

**Company Registration No. 03849133**

**TalkTalk Communications Limited**

**Annual Report and Financial Statements**

**For the year ended 28 February 2023**



TalkTalk Classification: Private

## **TalkTalk Communications Limited**

### **Annual Report and Financial Statements for the year ended 28 February 2023**

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# **TalkTalk Communications Limited**

## **Officers and professional advisers**

### **Directors**

T A Harrison

P Eayres

J D Smith (Appointed 17 April 2023)

J G Thackray (Appointed 1 September 2022, Resigned 13 February 2023)

### **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

### Principal activities

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. The Company is part of the TalkTalk Holdings Limited (formerly Tosca IOM Limited) Group ("the Group").

### Business review and outlook

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

|                              | Year ended<br>28 February<br>2023 | Year ended<br>28 February<br>2022<br>(restated) <sup>(1)</sup> |
|------------------------------|-----------------------------------|----------------------------------------------------------------|
| Revenue (£'000)              | 1,242,388                         | 1,199,419                                                      |
| Gross profit (%)             | 36.7                              | 42.3                                                           |
| Loss before taxation (£'000) | (16,555)                          | (48,752)                                                       |

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

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. Our broadband base is currently 1.3m customers and Ethernet at 64k.

As with the rest of TalkTalk Group, we are committed to providing fibre-based products to the UK market with 76% of the base now on fibre-based products, c1m customers. In the current year, the Ethernet base has also grown organically by 5k and inorganically by 12k due to the wider Group acquisition of Virtual11 allowing us to realise synergies and new market opportunities. This strong base growth in Ethernet has contributed to revenue despite declines in the voice market.

Cost of goods sold are generated from telecommunications providers and include rental charges and costs to connect. These have been subject to inflationary pressures in FY23 with not all increases passed onto impacting both revenue growth and margins. Operational costs are a combination of headcount costs, marketing, acquisitions, and network costs transferred across the TalkTalk Group, 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 £1.611m (2022 restated: £1.583m).

## TalkTalk Communications Limited

### Section 172 Report (continued)

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                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Changing market structure</b></p> <p>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.</p>                                                                                        | <p>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.</p> <p>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.</p> |
| <p><b>Regulatory compliance</b></p> <p>Failure to comply with regulatory obligations may result in negative customer impact and/or significant regulatory fines.</p>                                                                                                                                                                                                                                                                                  | <p>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.</p> <p>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.</p>                                                                                                                                                                                                                                                                                                                                                                      |
| <p><b>Data and cyber security</b></p> <p>Security of customer, commercial and colleague data poses increasing reputational and financial risk to all businesses and the gross risk remains high.</p>                                                                                                                                                                                                                                                  | <p>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.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <p><b>Resilience and business continuity</b></p> <p>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.</p> | <p>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.</p>            |

## **TalkTalk Communications Limited**

### **Section 172 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 2023 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 FY24 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  
19 July 2023

# TalkTalk Communications Limited

## Section 172 Report

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.

#### *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 (continued)**

#### ***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 CIO 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 (continued)**

The Directors present their annual report on the affairs of the Company, together with the financial statements for the period ended 28 February 2023.

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 TalkTalk Holdings 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 (2022: £nil).

#### **Going concern**

The Directors are required to satisfy themselves that it is reasonable for them to conclude that it is appropriate to prepare the financial statements on a going concern basis.

The Company is part of the TalkTalk Telecom Holdings Group and part of the 'Restricted Group' headed by *TalkTalk Telecom Group Limited*. *The statement in the Company's accounts should be considered in conjunction with statements made in the accounts of those Companies.*

Following year end TalkTalk Telecom Group Limited agreed with its RCF lenders amendments to permitted covenant levels. Forecast covenant compliance is reliant on the inclusion of the expected proceeds from the sale of TalkTalk Business Direct and/or additional funding from shareholders, and inclusion of these proceeds in the banking forecasts has been agreed with RCF lenders. TalkTalk Telecom Holdings Group has requested, but has not yet received, a similar amendment to the covenants associated with the debt held above the TalkTalk Telecom Group Limited.

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

Notwithstanding this, taking into account the status of the renewal of the receivables purchase facility, the ultimate shareholders' proposed liquidity support, the status of negotiations on the amendment of PIK covenants and considering the mitigating actions available to the Group under downside scenarios, the Directors have a reasonable expectation that the Group and therefore the Company has sufficient resources to continue its operations for the foreseeable future, being a period of not less than twelve months from the date of this report, and accordingly they continue to adopt the going concern basis in preparing these financial statements.

TalkTalk Telecom Holdings Limited has provided a guarantee to the Company in respect of the financial year ending 28 February 2023 in accordance with s479C of the Companies Act 2006.

