financial statements on a going concern basis.

TalkTalk Holdings Limited has provided a guarantee to the Company in accordance with section 479C of the Companies Act 2006.

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.

TalkTalk Communications Limited

Directors' report

Political contributions

Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the period.

Audit exemption

For the year ending 29 February 2024, the Company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies.

Future developments

Details of the future developments of the Company are explained on page 4 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 page 2 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:

J D Smith
Director
18 July 2024

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 have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). 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, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the ongoing basis unless it is inappropriate to presume that the Company will continue as a business.

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.

TalkTalk Communications Limited

Income statement
For the year ended 29 February 2024

	Notes	**Year ended 29 February 2024 £'000**	Year ended 28 February 2023 £'000
Revenue		**1,237,895**	1,242,388
Cost of sales		**(786,554)**	(786,891)
Gross profit		**451,341**	455,497
Operating expenses		**(454,815)**	(413,743)
Non-headline items	5	**(69,491)**	527
Operating profit/(loss)	2	**(72,965)**	42,281
Finance costs	3	**(71,549)**	(58,836)
Loss before taxation		**(144,514)**	(16,555)
Taxation	4	**(844)**	(64,170)
Loss for the financial year attributable to the owners of the Company		**(145,358)**	(80,725)

The accompanying notes on pages 14 to 34 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 29 February 2024

	Notes	29 February 2024 £'000	28 February 2023 £'000
Non-current assets			
Non-operating intangibles	9	**53,878**	53,878
Other intangible assets	9	**189,698**	183,276
Property, plant and equipment	10	**825,055**	762,621
Investments	8	**12,307**	12,307
Trade and other receivables	12	**23,124**	7,962
Contract costs	13	**123,799**	124,592
		1,227,879	1,144,636
Current assets			
Inventories	11	**623**	1,042
Trade and other receivables	12	**659,394**	622,212
Cash and cash equivalents	16	**6,114**	2,062
		666,131	625,316
Total assets		**1,894,010**	1,769,952
Current liabilities			
Trade and other payables	14	**(1,015,556)**	(816,620)
Contract liabilities	13	**(36,379)**	(23,604)
Lease liabilities	15	**(112,575)**	(96,124)
Borrowings	16	**(7,062)**	(7,062)
Provisions	17	**(654)**	(114)
		(1,172,226)	(943,523)
Net current liabilities		**(506,095)**	(318,207)
Total assets less current liabilities		**721,784**	826,429
Non-current liabilities			
Lease liabilities	15	**(561,348)**	(513,995)
Borrowings	16	**(4,289)**	(10,929)
Provisions	17	**(1,481)**	(1,481)
		(567,118)	(526,405)
Net assets		**154,666**	300,024
Equity			
Called-up share capital	18	**100,001**	100,001
Share premium		**74**	74
Retained earnings and other reserves	18	**54,591**	199,949
Total equity		**154,666**	300,024

TalkTalk Communications Limited

Balance sheet
As at 29 February 2024

For the year ending 29 February 2024, 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 14 to 34 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 2024 and signed on its behalf by:

J D Smith
Director
18 July 2024

TalkTalk Communications Limited

Statement of changes in equity
As at 29 February 2024

	Called-up share capital £'000	Share premium £'000	Capital contribution reserve £'000	Retained earnings/ (losses) £'000	Total £'000
At 28 Feb 2022	**100,001**	**74**	**248,000**	**32,674**	**380,749**
Total comprehensive expense for the year	-	-	-	(80,725)	(80,725)
At 28 February 2023	**100,001**	**74**	**248,000**	**(48,051)**	**300,024**
Total comprehensive expense for the year	-	-	-	(145,358)	(145,358)
At 29 February 2024	**100,001**	**74**	**248,000**	**(193,409)**	**154,666**

The accompanying notes on pages 14 to 34 form an integral part of the financial statements.

1. Accounting policies and basis of preparation

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

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. The principal activities of the Company are the provision of telecommunication services to B2B customers and provision of network services to other Group companies.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted international accounting standards ("UK-adopted IFRS") but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

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 TalkTalk Holdings Limited.

b) Basis of preparation

The financial statements have been prepared on the historical cost basis

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.

