

The Carphone Warehouse Group PLC

Interim Results 2004

3 November 2004

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Interim Results 2004

Introduction

Charles Dunstone

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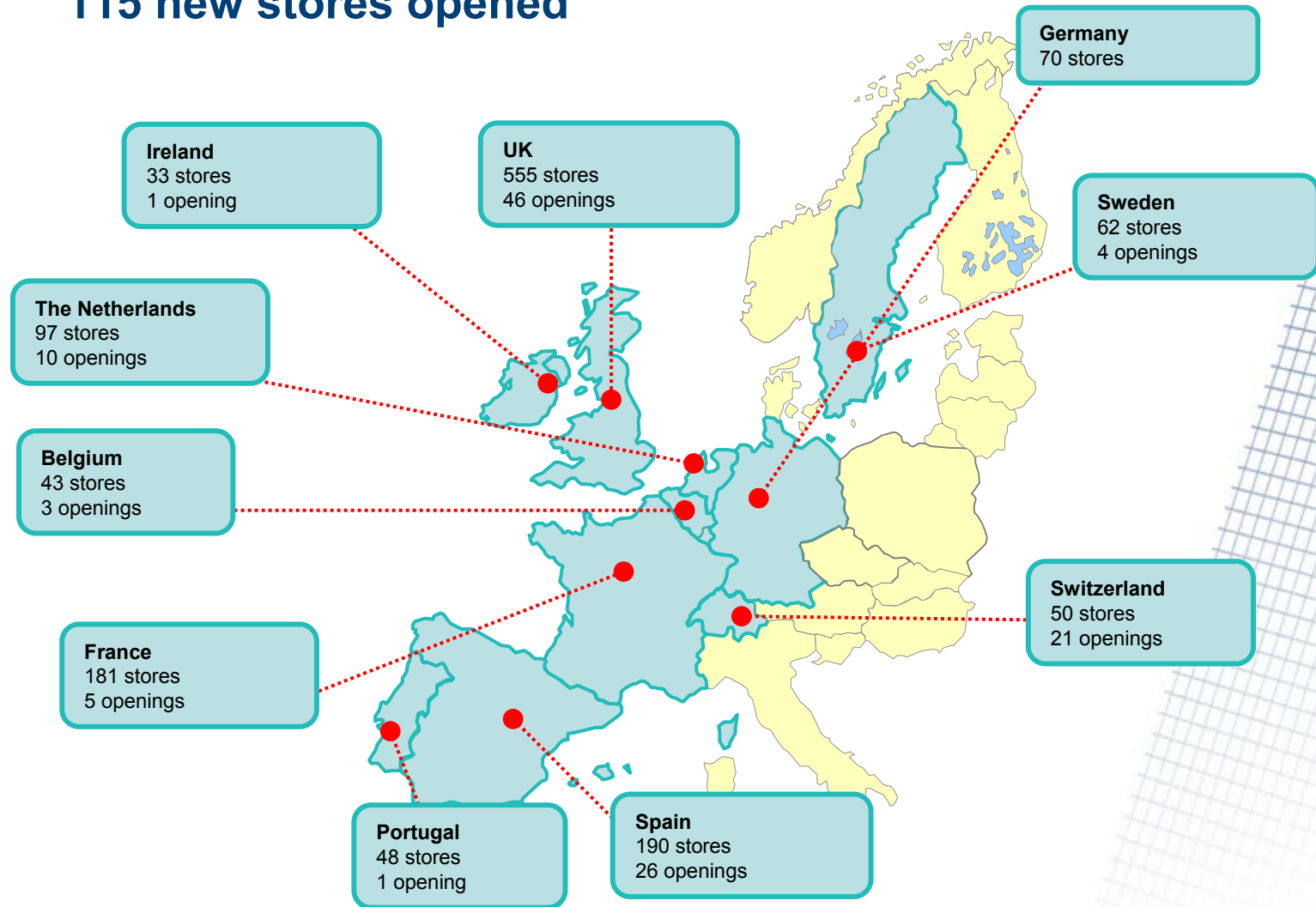
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Headlines

