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Preliminary results for the year to March 2006

6 June 2006



Overview and broadband update

Charles Dunstone, CEO

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Headlines

- Revenues up 29.4% to £3.0bn
- Like-for-like retail revenue up 5.9%, like-for-like gross profit up 9.0%
- Headline earnings per share up 33.8% to 12.38p
- Dividend up 38.9% to 2.5p
- Acquisitions of Onetel and Tele2 UK – 2.6m residential customers in UK
- LLU investment programme
- Virgin Mobile France launch

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Free broadband – progress report



- **340,000 applications as at 5 June**
 - **55% existing TalkTalk customers (TT 43%, Onetel 12%)**
 - **10% existing TalkTalk broadband customers**
- **280,000 active on CPS/WLR**
- **100,000 active on Broadband**
- **c. 10% rejections/cancellations**
- **80% inside 1,000 exchange footprint**

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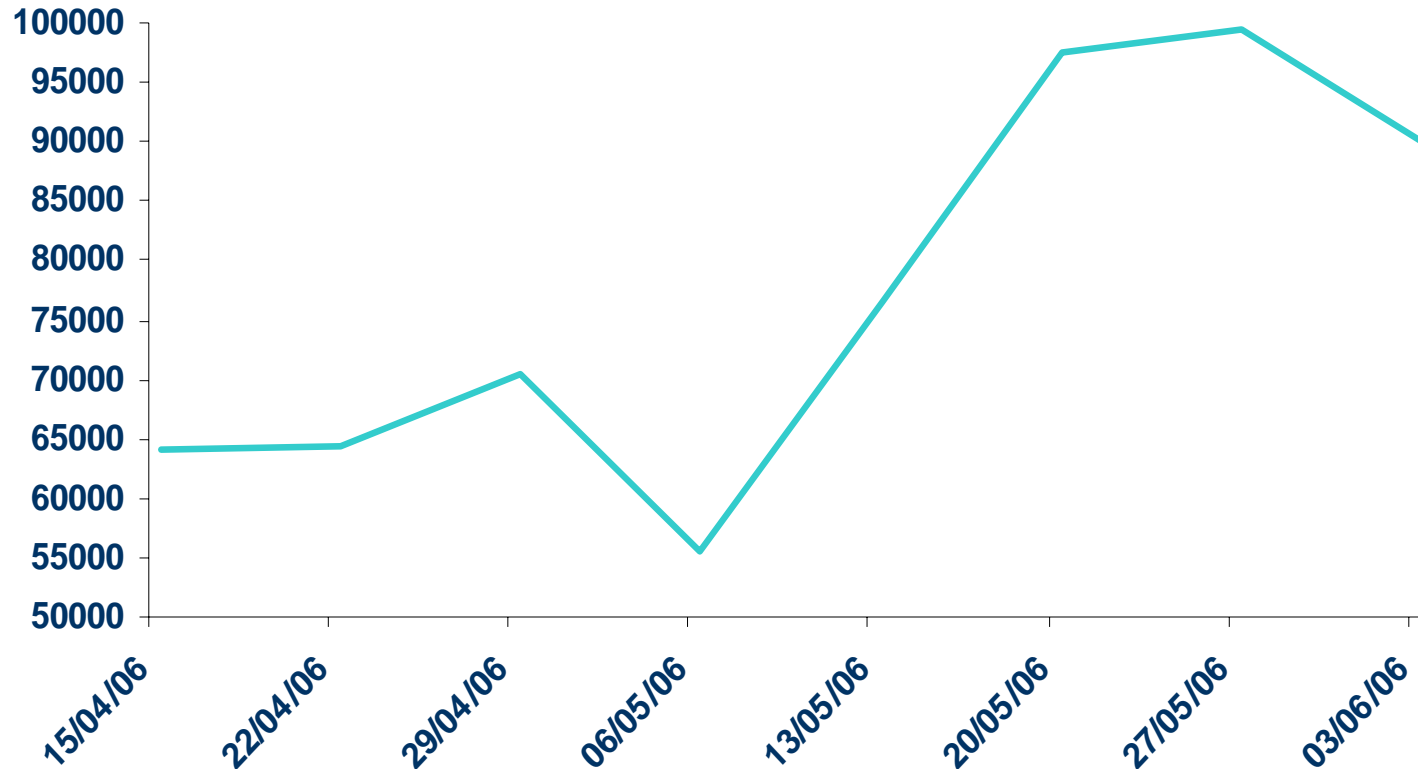
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Free broadband – progress report

- CPS/WLR up to date
- Broadband activations ahead of promise
- Customers going live on broadband today were indicated end-June as go live date
- Applications today expected to go live in August
 - Customer guidance is “end of August”
 - Currently running mid August
- 40% of applications are on existing ADSL lines

Customer service/broadband support calls answered by week



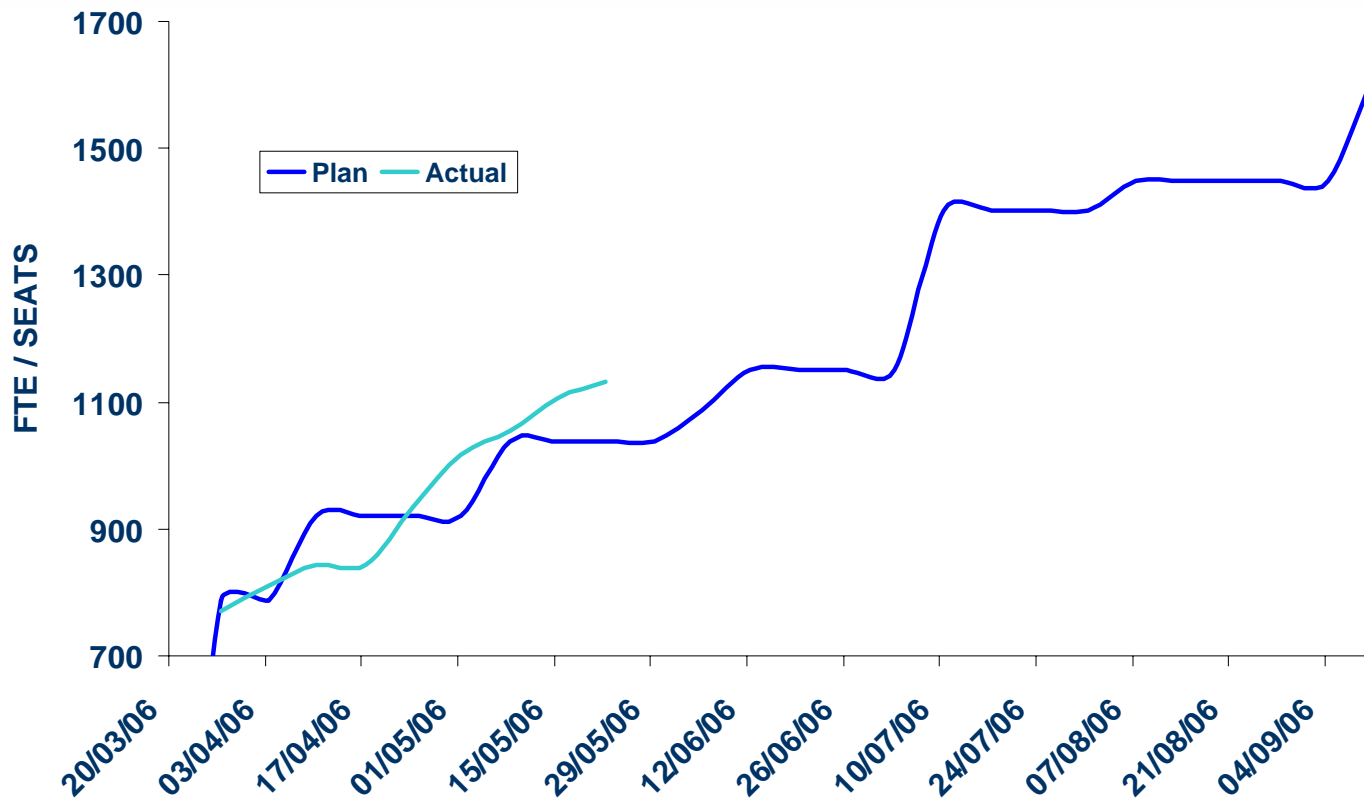
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Free broadband – call centre recruitment



- Recruitment is now ahead of schedule to meet additional demand

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Reality vs plan



	Plan	Actual
Applications	170,000	340,000
Live on CPS/WLR	134,000	280,000
Live on IP Stream	56,000	100,000
% existing TalkTalk customers	56%	55%
% outside 1,000 exchange footprint	10%	20%

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Reality vs plan - efficiency



% of budgeted
performance

Marketing spend	85%
Call centre spend	105%
Customer applications	200%

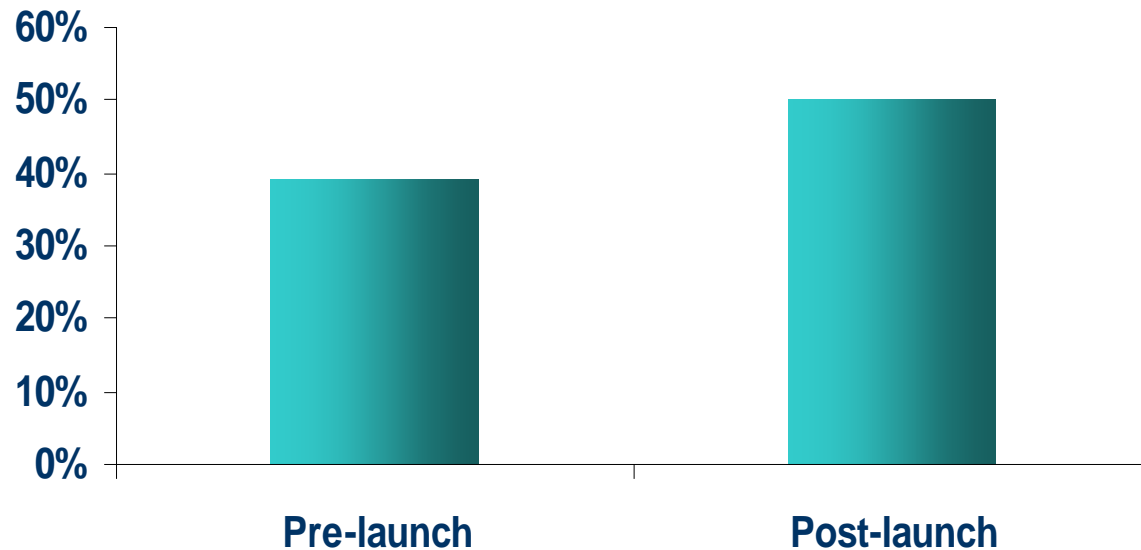
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Brand awareness