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101 to requirements set by the International Financial Reporting Standards (IFRS). Therefore these financial statements do not include:

- The requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64U) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3, 'Business Combinations';
- IFRS 7, 'Financial Instruments: Disclosures';
- 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';
- Paragraphs 91 to 99 of IFRS 13, 'Fair Value Measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- Paragraph 38 of IAS 1, 'Presentation of Financial Statements' comparative information requirements in respect of:
  - (i) paragraph 79(a) (iv) of IAS 1, 'Presentation of Financial Statements';
  - (ii) paragraph 73(e) of IAS 16, 'Property, Plant and Equipment'; and
  - (iii) paragraph 118(e) of IAS 38, 'Intangible Assets' (reconciliations between the carrying amount at the beginning and end of the period);
- The requirements of IAS 7, 'Statement of Cash Flows';
- The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16, 'Leases';
- The requirements of paragraph 58 of IFRS 16,'Leases', provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total;
- Paragraph 30 and 31 of IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- Paragraph 17 and 18A of IAS 24, 'Related Party Disclosures' (key management compensation);
- The requirements in IAS 24, 'Related Party Disclosures' to disclose related party transactions entered into between two or more wholly owned members of a group: and
- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135{e) of IAS 36, 'Impairment of Assets'.

1. Accounting policies and basis of preparation (continued)

b) Basis of preparation (continued)

Going concern

The Company is part of the TalkTalk Holdings Limited ("Group") and the Company's going concern position is linked to the future of the Group. Consolidated financial statements for the Group have been prepared on the going concern basis.

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

In considering the going concern basis of the financial statements, the Directors assessed three main risks that indicate a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern :

• The Group's ability to manage its liquidity to meet payments in the period from signing these financial statements through to an expected refinancing event;

• The forecast breach in the base case of the net debt to EBITDA covenant under the Group's revolving credit facilities on 31 August 2024 (which would be reported to lenders on 30 November 2024) and thereafter; and

• The Group's ability to refinance its RCF, shareholder loans and loan notes, which have maturities within the going concern period of November 2024 and February 2025.

The Group is currently negotiating with providers of new equity and debt capital to refinance the facilities with near term maturities and provide additional liquidity to the business. In parallel with progressing these plans for raising new capital to refinance existing Group facilities, the Group is also engaged with its key stakeholders (including its existing lenders of the Group facilities) on alternative or complementary proposals, which may include proposals to extend the maturities of the Group's existing debt facilities. As at the date of this report, sufficient new sources of financing have not yet been committed and the process to raise these is uncertain including whether it will successfully complete or, if it does, on what terms. The Directors have a reasonable expectation based on discussions to date, that the refinancing process will be successful, allowing the Group to continue to prepare the financial statements on a going concern basis.

TalkTalk Holdings Limited has provided a guarantee to the Company in accordance with section 479C of the Companies Act 2006.

c) Application of significant new or amended accounting standards

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

- IFRS 17 "Insurance Contracts"
- Disclosure of Accounting Policies (Amendments to IAS 1and IFRS "Practice Statement" 2)
- Definition of Accounting Estimates (Amendments to IAS 8)
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)
- International Tax Reform—Pillar Two Model Rules (Amendments to IAS 12)

1. Accounting policies and basis of preparation (continued)

d) Accounting policies (continued)

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.

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 – overtime 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 Company 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.

1. Accounting policies and basis of preparation (continued)

d) Accounting policies (continued)

Classification and measurement of financial assets and liabilities

Classification of financial assets is generally based on the business model in which the financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at amortised cost if it is held with the objective of collecting the contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. All other financial assets are measured at fair value through other comprehensive income or profit or loss.

Financial assets at amortised cost

Trade and other receivables

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as financial assets measured at amortised cost.

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

Impairment of financial assets

The 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.

Notes to the financial statements
For the year ended 29 February 2024 (continued)

1. Accounting policies and basis of preparation (continued)

d) Accounting policies (continued)

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 Company 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
- 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 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 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.

1. Accounting policies and basis of preparation (continued)

d) Accounting policies (continued)

Capitalisation of operating intangible assets

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

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.

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. 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.

Non Headline items - 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.

1. Accounting policies and basis of preparation (continued)

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

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:

- **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.

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

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.