## **TalkTalk Communications Limited**

### **Directors' report (continued)**

#### **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.

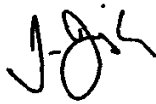
#### **Future developments**

Details of the future developments of the Company are explained on page 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  
19 July 2023

## **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 2023

|                                                                              | Notes | Year ended<br>28 February<br>2023<br>£'000 | Year ended<br>28 February<br>2022<br>(restated) <sup>(1)</sup><br>£'000 |
|------------------------------------------------------------------------------|-------|--------------------------------------------|-------------------------------------------------------------------------|
| <b>Revenue</b>                                                               |       | <b>1,242,388</b>                           | 1,199,419                                                               |
| Cost of sales                                                                |       | <b>(786,891)</b>                           | (692,412)                                                               |
| <b>Gross profit</b>                                                          |       | <b>455,497</b>                             | 507,007                                                                 |
| Operating expenses                                                           |       | <b>(413,743)</b>                           | (475,211)                                                               |
| Non-headline items                                                           | 5     | <b>527</b>                                 | (42,347)                                                                |
| <b>Operating profit/(loss)</b>                                               | 2     | <b>42,281</b>                              | (10,551)                                                                |
| Finance costs                                                                | 3     | <b>(58,836)</b>                            | (38,201)                                                                |
| <b>Loss before taxation</b>                                                  |       | <b>(16,555)</b>                            | (48,752)                                                                |
| Taxation                                                                     | 4     | <b>(64,170)</b>                            | 20,859                                                                  |
| <b>Loss for the financial year attributable to the owners of the Company</b> |       | <b>(80,725)</b>                            | (27,893)                                                                |

(1) See note 1 for detail on the restatement in the prior year.

The accompanying notes on pages 14 to 37 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 2023

|                                              |       | 28 February<br>2023 | 28 February<br>2022<br>(restated) <sup>(1)</sup> |
|----------------------------------------------|-------|---------------------|--------------------------------------------------|
|                                              | Notes | £'000               | £'000                                            |
| <b>Non-current assets</b>                    |       |                     |                                                  |
| Investments                                  | 8     | 12,307              | 12,307                                           |
| Non-operating intangibles                    | 9     | 53,878              | 53,878                                           |
| Other intangible assets                      | 9     | 183,276             | 163,671                                          |
| Property, plant and equipment <sup>(2)</sup> | 10    | 762,621             | 837,611                                          |
| Trade and other receivables                  | 12    | 7,962               | 3,918                                            |
| Contract costs                               | 13    | 124,592             | 103,202                                          |
| Deferred tax asset                           | 4     | -                   | 63,797                                           |
|                                              |       | <b>1,144,636</b>    | <b>1,238,384</b>                                 |
| <b>Current assets</b>                        |       |                     |                                                  |
| Inventories                                  | 11    | 1,042               | 503                                              |
| Trade and other receivables                  | 12    | 622,212             | 561,022                                          |
| Cash and cash equivalents                    |       | 2,062               | 3,720                                            |
|                                              |       | <b>625,316</b>      | <b>565,245</b>                                   |
| <b>Total assets</b>                          |       | <b>1,769,952</b>    | <b>1,803,629</b>                                 |
| <b>Current liabilities</b>                   |       |                     |                                                  |
| Trade and other payables                     | 14    | (816,620)           | (709,711)                                        |
| Contract liabilities                         | 13    | (23,604)            | (24,679)                                         |
| Lease liabilities                            | 15    | (96,124)            | (126,335)                                        |
| Borrowings                                   | 16    | (7,062)             | -                                                |
| Provisions                                   | 17    | (114)               | (186)                                            |
|                                              |       | <b>(943,523)</b>    | <b>(860,911)</b>                                 |
| <b>Net current liabilities</b>               |       | <b>(318,207)</b>    | <b>(295,666)</b>                                 |
| <b>Total assets less current liabilities</b> |       | <b>826,429</b>      | <b>942,718</b>                                   |
| <b>Non-current liabilities</b>               |       |                     |                                                  |
| Lease liabilities                            | 15    | (513,995)           | (559,902)                                        |
| Borrowings                                   |       | (10,929)            | -                                                |
| Provisions                                   | 17    | (1,481)             | (1,293)                                          |
|                                              |       | <b>(526,405)</b>    | <b>(561,195)</b>                                 |
| <b>Total liabilities</b>                     |       | <b>(1,469,928)</b>  | <b>(1,422,106)</b>                               |
| <b>Net assets</b>                            |       | <b>300,024</b>      | <b>381,523</b>                                   |
| <b>Equity</b>                                |       |                     |                                                  |
| Called-up share capital                      | 18    | 100,001             | 100,001                                          |
| Share premium                                |       | 74                  | 74                                               |
| Retained earnings and other reserves         | 18    | 199,949             | 281,448                                          |
| <b>Total equity</b>                          |       | <b>300,024</b>      | <b>381,523</b>                                   |

(1) See note 1 for detail on the restatement in the prior year.

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

## **TalkTalk Communications Limited**

### **Balance sheet**

**As at 28 February 2023**

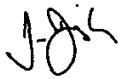
For the year ending 28 February 2023, the Company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies.