- Awareness of TalkTalk as a broadband provider
- Already ahead of Bulldog, Telewest, Sky and Virgin

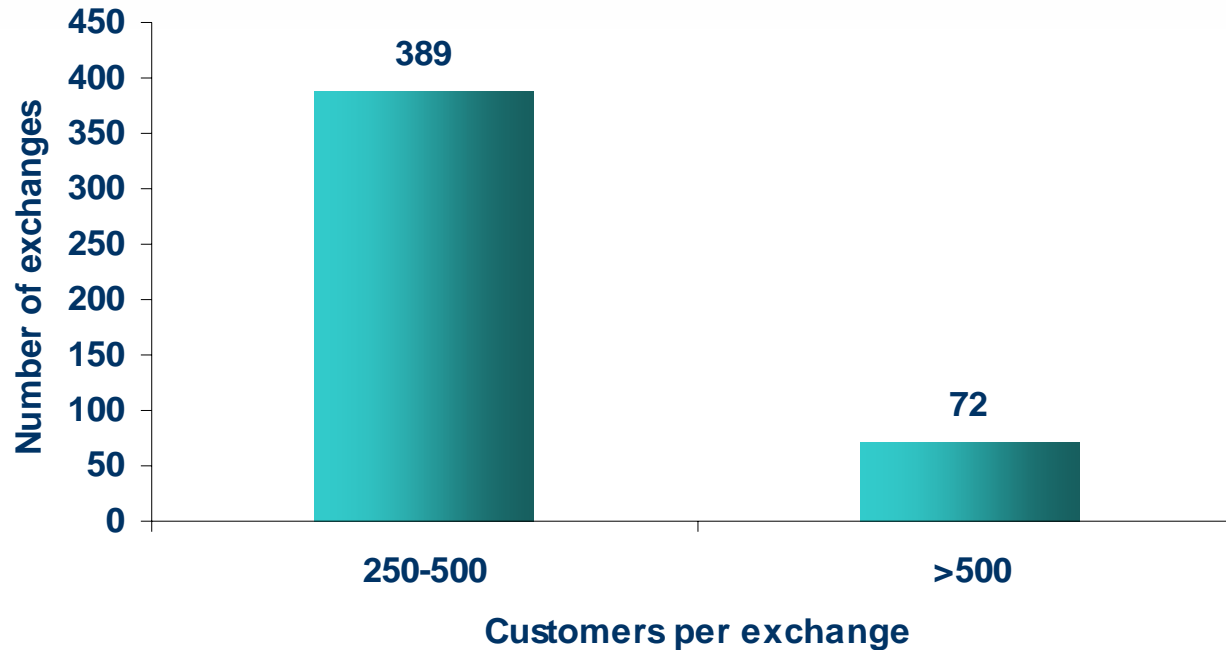
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Free broadband – customer profile



- Already 461 exchanges will be profitable after LLU migration

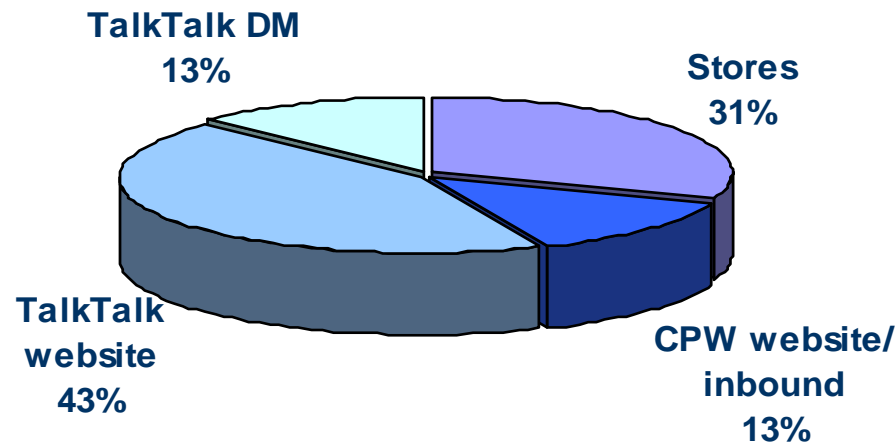
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Free broadband – recruitment channels



- 44% of sales through CPW channels
- No third party distribution

LLU



- On track for 200 exchanges by start of July
- 200 further exchanges handed over by that date
- Roll-out and costs in line with budget
- Ready to start migrations when EMP platform launches in July
- Level of demand appears to support further exchange roll-out

Summary



- The proposition works
- Our systems are bearing the weight of additional demand
- Engineering on track
- Entering a crucial period as we start to provision unbundled lines

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Financial performance

Roger Taylor, CFO

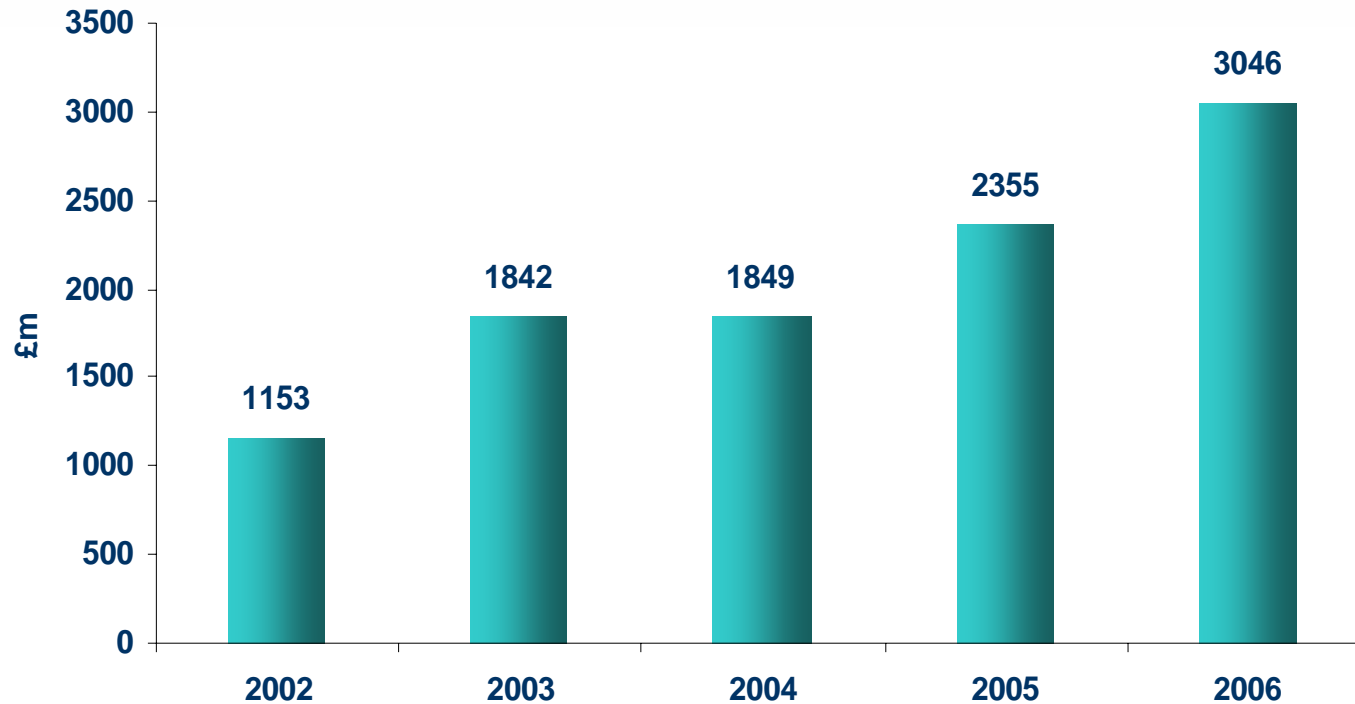
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Group revenues



Note: 2002-2004 figures under UK GAAP; 2005 and 2006 figures under IFRS

- Group revenues up 29.4%
- 4 year CAGR 27.5%

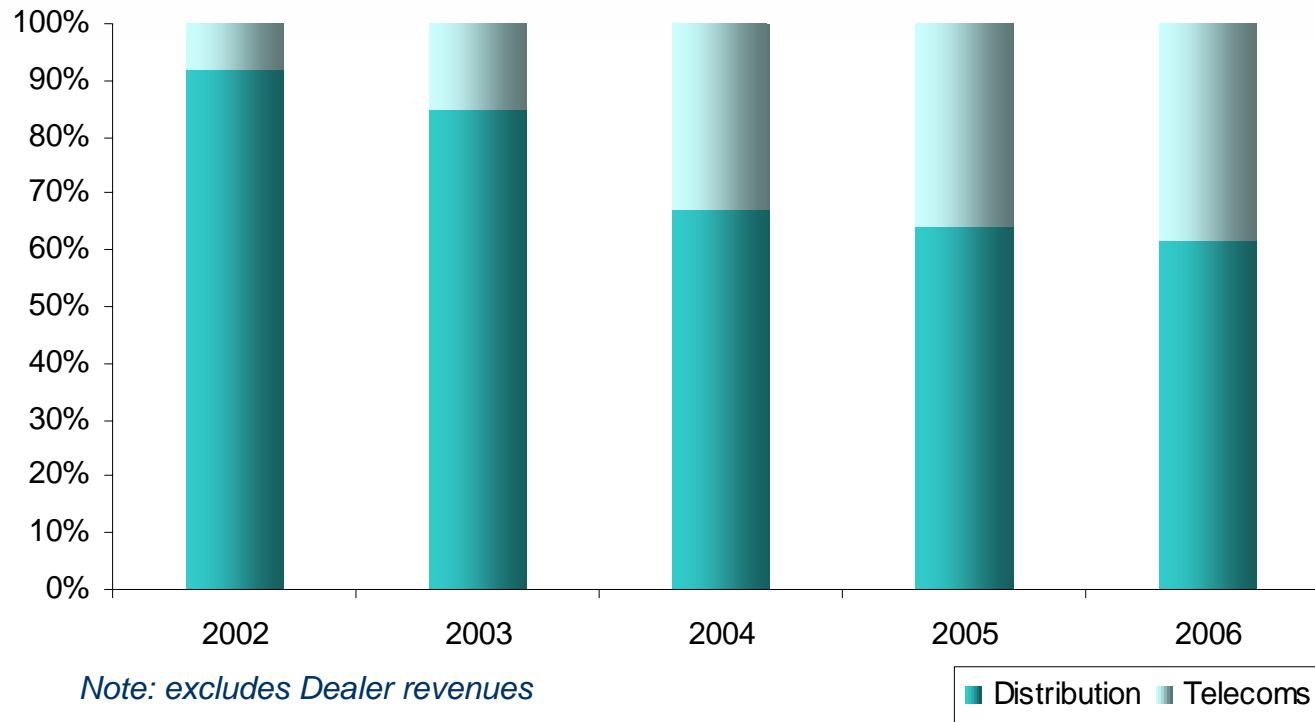
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Divisional revenue mix