- **Group revenues up 25.1% to £1,033m**
- **Retail revenues up 22.5% to £491.4m, +11.7% LFL**
- **Retail gross profit up 15.8% to £138.7m, +7.0% LFL**
- **EPS up 38.5% to 2.41p**
- **23.6% growth in connections to 2.77m**
- **21.6% growth in subscription connections to 1.29m**
- **Interim dividend up 37.5% to 0.55p**

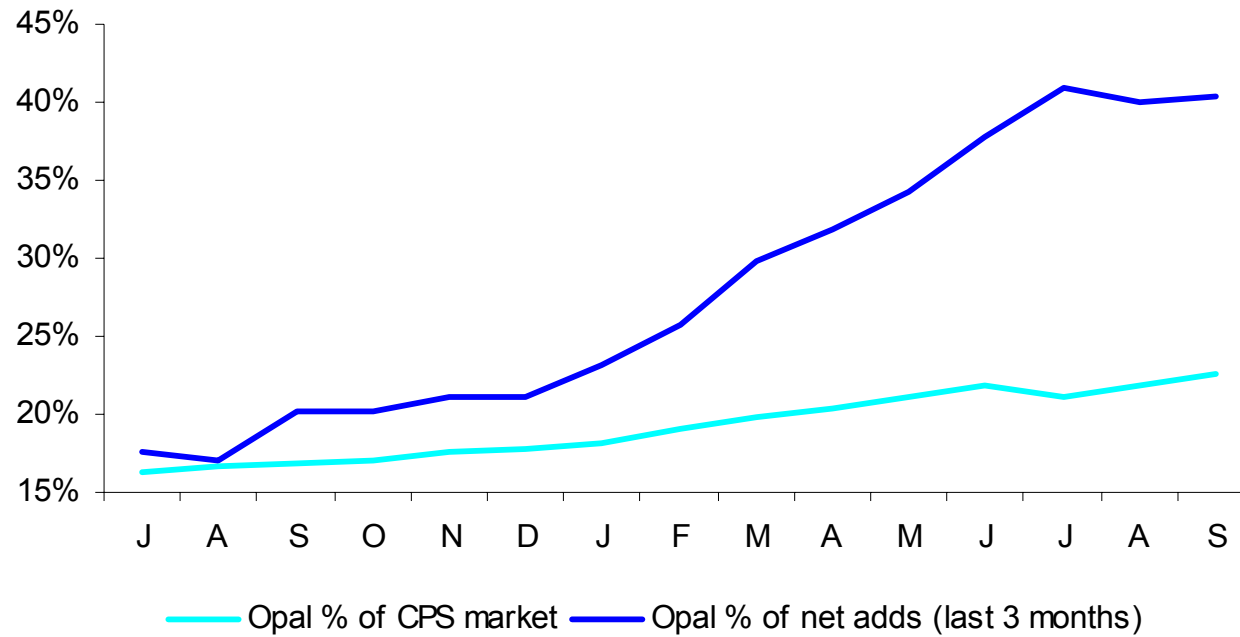
115 new stores opened



TalkTalk highlights

- **648,000 customers in UK**
- **Profitable after all costs in August and September**
- **Launch of voice services in France, Spain, Germany and Switzerland by October**
- **Launch of Broadband in UK on 1 November**
- **Preparations for line rental product on track**