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 37 form an integral part of the financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 19 July 2023 and signed on its behalf by:



J D Smith  
Director  
19 July 2023

## TalkTalk Communications Limited

### Statement of changes in equity As at 28 February 2023

|                                            | <b>Called-up<br/>share capital<br/>£'000</b> | <b>Share<br/>premium<br/>£'000</b> | <b>Capital<br/>contribution<br/>reserve<br/>£'000</b> | <b>Retained<br/>earnings/<br/>(losses)<br/>£'000</b> | <b>Total<br/>£'000</b> |
|--------------------------------------------|----------------------------------------------|------------------------------------|-------------------------------------------------------|------------------------------------------------------|------------------------|
| At 28 February 2021 as previously reported | 100,001                                      | 74                                 | 248,000                                               | 81,091                                               | 429,166                |
| IFRS 16 Restatement                        | -                                            | -                                  | -                                                     | (20,524)                                             | (20,524)               |
| At 28 February 2021 (restated)             | 100,001                                      | 74                                 | 248,000                                               | 60,567                                               | 408,642                |
| Total comprehensive expense for the year   | -                                            | -                                  | -                                                     | (27,893)                                             | (27,893)               |
| At 28 February 2022                        | <b>100,001</b>                               | <b>74</b>                          | <b>248,000</b>                                        | <b>32,674</b>                                        | <b>380,749</b>         |
| Total comprehensive expense for the year   | -                                            | -                                  | -                                                     | (80,725)                                             | (80,725)               |
| <b>At 28 February 2023</b>                 | <b>100,001</b>                               | <b>74</b>                          | <b>248,000</b>                                        | <b>(48,051)</b>                                      | <b>300,024</b>         |

The accompanying notes on pages 14 to 37 form an integral part of the financial statements.

# TalkTalk Communications Limited

## Notes to the financial statements For the year ended 28 February 2023

### 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 2023 were authorised for issue by the Board of Directors on 19 July 2023 and the balance sheet was signed on the Board's behalf by J Smith. TalkTalk Holdings 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 TalkTalk Holdings Limited.

#### b) *Basis of preparation*

The accounting policy which follow set out those policies which apply in preparing the financial statements for the period ended 28 February 2023. 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 2023 (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;
- ix. the requirements of paragraph 52, 58, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases; and
- x. An additional balance sheet for the beginning of the earliest comparative period following the correction of error.

###### 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 2023 (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 2023 (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 2023 (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.

## TalkTalk Communications Limited

### Notes to the financial statements For the year ended 28 February 2023 (continued)

#### 1. Accounting policies and basis of preparation (continued)

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

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

##### *Going concern - ultimate parent company support and Company forecast assumptions*

The financial statements have been prepared on a going concern basis in view of the fact that TalkTalk Holdings Limited has indicated 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 financial statements have been prepared on a Going Concern basis however there are material uncertainties in that assessment surrounding availability of liquidity in a reasonable worst-case scenario. The Group assessment focuses on available financing and headroom against covenants using the Board approved Plan as the basis of the assessment.

A detailed assessment of the Group and the intermediate parent company, TalkTalk Telecom Group Limited can be found in the Annual Reports of those companies.

On this basis, the Directors continue to adopt the going concern basis in preparing these accounts. Accordingly, these accounts do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Company were unable to continue as a going concern.

##### *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. 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.

## TalkTalk Communications Limited

### Notes to the financial statements

#### For the year ended 28 February 2023 (continued)

##### 1. Accounting policies and basis of preparation (continued)

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

###### *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.

- **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.

# TalkTalk Communications Limited

## Notes to the financial statements

### For the year ended 28 February 2023 (continued)

#### 1. Accounting policies and basis of preparation (continued)

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.

##### 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.

##### IFRS 16 prior year restatement including Ethernet

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

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

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

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

## TalkTalk Communications Limited

### Notes to the financial statements

#### For the year ended 28 February 2023 (continued)

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

|                                                                                 | Previously<br>reported<br>£'000 | IFRS 16<br>restatements<br>£'000 | As restated<br>£'000 |
|---------------------------------------------------------------------------------|---------------------------------|----------------------------------|----------------------|
| <b>Revenue</b>                                                                  | 1,199,419                       | -                                | 1,199,419            |
| Cost of sales                                                                   | (776,274)                       | 83,862                           | (692,412)            |
| <b>Gross profit</b>                                                             | 423,145                         | 83,862                           | 507,007              |
| Operating expenses                                                              | (412,535)                       | (62,676)                         | (475,211)            |
| Adjusting items                                                                 | (42,347)                        | -                                | (42,347)             |
| <b>Operating profit/(loss)</b>                                                  | (31,737)                        | 21,186                           | (10,551)             |
| Finance costs                                                                   | (14,341)                        | (23,860)                         | (38,201)             |
| <b>Loss before taxation</b>                                                     | (46,078)                        | (2,674)                          | (48,752)             |
| Taxation                                                                        | 20,859                          | -                                | 20,859               |
| <b>Loss for the financial period/year attributable to owners of the Company</b> | (25,219)                        | (2,674)                          | (27,893)             |