- Through acquisition and strong organic growth, Telecoms is now 38% of Group revenues (ex Dealer)

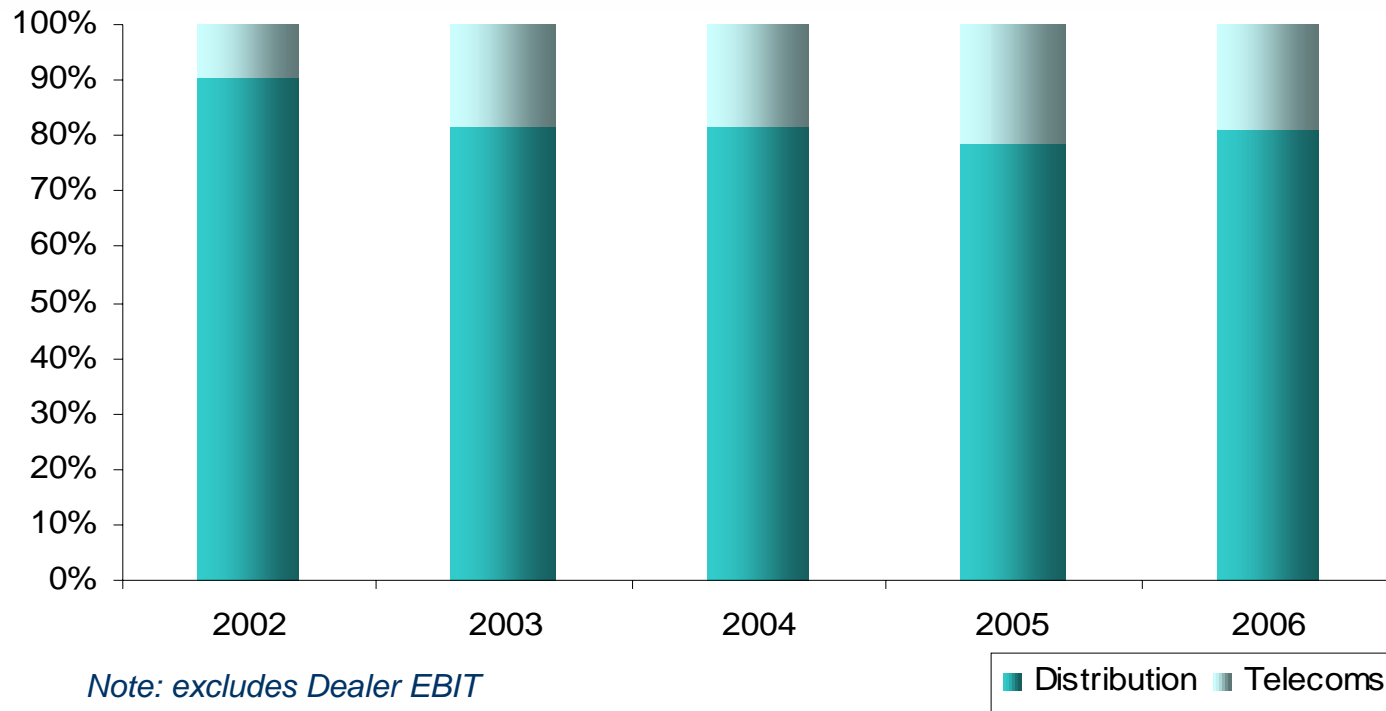
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Divisional EBIT mix



- But Telecoms is still less than 20% of EBIT as we invest heavily in recruitment and marketing
- We are targeting similar divisional EBIT margins by FY09

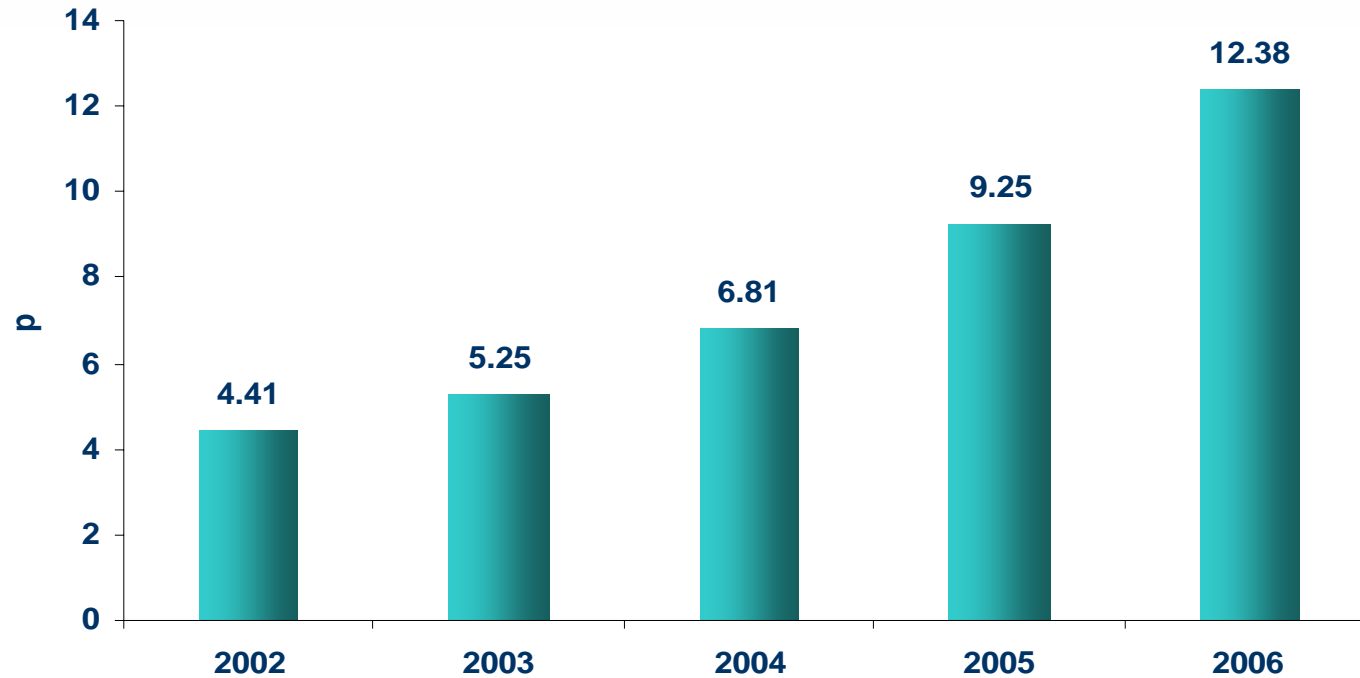
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Headline EPS



Note: 2002-2004 figures under UK GAAP; 2005 and 2006 figures under IFRS

- Headline EPS up 33.8%
- 4 year CAGR 29.4%



Underlying Group performance



£m	FY06
MVNOs – UK/France	(9.6)
Accelerated broadband costs	(4.0)
Options (IAS accounting)	(10.7)
Total	<u>(24.3)</u>

- Forecasts have risen over the year despite these unplanned costs
- Key drivers:
 - Distribution – exclusive handsets, operational efficiency, scale
 - Telecoms – consolidation of UK residential market