TalkTalk progress



- **Now > 40% of monthly CPS net adds in UK**

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Financial Performance

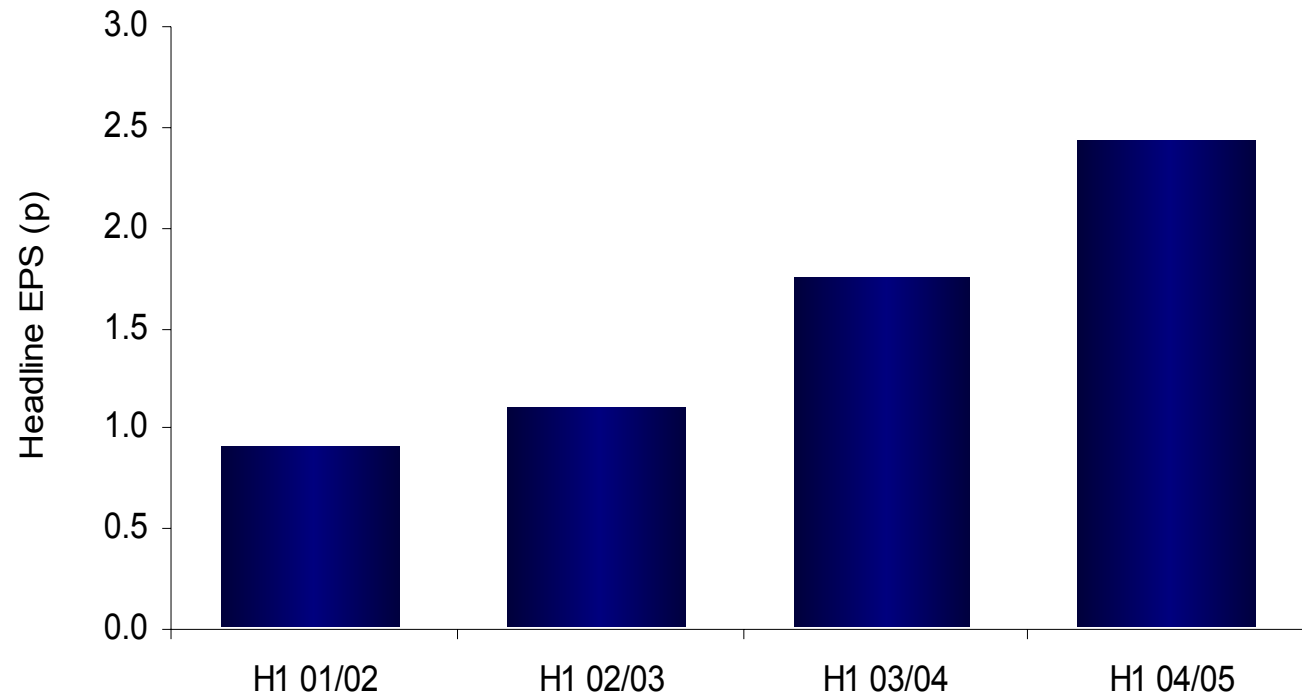
Roger Taylor - CFO

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Building a good growth record



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Distribution

£m	H1 04/05	H1 03/04	% change
Turnover	607.4	482.9	25.8%
Contribution	74.4	60.1	23.9%
Retail	33.0	27.3	21.0%
Online	3.0	1.6	84.5%
Insurance	15.5	11.8	31.2%
Ongoing	22.9	19.4	18.4%
EBITA	24.6	17.3	42.6%
EBITA %	4.1%	3.6%	

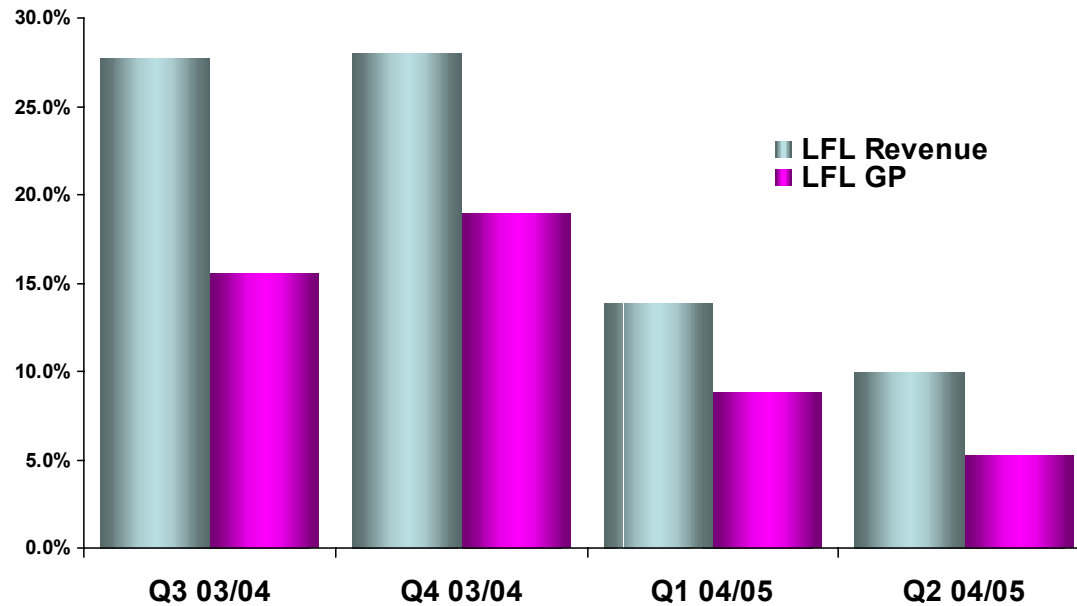
- Business model driven by strong connections growth
- EBITA margin expanded by 50 basis points