|                               | Previously<br>reported<br>£'000 | IFRS 16<br>restatement<br>£'000 | As restated<br>£'000 |
|-------------------------------|---------------------------------|---------------------------------|----------------------|
| <b>Non-current assets</b>     |                                 |                                 |                      |
| Investments                   | 12,307                          | -                               | 12,307               |
| Non-operating intangibles     | 53,878                          | -                               | 53,878               |
| Other intangible assets       | 163,671                         | -                               | 163,671              |
| Property, plant and equipment | 306,360                         | 531,251                         | 837,611              |
| Trade and other receivables   | 3,918                           | -                               | 3,918                |
| Contract costs                | 198,413                         | (95,211)                        | 103,202              |
| Deferred tax asset            | 61,398                          | 2,399                           | 63,797               |
|                               | 799,945                         | 438,439                         | 1,238,384            |
| <b>Current assets</b>         |                                 |                                 |                      |
| Inventories                   | 503                             | -                               | 503                  |
| Trade and other receivables   | 561,022                         | -                               | 561,022              |
| Cash and cash equivalents     | 3,720                           | -                               | 3,720                |
|                               | 565,245                         | -                               | 565,245              |
| <b>Total assets</b>           | 1,365,190                       | 438,439                         | 1,803,629            |

# TalkTalk Communications Limited

## Notes to the financial statements For the year ended 28 February 2023 (continued)

|                                              |                  |                  |                    |
|----------------------------------------------|------------------|------------------|--------------------|
| <b>Current liabilities</b>                   |                  |                  |                    |
| Trade and other payables                     | (709,711)        | -                | (709,711)          |
| Contract liabilities                         | (24,679)         | -                | (24,679)           |
| Lease liabilities                            | (63,118)         | (63,217)         | (126,335)          |
| Provisions                                   | (186)            | -                | (186)              |
|                                              | <u>(797,694)</u> | <u>(63,217)</u>  | <u>(860,911)</u>   |
| <b>Net current liabilities</b>               | <b>(232,449)</b> | <b>(63,217)</b>  | <b>(295,666)</b>   |
| <b>Total assets less current liabilities</b> | <b>567,496</b>   | <b>375,222</b>   | <b>942,718</b>     |
| <b>Non-current liabilities</b>               |                  |                  |                    |
| Lease liabilities                            | (162,256)        | (397,646)        | (559,902)          |
| Provisions                                   | (1,293)          | -                | (1,293)            |
|                                              | <u>(163,549)</u> | <u>(397,646)</u> | <u>(561,195)</u>   |
| <b>Total liabilities</b>                     | <b>(961,243)</b> | <b>(460,863)</b> | <b>(1,422,106)</b> |
| <b>Net assets</b>                            | <b>403,947</b>   | <b>(22,424)</b>  | <b>381,523</b>     |
| <b>Equity</b>                                |                  |                  |                    |
| Called-up share capital                      | 100,001          | -                | 100,001            |
| Share premium                                | 74               | -                | 74                 |
| Retained earnings and other reserves         | 303,872          | (22,424)         | 281,448            |
| <b>Total equity</b>                          | <b>403,947</b>   | <b>(22,424)</b>  | <b>381,523</b>     |

### 2. Operating profit/(loss)

Operating profit/(loss) is stated after charging:

|                                                            | <b>Year ended<br/>28 February<br/>2023<br/>£'000</b> | <b>Year ended<br/>28 February<br/>2022<br/>(Restated)<sup>(1)</sup><br/>£'000</b> |
|------------------------------------------------------------|------------------------------------------------------|-----------------------------------------------------------------------------------|
| Depreciation of property, plant and equipment (note 10)    | <b>32,938</b>                                        | 46,468                                                                            |
| Depreciation of right of use assets (notes 10 and 15)      | <b>150,249</b>                                       | 157,036                                                                           |
| Amortisation of other operating intangible assets (note 9) | <b>52,662</b>                                        | 76,176                                                                            |
| Expected credit losses recognised on trade receivables     | <b>113</b>                                           | 4,158                                                                             |
| Cost of inventories recognised in expenses                 | <b>1,041</b>                                         | 1,345                                                                             |
| Lease expenses under the low value exemption               | <b>5,434</b>                                         | <b>5,668</b>                                                                      |

(1) See note 1 for detail on the restatement in the prior year.

## TalkTalk Communications Limited

### Notes to the financial statements

#### For the year ended 28 February 2023 (continued)

#### 3. Finance costs

Finance costs are analysed as follows:

|                                         | Year ended<br>28 February<br>2023<br>£'000 | Year ended<br>28 February 2022<br>(Restated) <sup>(1)</sup><br>£'000 |
|-----------------------------------------|--------------------------------------------|----------------------------------------------------------------------|
| Interest charge from group undertakings | 4,675                                      | 2,646                                                                |
| Interest on lease liabilities           | 51,403                                     | 33,665                                                               |
| Other finance costs                     | 2,758                                      | 1,890                                                                |
| <b>Total finance costs</b>              | <b>58,836</b>                              | <b>38,201</b>                                                        |

(1) See note 1 for detail on the restatement in the prior year.