2. Operating (loss)/profit

Operating (loss)/profit is stated after charging:

	29 February 2024	28 February 2023
	£'000	£'000
Depreciation of property, plant and equipment (note 10)	**23,427**	32,938
Depreciation of right of use assets (note 10 and 15)	**153,526**	150,249
Amortisation of other operating intangible assets (note 9)	**49,809**	52,662
Lease expenses under low value exemption	**6,049**	5,434

3. Finance costs

Finance costs are analysed as follows:

	29 February 2024	28 February 2023
	£'000	£'000
Interest charge from group undertakings	**11,679**	4,675
Interest on lease liabilities	**54,967**	51,403
Other finance costs	**4,903**	2,758
Total finance costs	**71,549**	58,836

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.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on temporary 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.

4. **Taxation (continued)**

Tax in the income statement

The major components of income tax credit are:

	29 February 2024 £'000	28 February 2023 £'000
RDEC	647	-
Total tax charge	647	-
Deferred tax:		
Origination and reversal of timing differences	-	74,597
Adjustments in respect of prior years	-	(10,427)
Total tax charge	-	64,170
Total tax charge	647	64,170

The principal differences between the tax charge and the amount calculated by applying the standard rate of corporation tax of 24.5% (2023: 19%) to the profit/(loss) before taxation are as follows:

	29 February 2024 £'000	28 February 2023 £'000
Loss before taxation	(144,514)	(16,555)
Tax at standard UK corporation tax rate of 24.5% (2023: 19%)	(35,391)	(3,145)
Items attracting no tax relief or liability	16,980	(1,404)
Group relief surrendered for nil consideration	8,944	-
Movement in deferred tax not recognised	9,467	79,146
RDEC	647	-
Adjustments in respect of prior periods	-	(10,427)
Total tax charge	647	64,170

The blended rate of UK corporation tax of 24.5% is comprised of the standard rate of UK corporation tax of 19% up until 31 March 2023 and the standard rate of UK corporation tax of 25% from 1 April 2023.

At 29 February 2024, the Company had an unrecognised deferred tax asset of £6,289,000 (2023: £6,973,000) relating to the trading loss (£25,156,000 gross, 2023: £27,892,000 gross). This deferred tax asset is not recognised due to uncertainty over future trading profits.

At 29 February 2024, the Company has unrecognised deferred tax assets of £71,197,000 (2023: £66,916,000) relating to timing differences in respect of capital allowances and depreciation (£284,786,000 gross, 2023: £267,664 gross).

At 29 February 2024, the Company has unrecognised deferred tax assets of £4,069,000 relating to short term timing differences (£16,275,000 gross), £5,784,000 relating to the corporate interest restriction (£23,136,000 gross) and £3,810,000 relating to RDEC.

These deferred tax assets are not recognised as there is insufficient evidence that there will be suitable taxable profits against which this can be recovered.

5. Non- headline items

	29 February 2024 £'000	28 February 2023 £'000
Impairment of contract assets	**24,296**	-
Copper to Fibre programme	**21,134**	36,955
Network monetisation	**(44,062)**	(32,777)
Adjustment to contingent consideration	**3,700**	(4,705)
Disposals – TalkTalk Business Direct Limited	**64,423**	-
	69,491	(527)

Impairment of contract assets - Accelerated Amortisation

During the year, a material customer contract was terminated giving rise to an impairment charge of £24,296,000 (2023: £nil) against the deferred cost asset held in respect of that contract. Deferred costs relating to this contract are £nil at the end of the year.

A total taxation credit of £5,953,000 has been recognised on these costs (2023: £nil).

Copper to Fibre programme

During the year ended 28 February 2022 the Group defined its multi-year programme to decommission the legacy copper business infrastructure in line with an industry wide transition to Full Fibre broadband and as a result concluded that the programme has met its definition of non-headline. Elements of this plan were redefined during the year ended 29 February 2024, with the Telecommunications Exchange exit element of the programme changing from a managed project to a strategy of organic exit. The managed project to optimise exchanges for transition to full Fibre remains in place, and this will continue to be treated as non-headline. Non-headline costs relating to this project totalled £21,134,000 (2023: £36,955,000).

A taxation credit of £5,178,000 has been recognised on these costs (2023: £7,022,000).