Retail

£m	H1 04/05	H1 03/04	% Change	LFL %
Turnover	491.4	401.2	22.5%	11.7%
Gross Profit	138.6	119.7	15.8%	7.0%
Gross Margin %	28.2%	29.8%		
Direct Costs	105.6	92.4	14.2%	
Contribution	33.0	27.3	21.0%	
Contribution %	6.7%	6.8%		

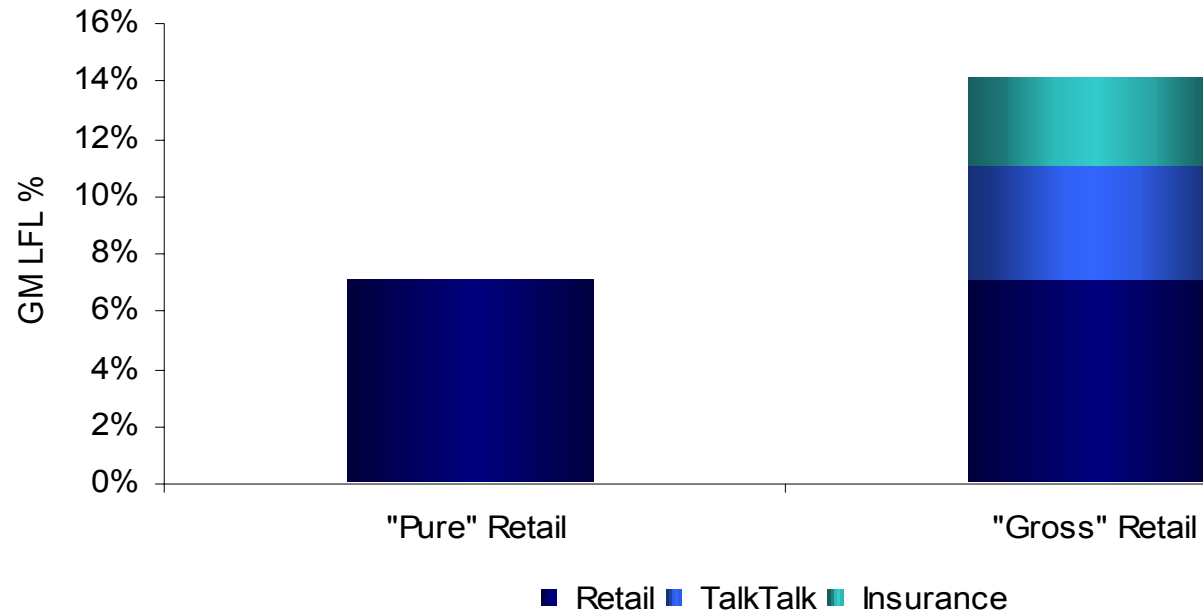
- Another six months of very strong growth across the Group
- Contribution margin held; direct costs : gross profit ratio improved by strong like-for-like performance

Quarterly like-for-like trend



- LFLs continued to make good progress
- Comps get tougher in H2 but still expect positive gross profit LFL