#### 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 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 2023 (continued)

##### 4. Taxation (continued)

###### Tax in the income statement

The major components of income tax credit are:

|                                                | Year ended<br>28 February<br>2023 | Year ended<br>28 February<br>2022<br>(restated) <sup>(1)</sup> |
|------------------------------------------------|-----------------------------------|----------------------------------------------------------------|
|                                                | £'000                             | £'000                                                          |
| <b>Current tax:</b>                            |                                   |                                                                |
| Adjustments in respect of prior years          | -                                 | 1,493                                                          |
| <b>Total tax charge</b>                        | -                                 | 1,493                                                          |
| <b>Deferred tax:</b>                           |                                   |                                                                |
| Origination and reversal of timing differences | 74,597                            | (10,622)                                                       |
| Effect of change in tax rate                   |                                   | (12,186)                                                       |
| Adjustments in respect of prior years          | (10,427)                          | (2,031)                                                        |
| <b>Total tax charge/(credit)</b>               | <b>64,170</b>                     | <b>(24,839)</b>                                                |
| <b>Total tax charge/(credit)</b>               | <b>64,170</b>                     | <b>(23,346)</b>                                                |

(1) See note 1 for detail on the restatement in the prior year.

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 2023 (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% (2022: 19%) to the profit/(loss) before taxation are as follows:

|                                                            | Year ended<br>28 February<br>2023<br>£'000 | Year ended<br>28 February<br>2022<br>(restated) <sup>(1)</sup><br>£'000 |
|------------------------------------------------------------|--------------------------------------------|-------------------------------------------------------------------------|
| <b>(Loss)/profit before taxation</b>                       | <b>(16,555)</b>                            | <b>(48,752)</b>                                                         |
| Tax at standard UK corporation tax rate of 19% (2022: 19%) | (3,145)                                    | 9,263                                                                   |
| Items attracting no tax relief or liability                | (1,404)                                    | (1,222)                                                                 |
| Group relief surrendered for nil consideration             | -                                          | (1,000)                                                                 |
| Movement in deferred tax not recognised                    | 79,146                                     | -                                                                       |
| Effect of change in tax rate                               | -                                          | 14,356                                                                  |
| Adjustments in respect of prior periods                    | (10,427)                                   | (538)                                                                   |
| <b>Total tax charge/(credit)</b>                           | <b>64,170</b>                              | <b>(20,859)</b>                                                         |

(1) See note 1 for detail on the restatement in the prior year.

The deferred tax assets is analysed as follows:

|                                          | IFRS16<br>£'000 | Timing Difference in<br>respect of capital<br>allowances and<br>depreciation<br>£'000 | Short term<br>timing<br>differences<br>£'000 | Losses<br>£'000 | Total<br>£'000 |
|------------------------------------------|-----------------|---------------------------------------------------------------------------------------|----------------------------------------------|-----------------|----------------|
| At 1 March 2022                          | 475             | 59,200                                                                                | 1,723                                        | -               | 61,398         |
| IFRS16                                   | 2,399           | -                                                                                     | -                                            | -               | 2,399          |
| At 1 March 2022<br>(restated)            | 2,874           | 59,200                                                                                | 1,723                                        | -               | 63,797         |
| Adjustments in respect<br>of prior years | -               | 8,518                                                                                 | 1,678                                        | 231             | 10,427         |
| Effect of change in tax<br>rate          | (690)           | (14,356)                                                                              | (816)                                        | (55)            | (15,917)       |
| (Charge)/credit to<br>income statement   | (2,184)         | (53,362)                                                                              | (2,585)                                      | (176)           | (58,307)       |
| <b>At 28 February 2023</b>               | <b>-</b>        | <b>-</b>                                                                              | <b>-</b>                                     | <b>-</b>        | <b>-</b>       |

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

At 28 February 2023, the Company had an unrecognised deferred tax asset of £6,973,000 (2022: £5,956,000) relating to the trading loss. This deferred tax asset is not recognised due to uncertainty over future trading profits.

At 28 February 2023, the Company has unrecognised deferred tax assets of £66,916,000 (2022: £nil) relating to timing differences in respect of capital allowances and depreciation. Of this £4,173,000 (2022: £1,723,000) relates to RDEC.

These deferred tax assets are not recognised as there is uncertainty of the timing of future taxable profits against which the asset can be recovered.

# TalkTalk Communications Limited

## Notes to the financial statements

### For the year ended 28 February 2023 (continued)

#### 5. Non- headline items

|                                                   | Year ended<br>28 February<br>2023<br>£'000 | Year ended<br>28 February<br>2022<br>£'000 |
|---------------------------------------------------|--------------------------------------------|--------------------------------------------|
| Impairment of contract assets                     | -                                          | 11,285                                     |
| Copper to Fibre programme                         | 36,955                                     | 31,062                                     |
| Network monetisation                              | (32,777)                                   | -                                          |
| Fair value adjustment of contingent consideration | (4,705)                                    | -                                          |
|                                                   | <b>(527)</b>                               | <b>42,347</b>                              |

(1) See note 1 for detail on the restatement in the prior year.

#### *Accelerated Amortisation*

During an earlier period, a material customer contract was terminated early giving rise to accelerated amortisation of £11,285,000 in the year ended February 2022.