Network monetisation

During the current and prior year, as part of a broader strategy to monetise the Group's network, the Group disposed of IP addresses. This resulted in income of £44,062,000 (2023: £32,777,000) which has been recognised in other income rather than revenue.

A total taxation expense of £10,795,000 has been recognised on these costs in the period ended 29 February 2023 (2023: £6,288,000).

Fair value of contingent consideration

During the year ended 28 February 2022, the group acquired 100% of the issued share capital obtaining control of OB Telecom Limited, a retailer and distributor of Telecommunications. The entire purchase consideration was in the form of contingent consideration. During the year the Company reached a settlement with the vendor to settle the contingent consideration for £5,400,000. The has resulted in an expenses of £3,700,000 which the Company has recognised as non-headline. The credit of £4,705,000 in the comparative period relates to a fair value adjustment made to the contingent consideration.

A total taxation credit of £907,000 has been recognised on these costs in the year (2023: expense of £1,153,000).

Notes to the financial statements
For the year ended 29 February 2024 (continued)

5. Non- headline items (continued)

Disposals – TalkTalk Business Direct Limited

On 29 September 2023 the Company sold its investment of £1 in TalkTalk Business Direct Limited ("TTBD") for £1 of consideration. Following the sale, the balance of £64,423,000 owed by TTBD to the Company was converted to a loan note, contingent on the purchaser selling TTBD prior to 30 November 2024. Management do not consider the sale certain and therefore the loan note is not considered recoverable. The loan note has been fully impaired resulting in a loss of £64,423,000.

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 TalkTalk Holdings Limited. No recharges were made to the Company in respect of these costs.

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 2024 £'000	28 February 2023 £'000
Opening balance	**12,307**	12,307
Disposals	**-**	-
Closing balance	**12,307**	12,307

The Company had direct investments in the following subsidiary undertakings at 28 February 2024:

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)	Dormant	100
Adventure Telecom Limited(1)	England & Wales	Soapworks(2)	Telecommunications	100
Treetop Telecom Limited(1)	England & Wales	Soapworks(2)	Dormant	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

8. Non-current asset investments (continued)

b) Disposals – TalkTalk Business Direct Limited

On 29 September 2023 the Company sold its investment of £1 in TalkTalk Business Direct Limited ("TTBD") for £1 of consideration. Following the sale, the balance of £64,423,000 owed by TTBD to the Company was converted to a loan note, contingent on the purchaser selling TTBD prior to 30 November 2024. Management do not consider the sale certain and therefore the loan note is not considered recoverable. The loan note has been fully impaired resulting in a loss of £64,423,000.

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.

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 recoverable amount is the lower of the value in se and the fair value less costs to sell. 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.

9. Intangible assets (continued)

	Non-operating intangibles £'000	Operating intangibles £'000	Total £'000
Cost			
At 1 March 2023	55,308	893,148	948,456
Additions	-	56,231	56,231
At 29 February 2024	55,308	949,379	1,004,687
Amortisation			
At 1 March 2023	(1,430)	(709,872)	(711,302)
Charge for the year	-	(49,809)	(49,809)
At 29 February 2024	(1,430)	(759,681)	(761,111)
Net book value			
At 29 February 2024	**53,878**	**189,699**	**243,576**
At 28 February 2023	53,878	183,276	237,154

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	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.

10. Property, plant, and equipment (continued)

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 2023	36,160	4,694	27,091	2,367,667	2,435,612
Additions	44	1,102	111	321,381	322,638
Disposals	-			(142,782)	(142,782)
At 29 February 2024	**36,204**	**5,796**	**27,202**	**2,367,667**	**2,615,468**
Depreciation					
At 1 March 2023	(6,509)	(1,945)	(25,616)	(1,638,921)	(1,672,991)
Charge for the year	(1,376)	(510)	(623)	(174,444)	(176,953)
Disposal				59,531	59,531
At 29 February 2024	**(7,885)**	**(2,455)**	**(26,239)**	**(1,753,834)**	**(1,790,413)**
Net book value					
At 29 February 2024	**28,319**	**3,341**	**963**	**792,432**	**825,055**
At 28 February 2023	29,651	2,749	1,475	728,746	762,621

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

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, considering technical obsolescence and the level of technical supplier support.