What the stores really deliver

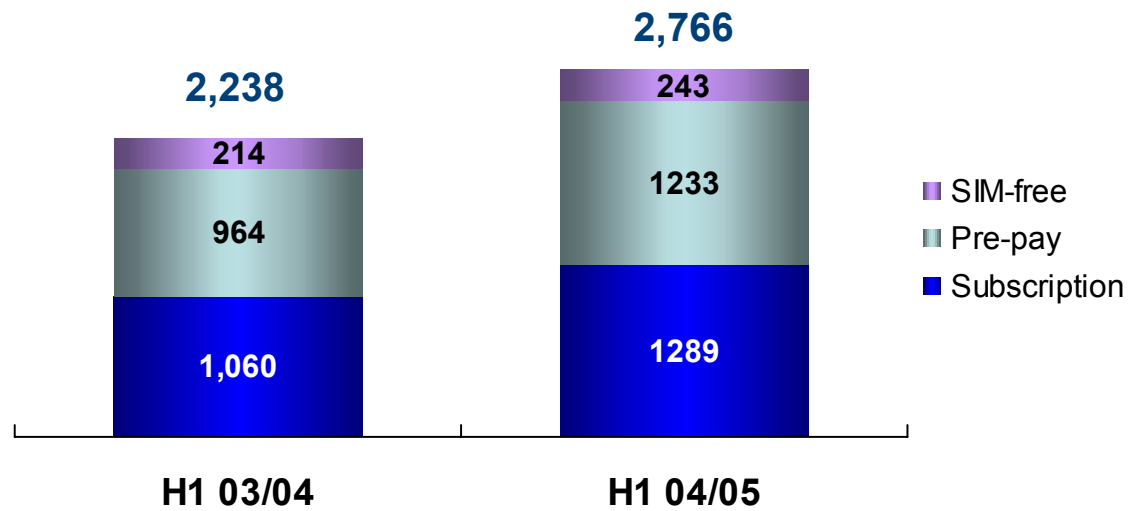


- Even excluding Ongoing/FM, 'Gross' Retail LFL is 14%
- Non-UK Pure Retail LFL of 11.9% ex currency effects

New store assessments

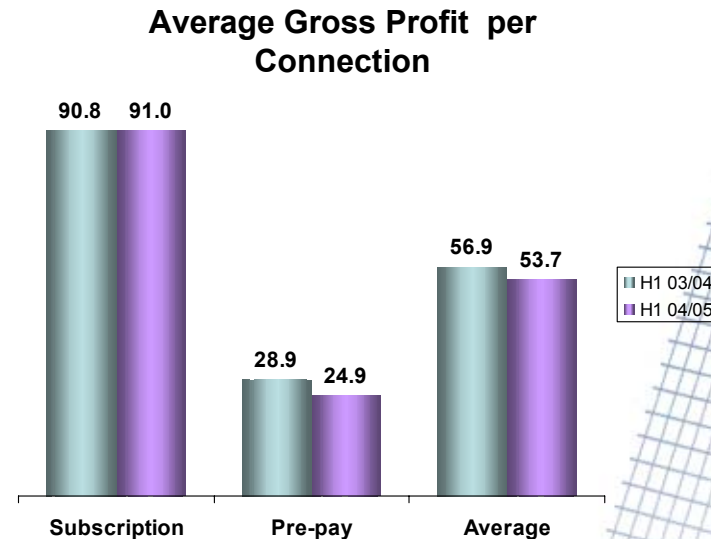
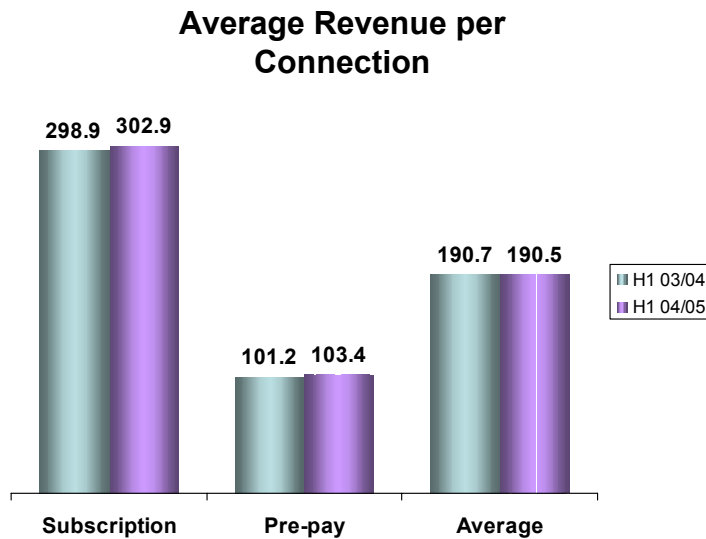
- Average ROI on stores opened in last two years is > 100%
- Now targeting UK conurbations < 20k population
 - High demographics
 - Less competition
 - Significant additional opportunity