A total taxation credit of £nil has been recognised on these costs in the period ended 28 February 2023 (2021: £2,144,000).

#### *Copper to Fibre programme*

During the prior year 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 £36,955,000 (2022: £31,062,000) for the current period.

A total taxation credit of £7,022,000 has been recognised on these costs in the period ended 28 February 2023 (2022: £5,902,000).

#### *Network monetisation*

During the year, as part of a broader strategy to monetise the Group's network, the Group disposed of IP addresses. This resulted in other income of £32,777,000 (2022: £nil) for the current year

A total taxation credit of £6,228,000 has been recognised on these costs in the period ended 28 February 2023 (2022: £nil).

#### *Fair value of contingent consideration*

During the prior year, the group acquired 100% of the issued share capital obtaining control of OB Telecom Limited, a retailer and distributor of Telecommunications. The entire purchase consideration was in the form of contingent consideration. The amount settled will be cash flows generated by OB Telecom Limited for the first three years trading, plus a payment for a "terminal value". The terminal value is based on a mixture of average margin per unit and customer churn over the three years. During the current year, the fair value of the contingent consideration was reduced from £6,395,000 to £1,690,000. The corresponding £4,705,000 credit (2022: £nil) has been recognised within non-headline items.

## TalkTalk Communications Limited

### Notes to the financial statements

#### For the year ended 28 February 2023 (continued)

##### 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<br>2023<br>£'000 | 28 February<br>2022<br>£'000 |
|-----------------|------------------------------|------------------------------|
| Opening balance | 12,307                       | 5,678                        |
| Additions       | -                            | 6,629                        |
| Closing balance | 12,307                       | 12,307                       |

The Company had direct investments in the following subsidiary undertakings at 28 February 2023:

| Subsidiary undertakings                         | Country of<br>incorporation<br>or registration | Registered office        | Principal activity | Percentage of<br>Ordinary<br>shareholding |
|-------------------------------------------------|------------------------------------------------|--------------------------|--------------------|-------------------------------------------|
| CPW Network Services Limited <sup>(1)</sup>     | England & Wales                                | Soapworks <sup>(2)</sup> | Telecommunications | 100                                       |
| tlPicall Limited <sup>(1)</sup>                 | England & Wales                                | Soapworks <sup>(2)</sup> | Dormant            | 100                                       |
| Adventure Telecom Limited <sup>(1)</sup>        | England & Wales                                | Soapworks <sup>(2)</sup> | Telecommunications | 100                                       |
| Treetop Telecom Limited <sup>(1)</sup>          | England & Wales                                | Soapworks <sup>(2)</sup> | Dormant            | 100                                       |
| TalkTalk Business Direct Limited <sup>(1)</sup> | England & Wales                                | Soapworks <sup>(2)</sup> | Telecommunications | 100                                       |
| OB Telecom <sup>(1)</sup>                       | England & Wales                                | Soapworks <sup>(2)</sup> | 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. During the current year, the fair value of the contingent consideration was reduced from £6,395,000 to £1,690,000, held within other payables.

# TalkTalk Communications Limited

## Notes to the financial statements For the year ended 28 February 2023 (continued)

### 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 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.

|                       | <b>Non-<br/>operating<br/>intangibles<br/>£'000</b> | <b>Operating<br/>intangibles<br/>£'000</b> | <b>Total<br/>£'000</b> |
|-----------------------|-----------------------------------------------------|--------------------------------------------|------------------------|
| <b>Cost</b>           |                                                     |                                            |                        |
| At 1 March 2022       | 55,308                                              | 820,881                                    | 876,189                |
| Additions             | -                                                   | 72,267                                     | 72,267                 |
| Disposals             | -                                                   | -                                          | -                      |
| At 28 February 2023   | <u>55,308</u>                                       | <u>893,148</u>                             | <u>948,456</u>         |
| <b>Amortisation</b>   |                                                     |                                            |                        |
| At 1 March 2022       | (1,430)                                             | (657,210)                                  | (658,640)              |
| Charge for the year   | -                                                   | (52,662)                                   | (52,662)               |
| At 28 February 2023   | <u>(1,430)</u>                                      | <u>(709,872)</u>                           | <u>(711,302)</u>       |
| <b>Net book value</b> |                                                     |                                            |                        |
| At 28 February 2023   | <u>53,878</u>                                       | <u>183,276</u>                             | <u>237,154</u>         |
| At 28 February 2022   | <u>53,878</u>                                       | <u>163,671</u>                             | <u>217,549</u>         |