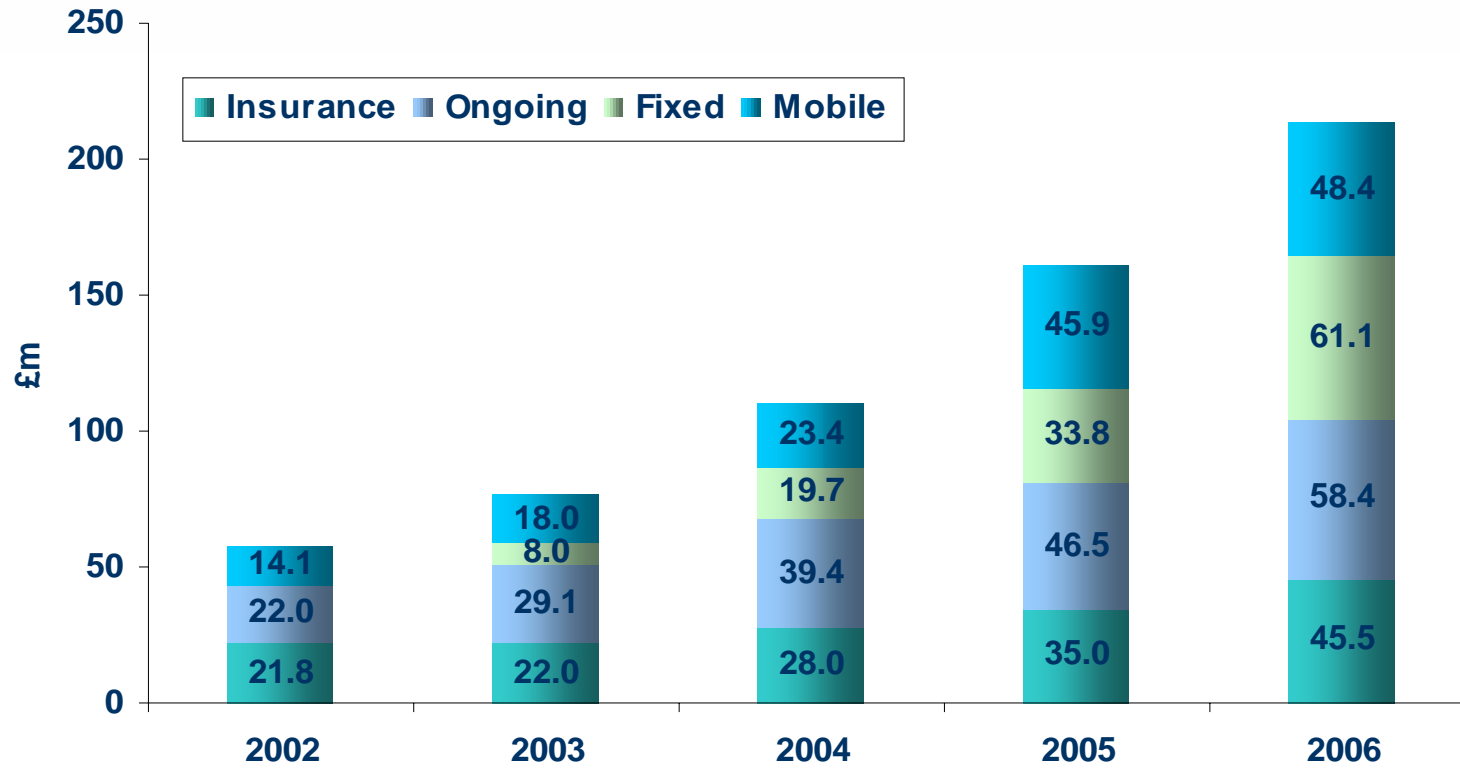
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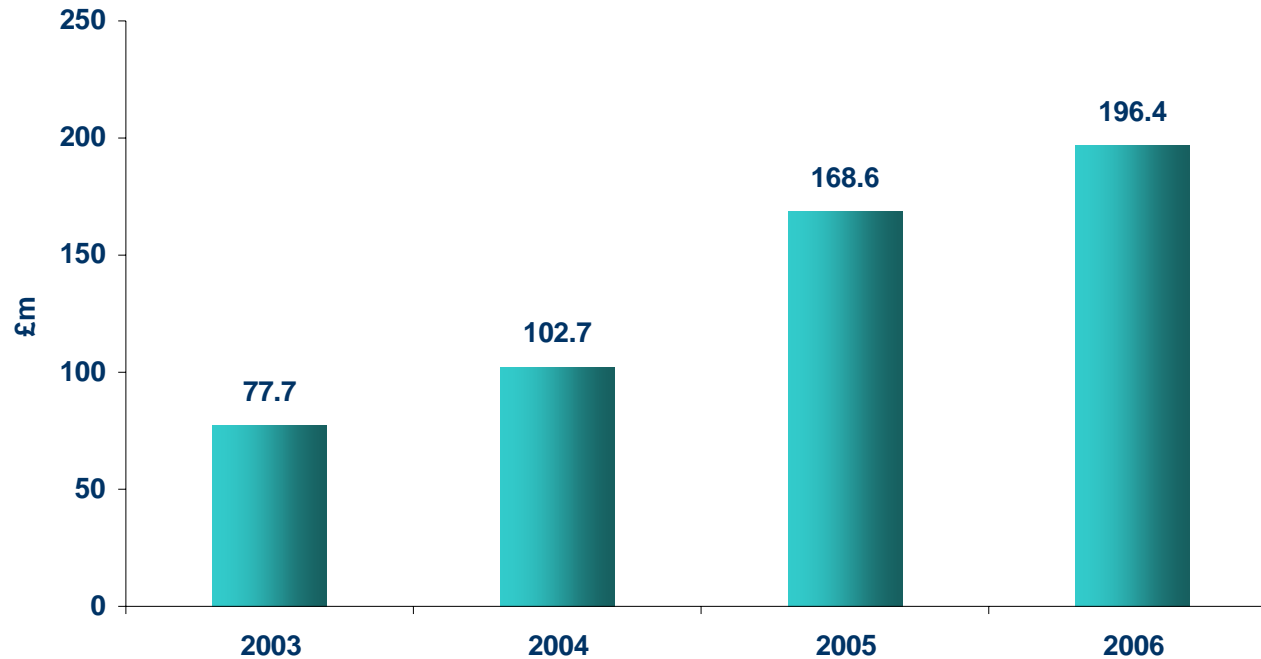
Contribution from recurring revenues



Note: 2002-2004 figures under UK GAAP; 2005 and 2006 figures under IFRS

- Recurring revenues account for 60% of Group contribution (2005: 59%)

Operating cash flow



Note: 2002-2004 figures under UK GAAP; 2005 and 2006 figures under IFRS

- **Cash flow from operations will fall this year, before rising sharply as broadband moves into profitability**

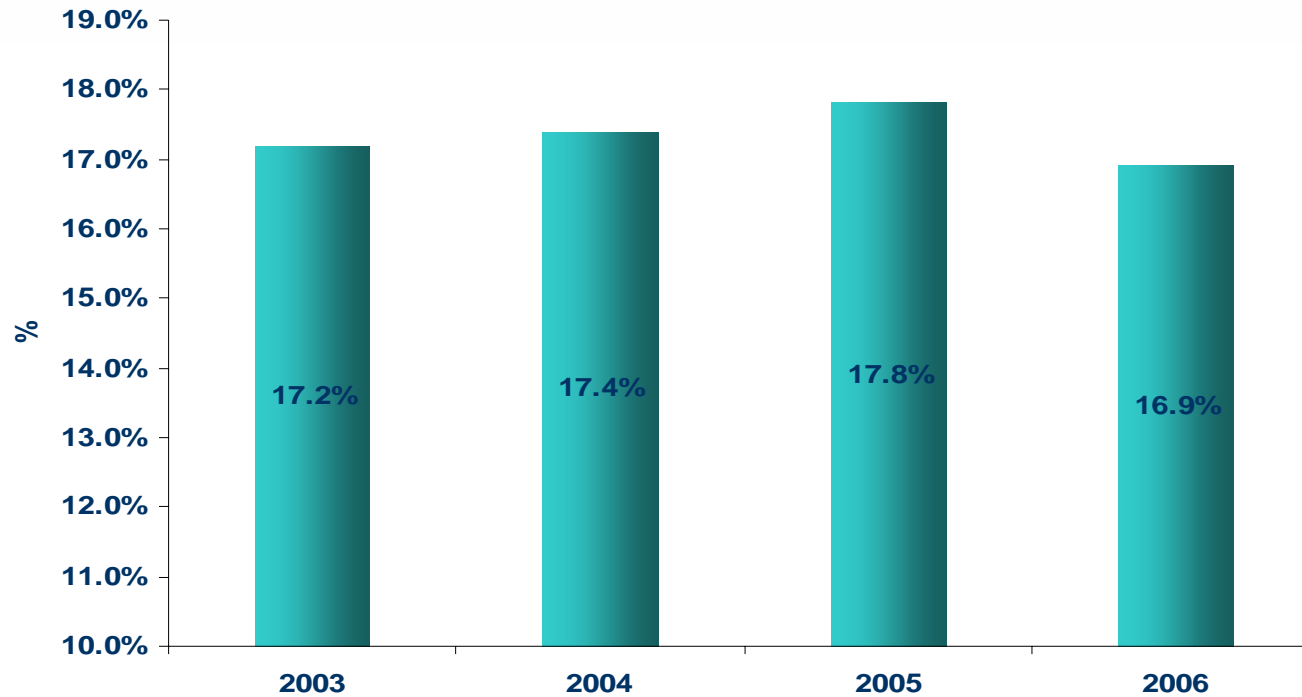
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Return on capital employed



- Restated for IFRS
- Simple average impacted by Onetel acquisition at end of Q3
- Detailed calculations in the appendix

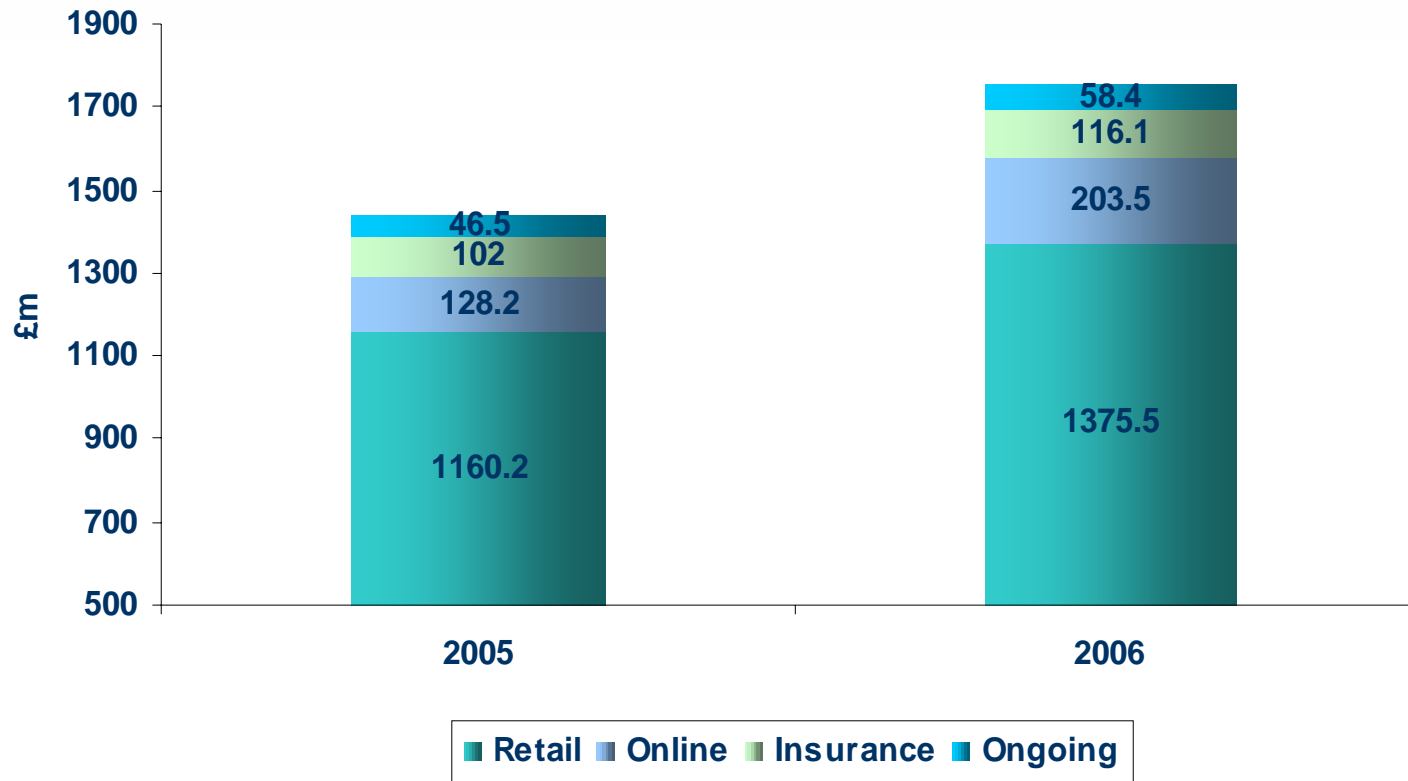
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Distribution revenues