Group connections (000's)



- Subscription connections growth of 21.6%
- Average Retail connections per store rose by 12.6% from 1,845 to 2,078

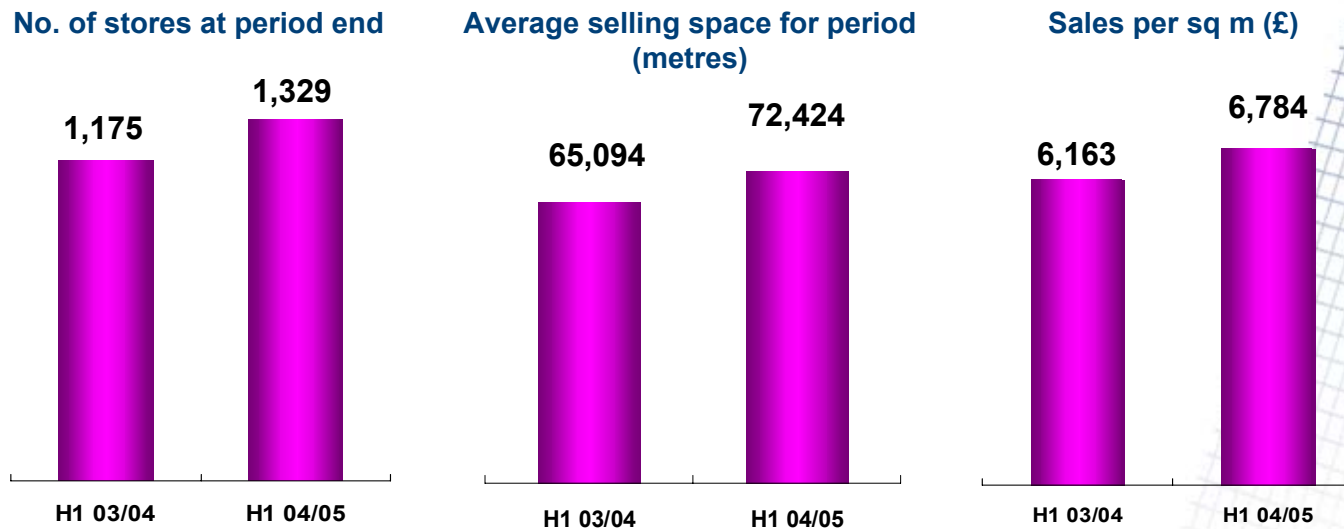
Revenue & gross profit per connection



- **Gross profit per connection was firm on subscription**
- **Pre-pay gross profit per connection fell as the market became more competitive**

Retail platform

- Store opening programme making good progress – 115 new stores opened in H1
- Franchise store growth progressing in Spain, France and Netherlands to 46 by H1 04/05



Online

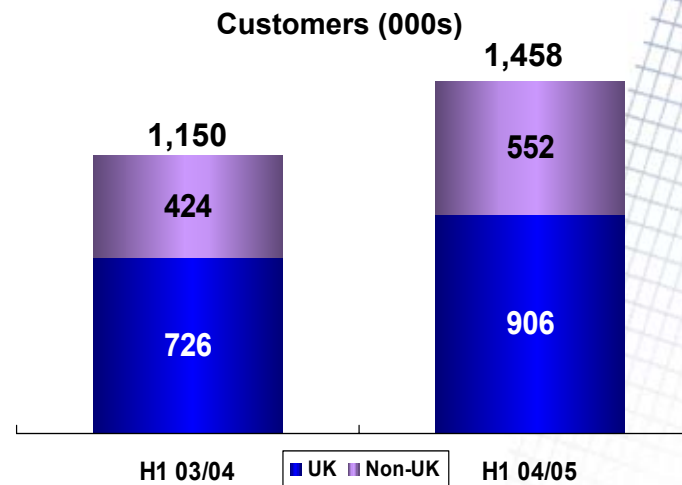
£m	H1 04/05	H1 03/04	% Change
Connections (000s)	186	134	38.8%
Turnover	45.3	26.5	70.8%
Contribution	3.0	1.6	84.5%
Contribution %	6.6%	6.1%	