## TalkTalk Communications Limited

### Notes to the financial statements

#### For the year ended 28 February 2023 (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<br>£'000 | Fixtures and fittings<br>£'000 | Network equipment and computer hardware<br>£'000 | Total<br>£'000     |
|-----------------------------------------------|------------------|---------------------------------------|--------------------------------|--------------------------------------------------|--------------------|
| <b>Cost</b>                                   |                  |                                       |                                |                                                  |                    |
| At 1 March 2022 (Restated) <sup>(1)</sup>     | 36,234           | 4,522                                 | 27,051                         | 2,259,608                                        | 2,327,415          |
| Additions                                     | 40               | 172                                   | 40                             | 263,875                                          | 264,127            |
| Disposals                                     | (114)            |                                       |                                | (155,816)                                        | (155,930)          |
| At 28 February 2023                           | <b>36,160</b>    | <b>4,694</b>                          | <b>27,091</b>                  | <b>2,367,667</b>                                 | <b>2,435,612</b>   |
| <b>Depreciation</b>                           |                  |                                       |                                |                                                  |                    |
| At 1 March 2022 (Restated) <sup>(1)</sup>     | (4,810)          | (1,510)                               | (24,909)                       | (1,458,575)                                      | (1,489,804)        |
| Charge for the year                           | (1,699)          | (435)                                 | (707)                          | (180,346)                                        | (183,187)          |
| At 28 February 2023                           | <b>(6,509)</b>   | <b>(1,945)</b>                        | <b>(25,616)</b>                | <b>(1,638,921)</b>                               | <b>(1,672,991)</b> |
| <b>Net book value</b>                         |                  |                                       |                                |                                                  |                    |
| At 28 February 2023                           | <b>29,651</b>    | <b>2,749</b>                          | <b>1,475</b>                   | <b>728,746</b>                                   | <b>762,621</b>     |
| At 28 February 2022 (Restated) <sup>(1)</sup> | 31,424           | 3,012                                 | 2,142                          | 801,033                                          | 837,611            |

(1) See note 1 for detail on the restatement in the prior year.

(2) 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 2023 (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.

|                  | <b>28 February<br/>2023<br/>£'000</b> | 28 February<br>2022<br>£'000 |
|------------------|---------------------------------------|------------------------------|
| Goods for resale | <b>1,042</b>                          | 503                          |

#### 12. Trade and other receivables

|                                                                                 | <b>28 February<br/>2023<br/>£'000</b> | 28 February<br>2022<br>£'000 |
|---------------------------------------------------------------------------------|---------------------------------------|------------------------------|
| <b>Non-current</b>                                                              |                                       |                              |
| Other receivables                                                               | 3,275                                 | 3,918                        |
| Amounts owed by Group undertakings                                              | <b>4,687</b>                          | -                            |
| <b>Total non-current trade and other receivables</b>                            | <b>7,962</b>                          | 3,918                        |
| <b>Current</b>                                                                  |                                       |                              |
| Trade receivables                                                               | 37,271                                | 43,691                       |
| Amounts owed by Group undertakings                                              | <b>442,555</b>                        | 374,773                      |
| Amounts owed by Group undertakings in relation to receivable purchase agreement | 44,431                                | 42,839                       |
| Prepayments and accrued income                                                  | 34,507                                | 33,401                       |
| Other receivables                                                               | <b>63,448</b>                         | 66,318                       |
| <b>Total current trade and other receivables</b>                                | <b>622,212</b>                        | 561,022                      |
| <b>Total trade and other receivables</b>                                        | <b>630,147</b>                        | 564,940                      |

(1) See note 1 for detail on the restatement in the prior year.

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

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 28 February 2023, are lease receivables totalling £3,920,000 (2022: £4,533,000) with £645,000 (2022: £614,000) classified as current and £3,275,000 (2022: £3,918,000) classified as non-current.

## TalkTalk Communications Limited

### Notes to the financial statements

#### For the year ended 28 February 2023 (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 2023, a receivable of £18,953,000 (2022: £16,592,000) 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 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 28 February 2023, the Company had contract liabilities of £23,604,000 (2022: £24,679,000).

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 28 February 2023 is £24,129,000 (2022: £24,510,000). 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 £20,888,000 (2022: £19,785,000).

##### 13. Contract balances

The movement on contract costs can be explained as follows:

|                                     | Costs<br>to obtain<br>£'000 | Costs<br>to fulfil<br>£'000 | Total<br>£'000 |
|-------------------------------------|-----------------------------|-----------------------------|----------------|
| Opening balance at 1 March 2022     | 73,431                      | 29,771                      | 103,202        |
| Additions                           | 44,674                      | 1,785                       | 46,459         |
| Amortisation                        | (29,805)                    | 4,736                       | (25,069)       |
| Impairment charge                   | -                           | -                           | -              |
| Closing balance at 28 February 2023 | 88,300                      | 36,292                      | 124,592        |

## TalkTalk Communications Limited

### Notes to the financial statements For the year ended 28 February 2023 (continued)

|                                                               | Costs<br>to obtain<br>£'000 | Costs<br>to fulfil<br>£'000 | Total<br>£'000 |
|---------------------------------------------------------------|-----------------------------|-----------------------------|----------------|
| Opening balance at 1 March 2021 (restated) <sup>(1)</sup>     | 57,154                      | 36,266                      | 93,420         |
| Additions                                                     | 38,128                      | 22,168                      | 60,296         |
| Amortisation                                                  | (21,851)                    | (20,568)                    | (42,419)       |
| Impairment charge                                             | -                           | (8,095)                     | (8,095)        |
| Closing balance at 28 February 2022 (restated) <sup>(1)</sup> | 73,431                      | 29,771                      | 103,202        |

(1) See note 1 for detail on the restatement in the prior year.