	29 February 2024 £'000	28 February 2023 £'000
Goods for resale	**623**	1,042

Notes to the financial statements
For the year ended 29 February 2024 (continued)

12. Trade and other receivables

	29 February 2024	28 February 2023
	£'000	£'000
Non-current		
Other receivables	**3,818**	3,275
Amounts owed by Group undertakings	**19,324**	4,687
Total non-current trade and other receivables	**23,142**	7,962
Current		
Trade receivables	**71,885**	37,271
Amounts owed by Group undertakings	**387,090**	442,555
Amounts owed by Group undertakings in relation to receivable purchase agreement	**43,050**	44,431
Prepayments and accrued income	**10,748**	34,507
Other receivables	**146,621**	63,448
Total current trade and other receivables	**659,394**	622,212

The Company sells its receivables via the TalkTalk Telecom Group Limited purchase agreement to a third-party vehicle which matures in September 2026. 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.

Amounts owed by Group undertakings arise on the provision of funding to subsidiary undertakings. Movements in amounts receivable are driven by costs borne by the Company settled by other Group undertakings, cash balances generated by the Group's pooling arrangements with subsidiary undertakings and interest charged on amounts receivable. No interest is charged on intercompany trading balances generated by TalkTalk's accounts payable function and bank sweeping arrangements, these balances are repayable on demand. Interest charged on certain intercompany loan balances is calculated at the Group's borrowing cost plus a margin. All balances disclosed are held at amortised cost.

Included in other receivables at 29 February 2024, are lease receivables totalling £4,100,000 (2023: £3,920,000) with £645,000 (2023: £645,000) classified as current and £3,455,000 (2023: £3,275,000) classified as non-current.

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 29 February 2024, a receivable of £24,346,000 (2023: £18,953,000) 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.

Following the year end, a settlement was agreed in relation to a claim made by the Group with a supplier over several years where the supplier has not operated within contractual terms. The value of the settlement exceeded the receivable held; the Directors have concluded this is a non-adjusting event.

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 financial statements. Contract assets include accrued income which is assessed for impairment based on lifetime expected credit losses, 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. 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 (50–120 months) 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, considering the Company's customer life-time value analysis.

As at 29 February 2024, the Company had contract liabilities of £36,379,000 (2023: £23,604,000).

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 29 February 2024 is £38,184,000 (2023: £24,129,000). 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 £14,192,000 (2023: £20,888,000).

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 2023	88,300	36,292	124,592
Additions	88,990	18,632	107,622
Amortisation	(36,971)	(12,181)	(49,152)
Impairment	(24,296)	-	(24,296)
Disposals	(5,322)	(29,645)	(34,967)
Closing balance at 29 February 2024	**110,701**	**13,098**	**123,799**

Contract costs have decreased during the period due to a material customer contract impairment (see note 5).

14. Trade and other payables

	29 February 2024 £'000	28 February 2023 £'000
Trade payables	**472,323**	401,782
Amounts owed to Group undertakings	**440,197**	309,819
Amounts owed to Group undertakings in relation to receivable purchase agreement	**43,050**	44,431
Accruals and deferred income	**54,344**	58,898
Other payables	**5,642**	1,690
	1,015,556	816,620

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 September 2023, the Company signed an extension to the receivables purchase agreement which matures in September 2026.

Amounts owed to Group undertakings arise in respect of cash balances generated by the Group's pooling arrangements with subsidiary undertakings.

No interest is charged on intercompany trading balances generated by TalkTalk's accounts payable function and bank sweeping arrangements, these balances are repayable on demand. Interest charged on certain intercompany loan balances is calculated at the Group's borrowing cost plus a margin. All balances disclosed are held at amortised cost.

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 £6,049,000 (2023: £5,434,000) 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.

15. Leases (continued)

Lease liabilities at 29 February 2024 totalled £673,923,000 (2023: £610,119,000). This balance comprises £112,575,000 (2023: £96,124,000) of current liabilities and £561,348,000 (2023: £513,995,000) of non-current liabilities. The total cash outflow for leases in the year ended 29 February 2024 was £166,647,000 (2023: £157,558,000).