- Overall growth boosted by E2Save acquisition
- Significant improvement in mix year-on-year

Insurance

£m	H1 04/05	H1 03/04	% Change
Turnover	47.8	35.8	33.5%
Contribution	15.5	11.8	31.2%
Contribution %	32.4%	32.9%	

- Continued strong growth in customer base driven by subscription sales
- Underlying margin trend good; overall margin down slightly on third party revenues
- More markets reaching critical mass



Ongoing

£m	H1 04/05	H1 03/04	% Change
Turnover & Contribution	22.9	19.4	18.4%

- Further good growth driven by subscription sales

Telecoms Services

£m	H1 04/05	H1 03/04	% Change
Turnover	372.9	240.5	55.1%
Contribution	23.6	17.8	32.2%
Fixed	13.5	8.0	68.1%
Mobile	10.1	9.8	3.0%
EBITA	6.2	5.5	12.5%
EBITA %	1.7%	2.3%	

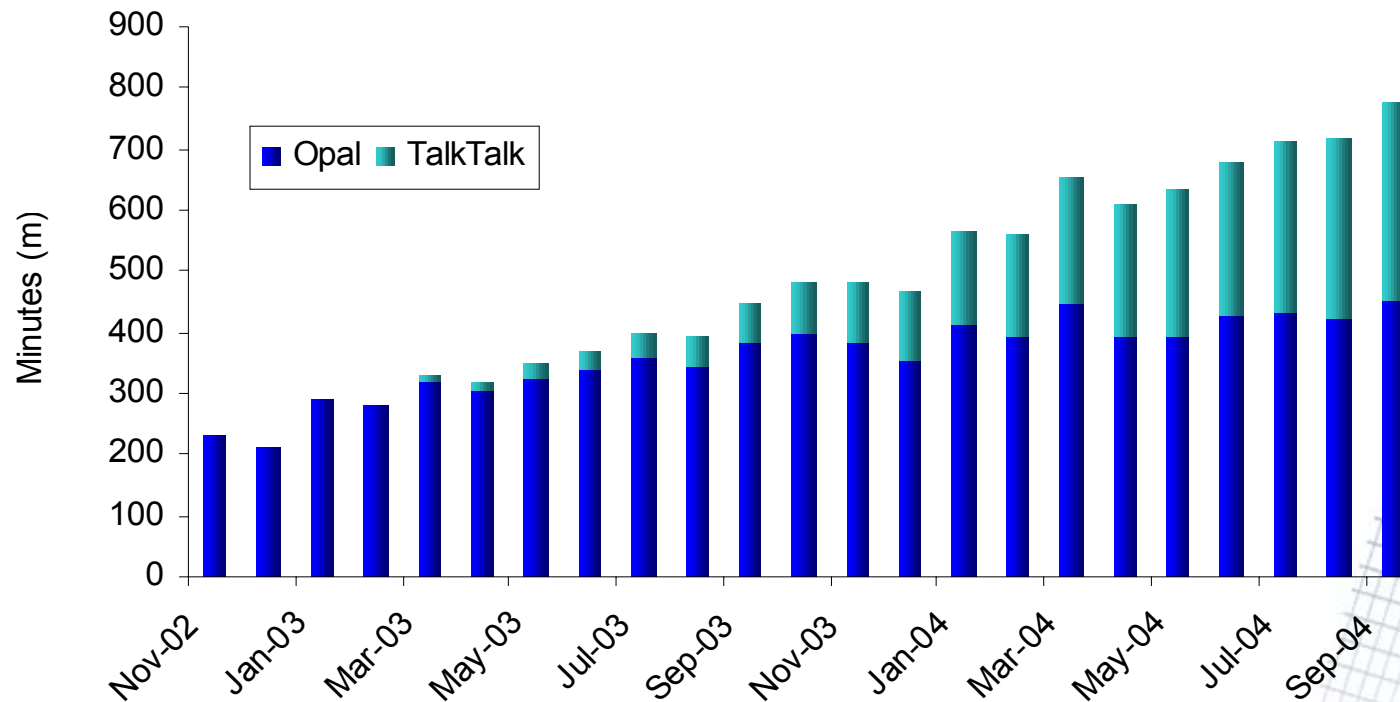
- **EBITA margin will make positive progress from here**