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<br>2023<br>£'000 | 28 February<br>2022<br>£'000 |
|---------------------------------------------------------------------------------|------------------------------|------------------------------|
| Trade payables                                                                  | 401,782                      | 211,819                      |
| Amounts owed to Group undertakings                                              | 309,819                      | 367,858                      |
| Amounts owed to Group undertakings in relation to receivable purchase agreement | 44,431                       | 42,839                       |
| Accruals and deferred income                                                    | 58,898                       | 80,567                       |
| Other payables                                                                  | 1,690                        | 6,628                        |
|                                                                                 | <b>816,620</b>               | <b>709,711</b>               |

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.

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.

## TalkTalk Communications Limited

### Notes to the financial statements

#### For the year ended 28 February 2023 (continued)

##### 14. Trade and other payables (continued)

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 £5,434,000 (2022: £5,668,000) 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 2023 totalled £610,119,000 (2022 restated: £686,237,000). This balance comprises £96,124,000 (2022 restated: £126,335,000) of current liabilities and £513,995,000 (2022 restated: £559,902,000) of non-current liabilities. The total cash outflow for leases in the year ended 28 February 2023 was £157,558,000.

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

|                            | Land & Buildings | Network equipment and computer hardware<br>£'000 | Total<br>£'000 |
|----------------------------|------------------|--------------------------------------------------|----------------|
| <b>Cost</b>                |                  |                                                  |                |
| At 1 March 2022 (restated) | 36,234           | 1,125,023                                        | 1,161,257      |
| Additions                  | 40               | 246,334                                          | 246,374        |
| Disposals                  | (114)            | (156,038)                                        | (156,152)      |
| At 28 February 2023        | 36,160           | 1,215,319                                        | 1,251,479      |
| <b>Depreciation</b>        |                  |                                                  |                |
| At 1 March 2022 (restated) | (4,810)          | (405,603)                                        | (410,413)      |
| Charge for the period      | (1,699)          | (148,550)                                        | (150,249)      |
| At 28 February 2023        | (6,509)          | (554,153)                                        | (560,662)      |
| <b>Net book value</b>      |                  |                                                  |                |
| At 28 February 2023        | 29,651           | 661,166                                          | 690,817        |
| At 28 February 2022        | 31,424           | 719,420                                          | 750,844        |

# TalkTalk Communications Limited

## Notes to the financial statements

### For the year ended 28 February 2023 (continued)

#### 16. Cash and cash equivalents and borrowings

##### *Cash and cash equivalents comprise:*

|                          | 2023  | 2022  |
|--------------------------|-------|-------|
|                          | £m    | £m    |
| Cash at bank and in hand | 2,062 | 3,720 |

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

##### *Borrowings comprise:*

|                                                  | Maturity | 2023   | 2022 |
|--------------------------------------------------|----------|--------|------|
|                                                  |          | £m     | £m   |
| Current supplier working capital arrangement     |          | 7,062  | -    |
| Non-current supplier working capital arrangement | 2025     | 10,929 | -    |
|                                                  |          | 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).

|                                 | 28 February<br>2023 | 28 February<br>2022 |
|---------------------------------|---------------------|---------------------|
|                                 | £'000               | £'000               |
| Current                         | 114                 | 186                 |
| Non-current                     | 1,481               | 1,293               |
|                                 | <u>1,595</u>        | <u>1,479</u>        |
|                                 | £'000               |                     |
| At 1 March 2022                 | 1,479               |                     |
| Charged to the income statement | 633                 |                     |
| Released to income statement    | (329)               |                     |
| Provision utilised              | (188)               |                     |
|                                 | <u>1,595</u>        |                     |
| <b>At 28 February 2023</b>      | <b>1,595</b>        |                     |

# TalkTalk Communications Limited

## Notes to the financial statements

### For the year ended 28 February 2023 (continued)

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

|                                                                   | 28 February<br>2023<br>£'000 | 28 February<br>2022<br>£'000 |
|-------------------------------------------------------------------|------------------------------|------------------------------|
| <b>Authorised, issued, and fully paid:</b>                        |                              |                              |
| 10,000,055,000 (2022: 10,000,055,000) 'A' ordinary shares 1p each | 100,001                      | 100,001                      |
| 45,000 (2022: 45,000) 'B' ordinary shares of 1p each              | -                            | -                            |
| <b>Total</b>                                                      | <b>100,001</b>               | <b>100,001</b>               |

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.

#### 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 28 February 2023, expenditure contracted but not provided for in these financial statements amounted to £31,733,000 (2022: £30,054,000).

#### 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 and Wales. The full year results of the Company are included in the 2023 Annual Report of TalkTalk Holdings Limited.

The principal place of business 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 smallest and largest group for which consolidated financial statements are prepared of which the Company is a member is that headed by TalkTalk Holdings Limited.

#### 21. 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. TalkTalk Holdings 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 2023 (continued)**

##### **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 £1.611m (2022 restated: £1.583m).

The weighted average interest rate paid during the period on the bank loans was 7.2% (2022: 4.2%).