- Divisional revenues up 22.0%
- Platform for growth across Group

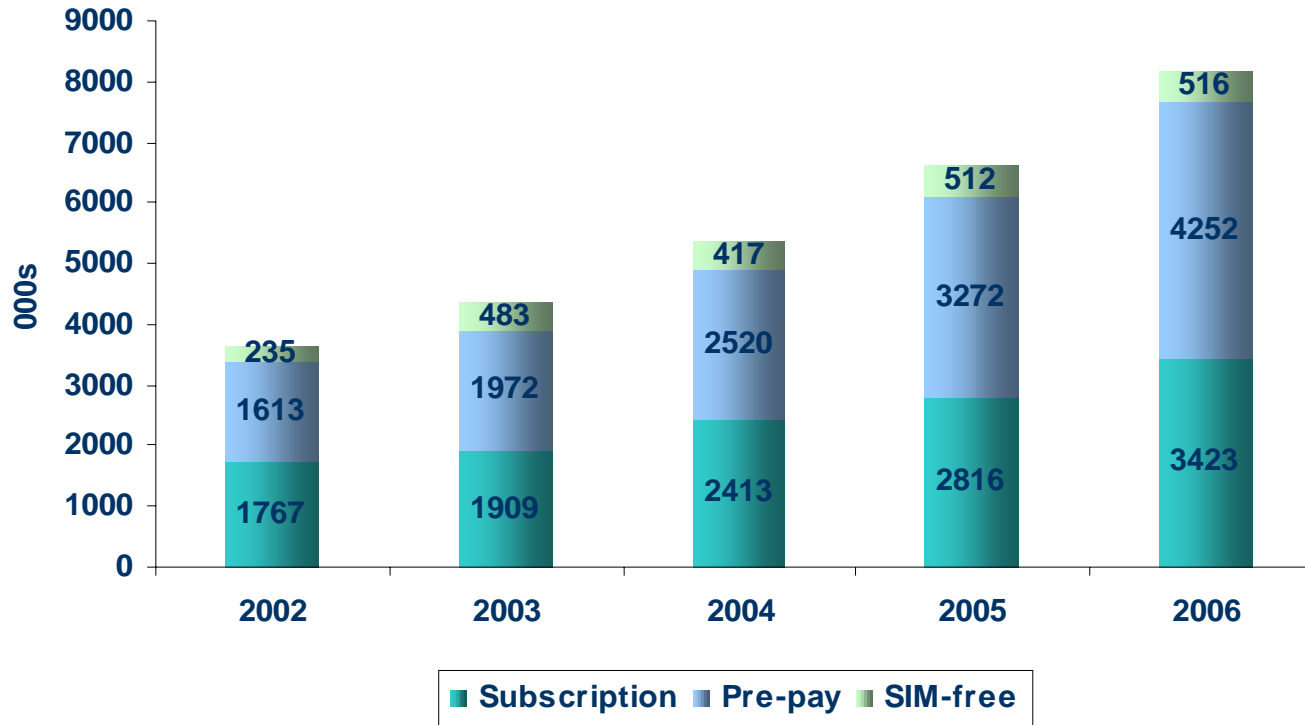


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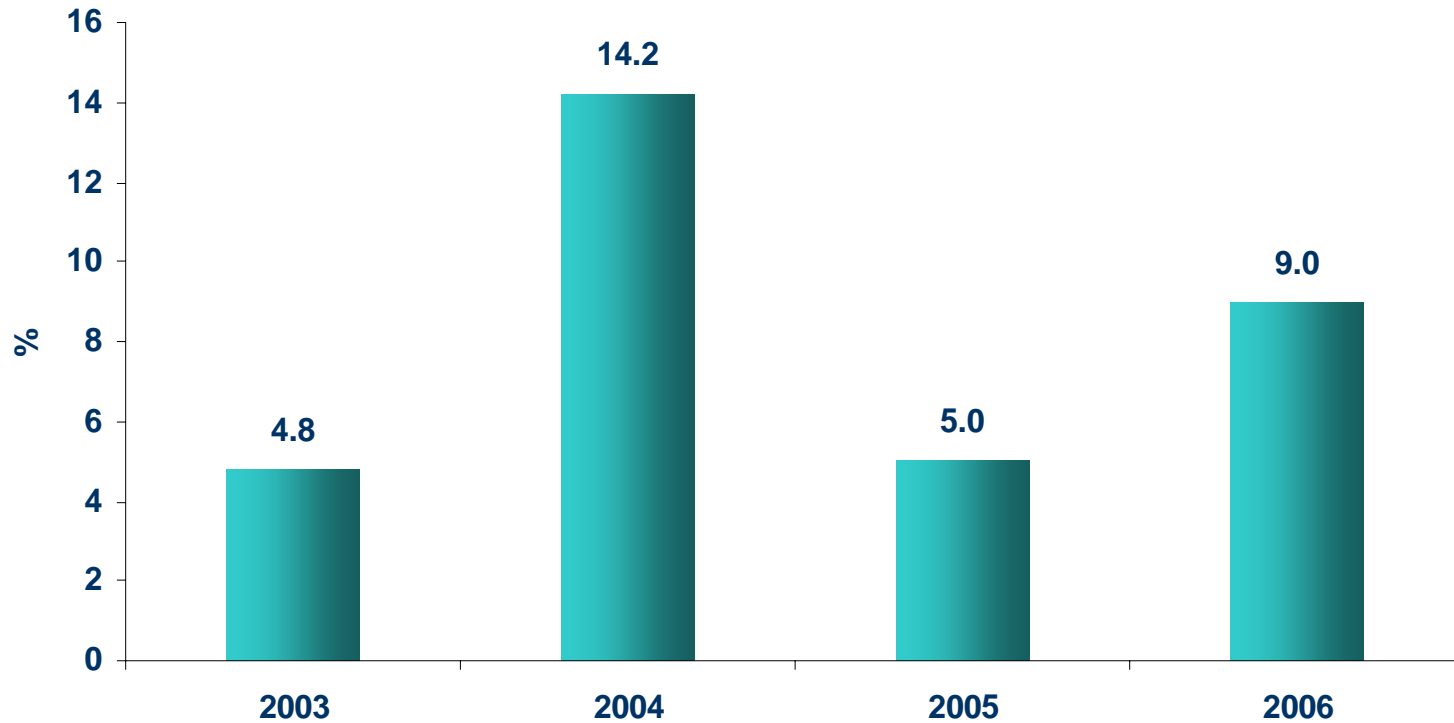
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Connections



- 5 year CAGR of 17.1% in subscription connections

Like-for-like gross profit record



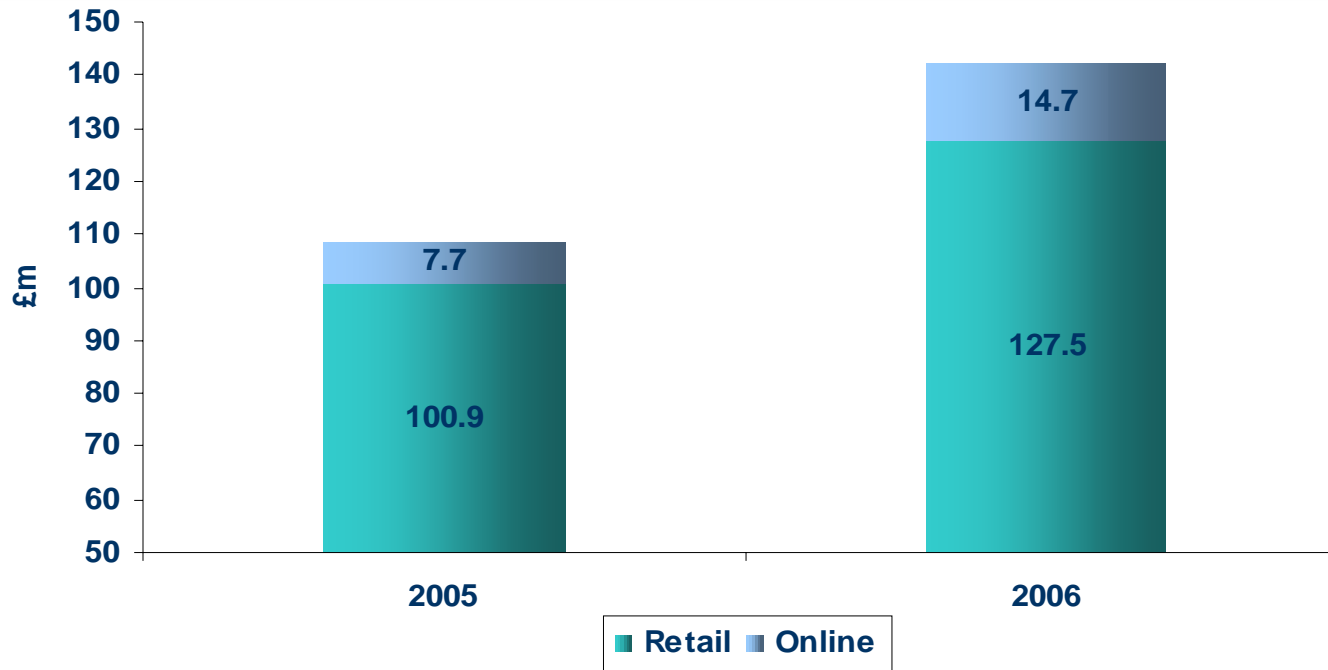
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Retail/Online contribution



- Retail/Online contribution margin 9.0% (2005: 8.4%)
- Franchise contribution of £3.2m (2005: £1.4m)