Right of use asset movements in the year ended 29 February 2024 are illustrated below.

	Land & Buildings	Network equipment and computer hardware £'000	Total £'000
Cost			
At 1 March 2023	36,160	1,215,319	1,251,479
Additions	44	309,487	309,531
Disposals	-	(142,782)	(142,782)
At 29 February 2024	36,204	1,382,024	1,418,228
Depreciation			
At 1 March 2023	(6,509)	(554,153)	(560,662)
Charge for the period	(1,376)	(152,150)	(153,526)
Disposals	-	59,531	59,531
At 29 February 2024	(7,885)	(646,772)	(654,657)
Net book value			
At 29 February 2024	**28,319**	**735,252**	**763,571**
At 28 February 2023	29,651	661,166	690,817

16. Cash and cash equivalents and borrowings

Cash and cash equivalents comprise:

	2024 £m	2023 £m
Cash at bank and in hand	**6,114**	2,062

The effective interest rate on bank deposits and money market funds was 0.0% (2023: 0.0%).

Borrowings comprise:

	Maturity	**2024 £m**	2023 £m
Current supplier working capital arrangement		**7,062**	7,062
Non-current supplier working capital arrangement	2026	**4,289**	10,929
		11,351	17,991

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

Supplier working capital arrangement

During the year the Company entered a multi-year supplier contract which included working capital finance. The arrangement advanced £19m to the Company, repayable over three years without interest. The balance was initially recognised at fair value by applying the Company's average borrowing rate, with subsequent measurement at amortised cost.

17. 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, considering 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).

	29 February 2024 £'000	28 February 2023 £'000
Current	**654**	114
Non-current	**1,481**	1,481
	2,135	1,595

	£'000
At 1 March 2023	**1,595**
Charged to the income statement	**43**
Released to income statement	**491**
Provision utilised	**6**
At 29 February 2024	**2,135**

Provisions relate to dilapidations and similar property costs, and costs associated with onerous property contracts. All such provisions are assessed by reference to the terms and conditions of the contract and market conditions at the balance sheet date.

Onerous property contracts are expected to be utilised over the next 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.

18. Called-up share capital and reserves

	29 February 2024 £'000	28 February 2023 £'000
Authorised, issued, and fully paid:		
10,000,055,000 (2023: 10,000,055,000) 'A' ordinary shares 1p each	**100,001**	100,001
45,000 (2023: 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.

Called-up share capital and reserves (continued)

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.

19. 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 29 February 2024, expenditure contracted but not provided for in these financial statements amounted to £71,289,000 (2023: £31,733,000).

20. Ultimate parent undertaking and controlling party

The Company is a direct subsidiary of TalkTalk Group Limited. The ultimate parent undertaking and controlling party is TalkTalk Holdings Limited, company incorporated in England. The full year results of the Company are included in the 2024Annual Report of TalkTalk Holdings Limited.

The principal place of business and registered address of TalkTalk Holdings Limited is at Soapworks, Ordsall Lane, Salford, United Kingdom, M5 3TT. The consolidated financial statements of the Group are available to the public and may be obtained from Companies House.

The largest group in which the results of the Company are consolidated is that headed by TalkTalk Holdings Limited, Soapworks, Ordsall Lane, Salford, United Kingdom, M5 3TT. The smallest group in which they are consolidated is that headed by TalkTalk Telecom Group Limited Soapworks, Ordsall Lane, Salford, United Kingdom, M5 3TT. No other group financial statements include the results of the Company. The consolidated financial statements of these groups are available to the public may be obtained from Companies House.

21. Related party transactions

The Company has taken advantage of the exemption under FRS 101 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.

22. Contingent liability

The Company is jointly and severally liable under cross guarantees within the Group for lease obligations, senior notes, revolving credit facility, receivables purchase facility and advance supplier working capital. The total Group borrowings (including those held within the Company), amounted to £1,516,000 (2023: £1,611,000).

The weighted average interest rate paid during the period on the bank loans was 9.41% (2023: 7.2%).

23. Post balance sheet events

Following the year end, a settlement was agreed in relation to a claim made by the Group with a supplier over several years where the supplier has not operated within contractual terms (note 12). The value of the settlement exceeded the receivable held; the Directors have concluded this is a non-adjusting event.