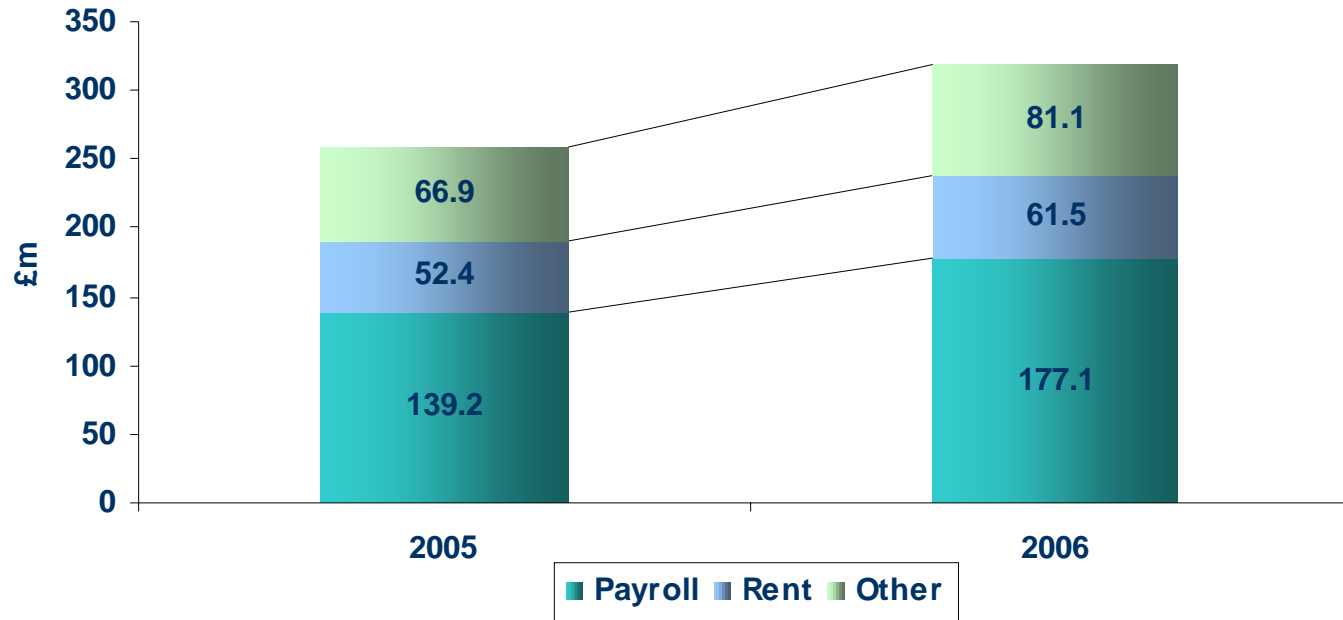
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Retail direct costs



- Retail cost growth of 23.7% vs 26.4% contribution growth
- 52 week costs per average owned store up 8.4% - higher staffing levels and commissions the main drivers

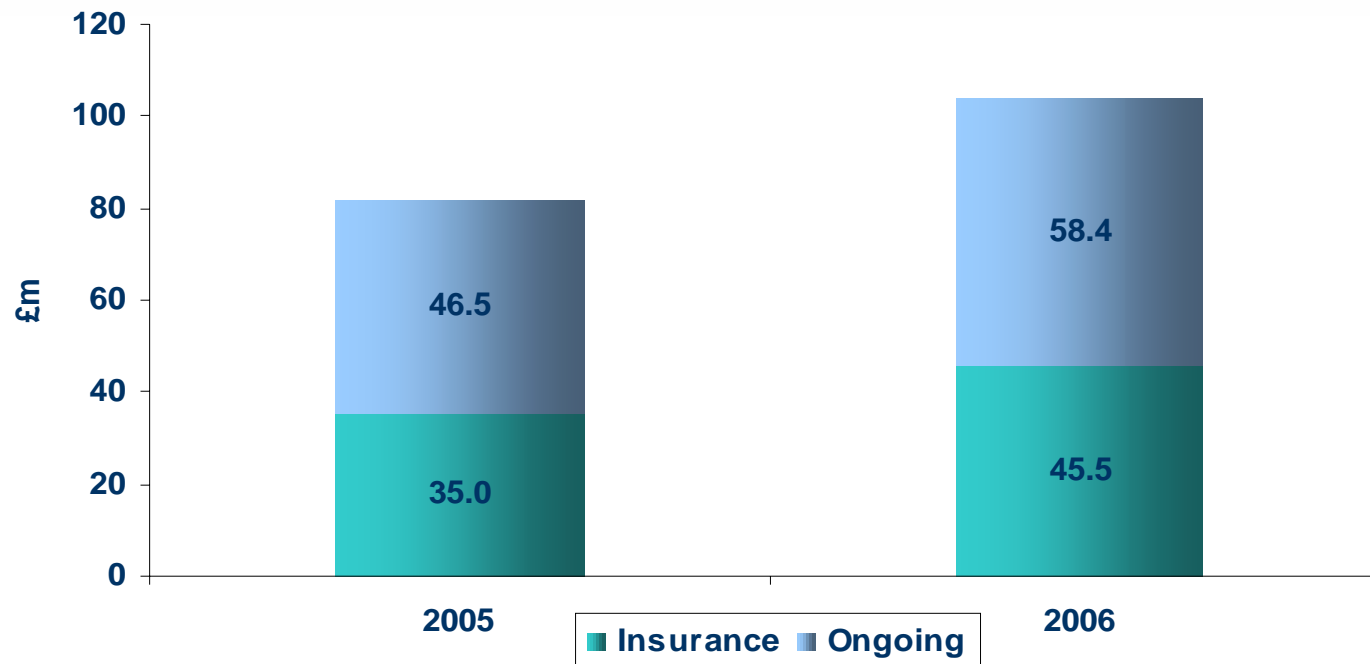
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Insurance and Ongoing



- Continued strong growth driven by subscription connections
- Insurance margin benefiting from local scale, in-house underwriting and improved systems

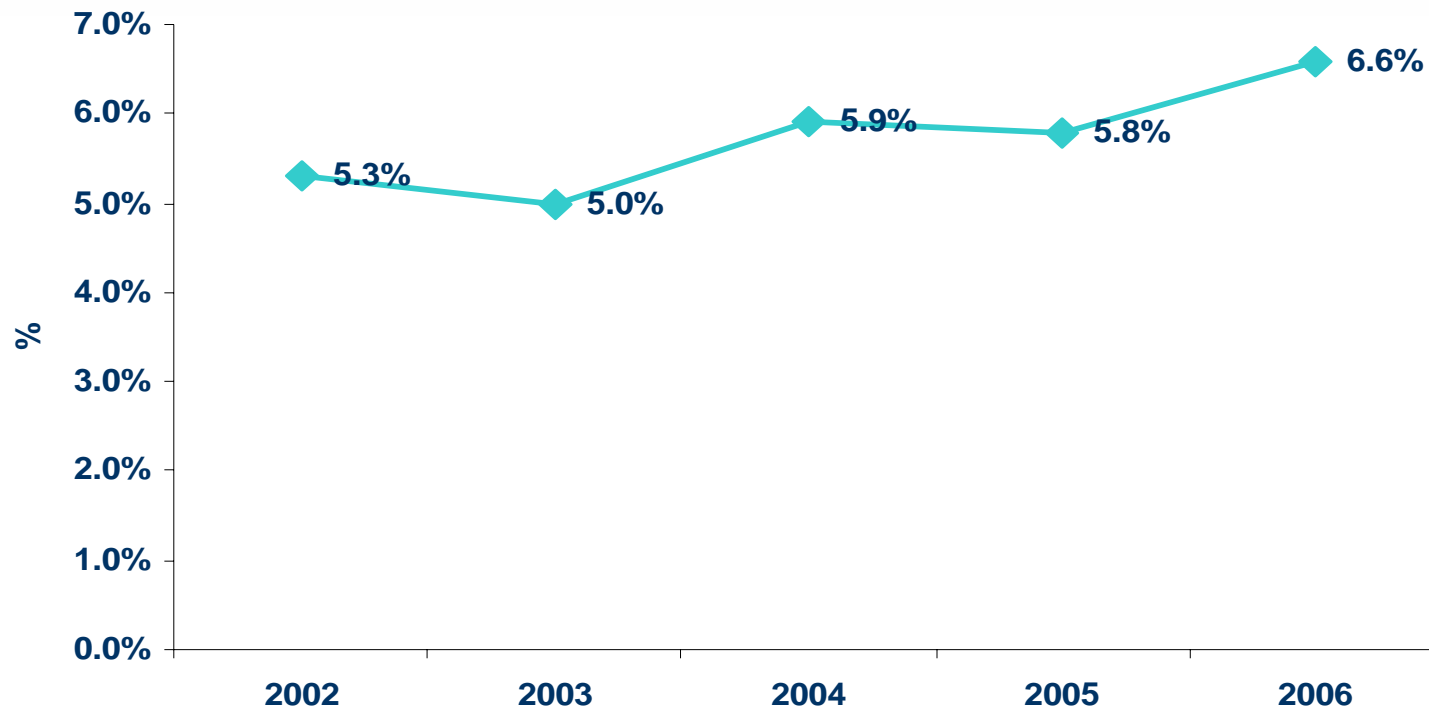
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Distribution EBIT margin



- Increasing scale and strong LFL performance have been key drivers
- Continued investment in channel growth and recurring revenues

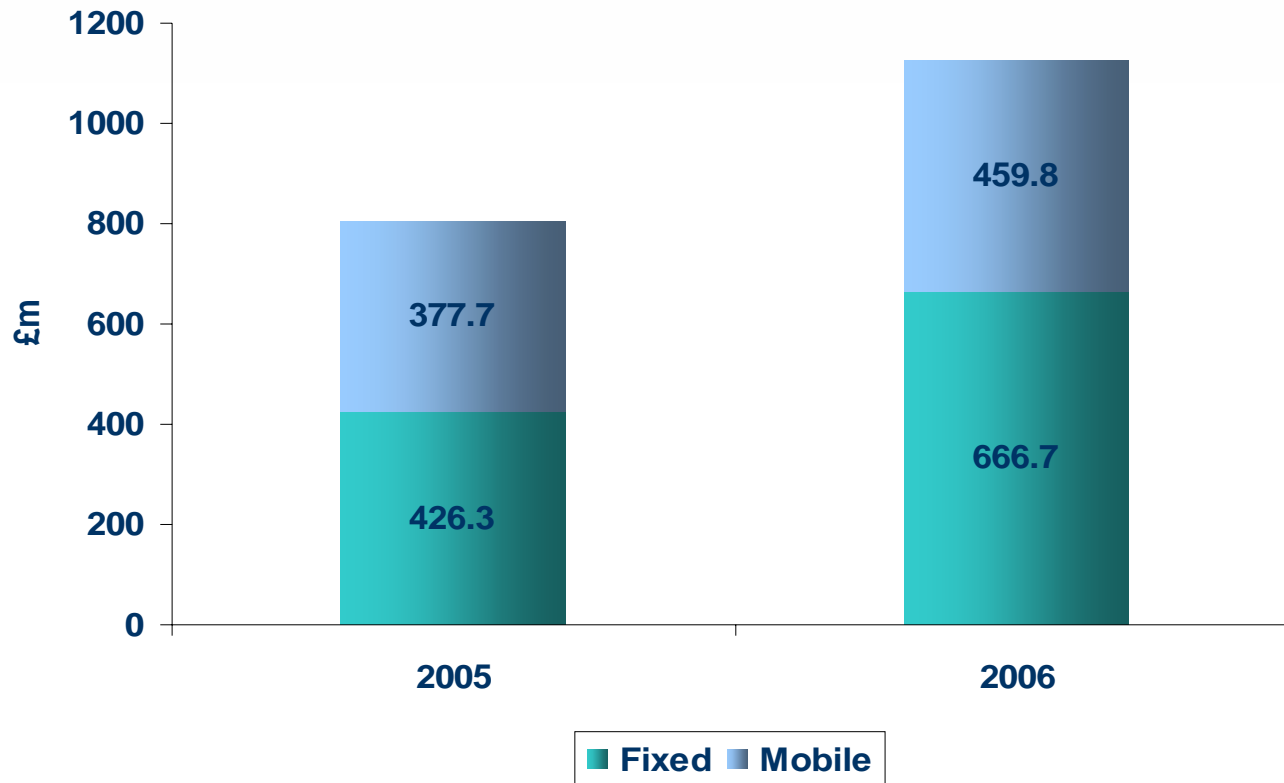
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Telecoms revenues



- Total revenue growth of 40.1%
- Strong underlying growth through customer acquisition enhanced by Onetel and Tele2 deals

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Fixed Line B2B



£m	FY06	FY05	% Change
Revenue	294.7	267.3	10.3%
Opal	259.9	237.7	9.3%
Xtra	34.7	29.6	17.2%
Contribution	29.6	31.5	(6.0%)
Opal	28.0	30.6	(8.5%)
Xtra	1.6	0.9	77.8%
Contribution %	10.0%	11.8%	

- **Opal margins pressured in a competitive market**
- **Investment in TalkTalk Business**
- **LLU opportunity for SME market**

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TalkTalk UK



£m	FY06	FY05
Customers (m)	2.6	0.9
Revenue	305.6	123.6
Contribution	24.3	1.1
Contribution %	8.4%	1.8%
Broadband SAC amortisation	(5.7)	(0.6)

- **Successful launch of WLR – 28% of base at year end**
- **Growth in CPS market slowing**
- **Focus on calls, line rental and broadband**

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Onetel and Tele2 acquisitions

- Tele2 integration complete, traffic migrated onto Opal
- Onetel reorganisation accelerated
 - Cash reorganisation costs of £22.3m – people, contracts, network, billing
 - Base migration over next 6 months
- FY06 financial impact
 - £97.4m of revenue
 - £8.0m of PBT (pre exceptionals/amortisation)

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The Phone House Telecom

£m	FY06	FY05
Revenue	337.4	298.3
Contribution	49.8	35.6
Contribution %	14.8%	11.9%
SAC amortisation	(30.9)	(19.2)
Contribution - SAC	18.9	16.4
Net margin %	5.6%	5.5%

- **Significant investment in customer recruitment in FY06**
 - Base up 30.0% to 1.17m
 - Capitalised SAC of £44.7m
- **Focus on quality distribution channels in FY07**

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MVNO



	FY06		FY05	
	Base (000s)	Contribution (£m)	Base (000s)	Contribution (£m)
UK	362	(7.2)	131	2.9
France	52	(2.4)	20	(1.0)
Total	414	(9.6)	151	1.9

- Blended UK ARPU of £10-11, contribution 20-25%
- SAC c. £15-20
- Focus on SIM only and Mobile World
- Share of Virgin losses of c. £10m in FY07
- Mobile World gaining momentum across Europe

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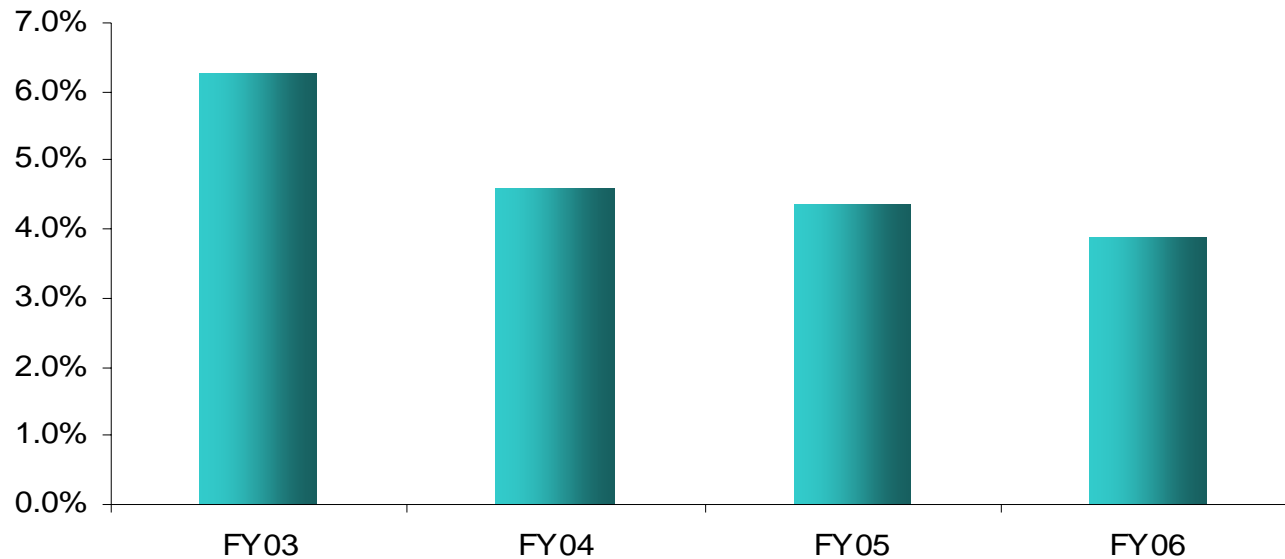
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Group support costs



Support as % of revenues



- **FY06 support costs £115.3m (FY05 £98.0m)**
- **Options/bonus costs**
- **Investment in new business development**

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Depreciation and amortisation



£m	FY06	FY05
Depreciation	49.6	40.8
“Operational” intangibles amortisation	51.1	27.3
SAC	36.9	20.2
Internal software	12.4	5.4
Key money	1.8	1.7
Total	100.7	68.1

- Depreciation reflects store growth and investment in third party IT and infrastructure growth requirements
- Major investments in customer recruitment and new billing platform

Headline to statutory reconciliation



£m	FY06	FY05
Headline PBT	136.1	100.4
Exceptionals:	(35.2)	-
Onetel (cash)	(22.3)	-
Asset write-off (non-cash)	(12.9)	-
	100.9	100.4
Goodwill and acquisition intangibles amortisation	(19.8)	(8.5)
Statutory PBT	81.0	91.9

- Acquisition intangibles policy typically 12 months
- Distribution agreement with British Gas

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Tax and dividend

- **Effective tax rate remains low at 19.6% (2005: 19.5%)**
 - Profits from low-tax domiciled businesses
 - Acquired losses now cleared for utilisation
 - Brought-forward trading losses
- **Dividend up 38.9% at 2.5p, a little ahead of headline earnings**
- **Dividend growth will reflect underlying performance in FY07**

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Cash flow



£m	FY06	FY05
Operating cash flow	196.4	168.6
Tax and interest	(19.4)	(16.4)
Capex	(191.6)	(113.4)
Acquisitions	(159.5)	(46.5)
Dividends	(17.4)	(12.7)
Net cash flow	(191.5)	(20.4)
Opening	(68.4)	(40.6)
Shares and FX	(13.4)	(7.4)
Closing	(273.4)	(68.4)

Capex analysis



£m	FY06	FY05
Capex	(191.6)	(113.4)
New stores	(25.2)	(24.0)
IT	(56.4)	(27.5)
SAC	(51.6)	(25.6)
Other (freeholds, network, maintenance)	(58.4)	(36.3)

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Working capital



£m	FY06	FY05
Net absorption	(56.8)	(8.3)

- Year-on-year increase of £41.4m in inventories
 - £15m underlying growth, £26m availability strategy
- Supplier terms for cash on delivery - £20-30m
- Telecoms continues to be working capital neutral



Summary outlook

- Very strong operational performance in FY06
- Scale benefits continue to be invested in proposition
- Major investment programme in FY07
 - LLU, stores, customer recruitment
 - No change to financial guidance
- Underlying businesses set for further strong growth
- Focus on successful execution of broadband strategy

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Distribution

£m

FY06

FY05

% change

Talk



Revenue

1,753.5

1,436.9

22.0%

Retail

1375.5

1,160.2

18.6%

Online

203.5

128.2

58.7%

Insurance

116.1

102.0

13.8%

Ongoing

58.4

46.5

25.6%

Contribution

246.1

190.1

29.5%

Retail

127.5

100.9

26.4%

Online

14.7

7.7

90.9%

Insurance

45.5

35.0

30.0%

Ongoing

58.4

46.5

25.6%

EBITDA

162.0

118.6

36.6%

EBIT

115.5

83.2

38.7%

EBIT %

6.6%

5.8%

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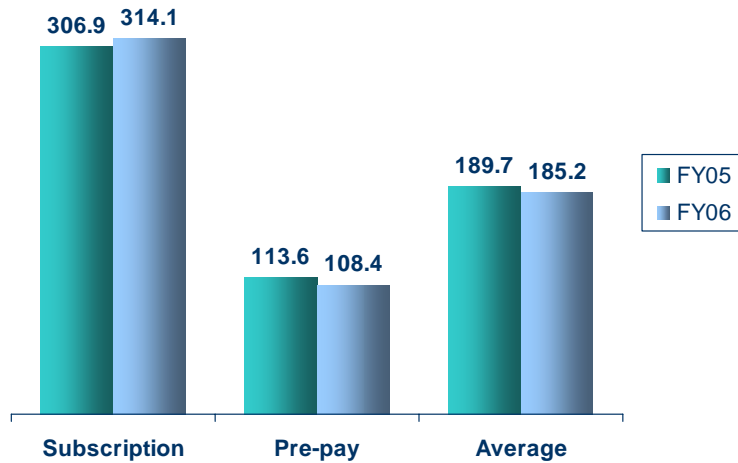
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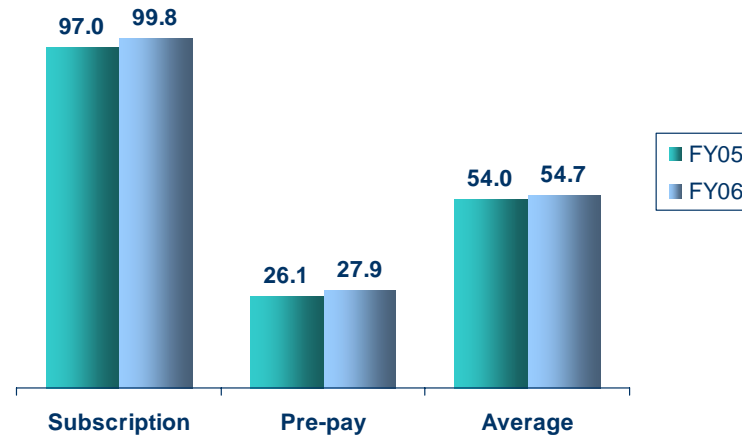
Retail revenue & gross profit per connection



Average Revenue per Connection



Average Gross Profit per Connection



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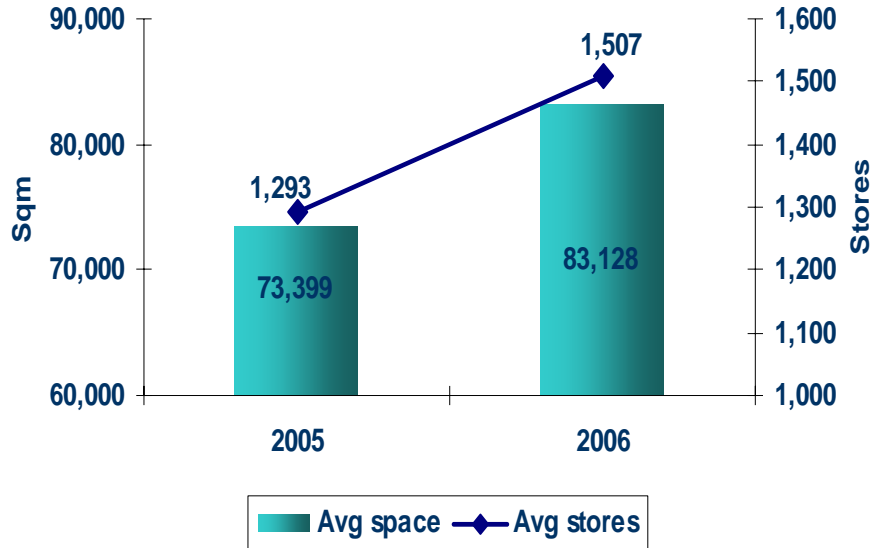
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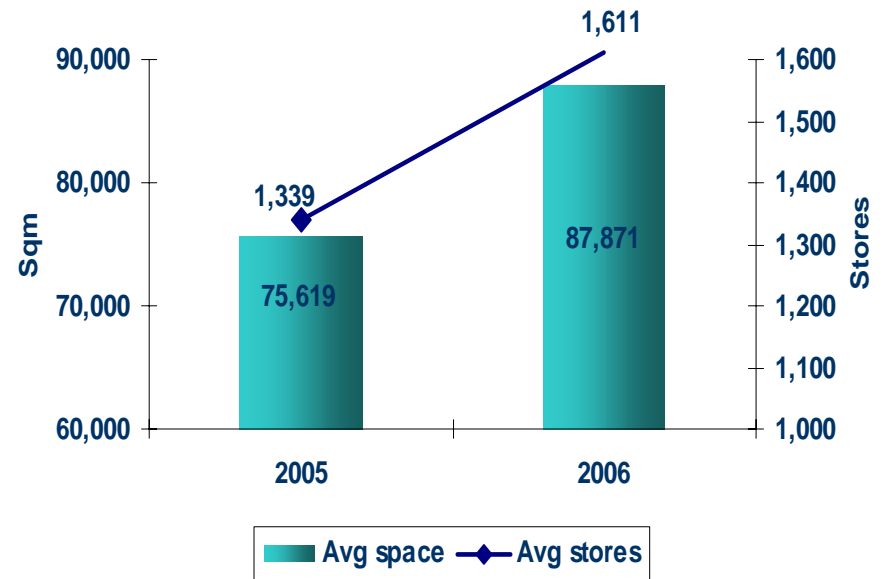
Space



Excluding franchises



Including franchises



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Telecoms Services



£m	FY06	FY05	% Change
Revenue	1,126.5	804.0	40.1%
Mobile	459.8	377.7	21.7%
Fixed	666.7	426.3	56.4%
Contribution	109.5	79.6	37.6%
Mobile	48.4	45.3	6.8%
Fixed	61.1	34.3	78.2%
EBITDA	79.8	54.6	46.2%
EBIT	26.4	22.6	16.5%
EBIT %	2.3%	2.8%	

Fixed Line Residential



£m	FY06	FY05
Revenue	372.0	159.0
UK	305.6	123.6
non-UK	66.4	35.4
Contribution	31.4	2.9
UK	24.3	1.1
non-UK	7.1	1.8
Contribution %	8.4%	1.8%

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Telecoms Services - Mobile



£m	FY06	FY05	% Change
Revenue	459.8	377.7	21.7%
TPHT	337.4	298.2	13.1%
MVNO	46.2	18.6	148.4%
FM	76.2	60.9	25.1%
Contribution	48.4	45.3	6.8%
TPHT	49.8	35.6	40.1%
MVNO	(9.6)	1.9	-
FM	8.2	7.8	5.1%
Contribution %	10.5%	12.0%	

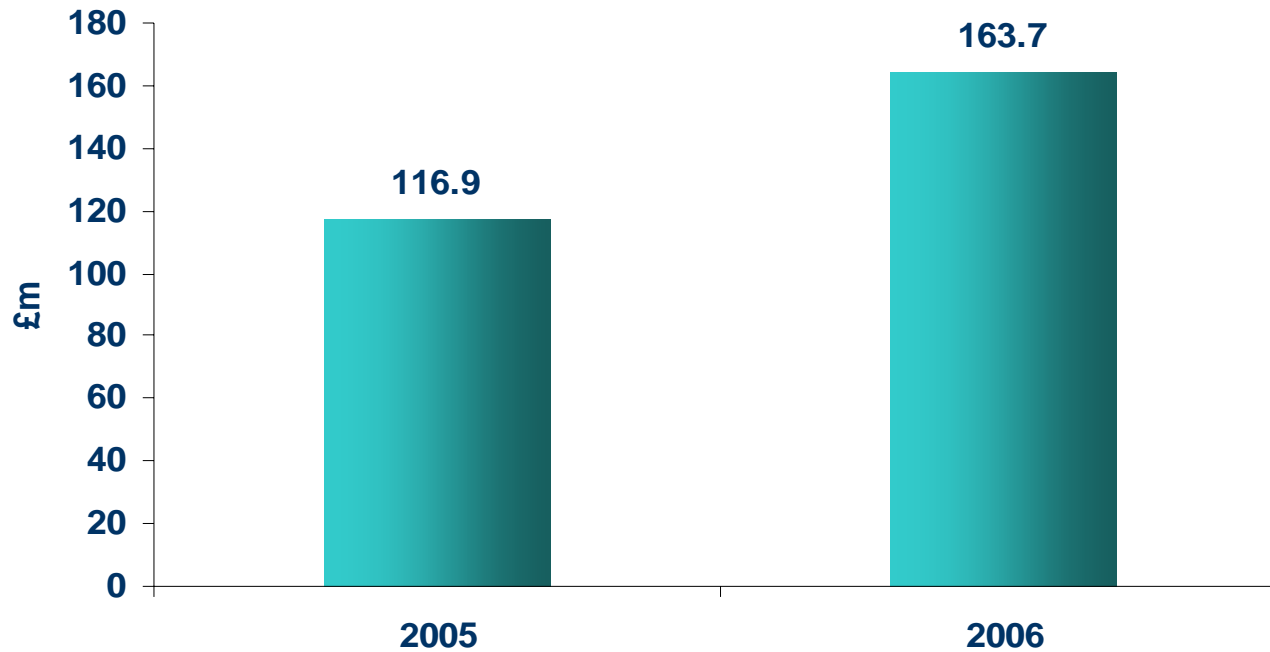
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Non-UK contribution



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Store Portfolio



	March 2005	Opened	Closed / Sold	March 2006
UK	601	89	(21)	669
France	185	39	(4)	220
Spain	239	99	-	338
Netherlands	115	40	(3)	152
Germany	74	38	(8)	104
Sweden	69	10	(2)	77
Portugal	50	23	(3)	70
Belgium	46	13	(1)	58
Ireland	34	11	-	45
Switzerland	48	1	(4)	45
Total	1,461	363	(46)	1,778

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Connections by country (000's)

	FY06 (52 wks)	FY05 (53 wks)	FY05 (52 wks)	% Change (52 wks)
UK	4,425	3,332	3,281	34.9%
Spain	1,147	936	921	23.7%
France	793	694	687	15.5%
Netherlands	264	277	272	(3.2%)
Sweden	301	309	305	(1.4%)
Ireland	349	288	283	23.3%
Portugal	245	214	211	16.0%
Belgium	312	249	246	26.9%
Germany	205	162	159	29.2%
Switzerland	149	139	137	8.9%
Total	8,191	6,600	6,503	26.0%

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ROCE



Methodology

Return: EBITA (pre-exceptionals) taxed at effective rate

Capital employed: Shareholders' funds plus net debt plus all previously amortised goodwill and acquisition intangibles, less unamortised portion of minority goodwill

Capital employed calculation (£m)

	FY06	FY05
Average shareholders' funds	583.5	514.4
Average net debt	171.0	54.5
Average cumulative acquisition goodwill/intangibles writeback	55.3	41.1
Less average unamortised minority goodwill	(135.0)	(135.0)
Capital employed	674.8	475.0

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