Opal

£m	H1 04/05	H1 03/04	% Change
Turnover	115.5	105.8	9.1%
Contribution	17.8	13.6	31.5%
Contribution %	15.4%	12.8%	

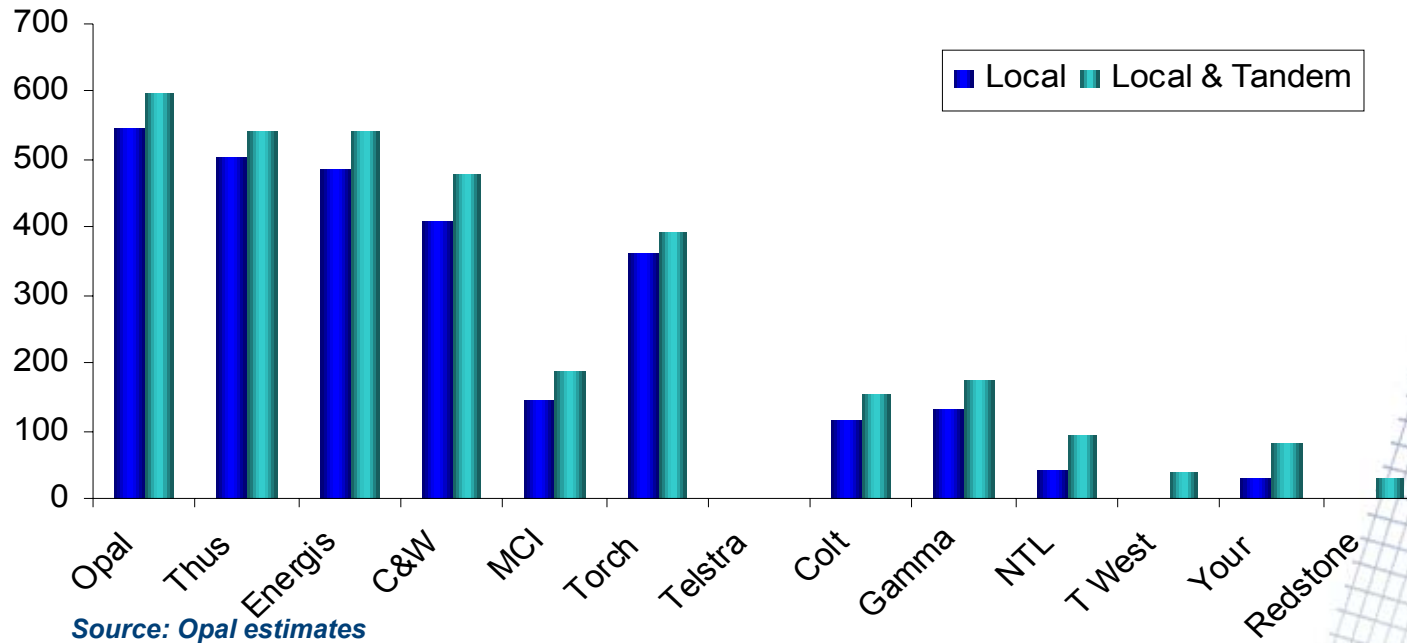
- Further underlying growth in traffic with improving mix away from PRS
- Significant corporate activity and competitive pressure in the reseller market
- Cut in mobile termination rates will dampen H2 revenue growth

Opal traffic



- Continued strong growth in network traffic
- Improving symmetry between peak and offpeak minutes

Opal interconnect



- Opal now the most deeply interconnected altnet
- DLE interconnect programme nearly complete

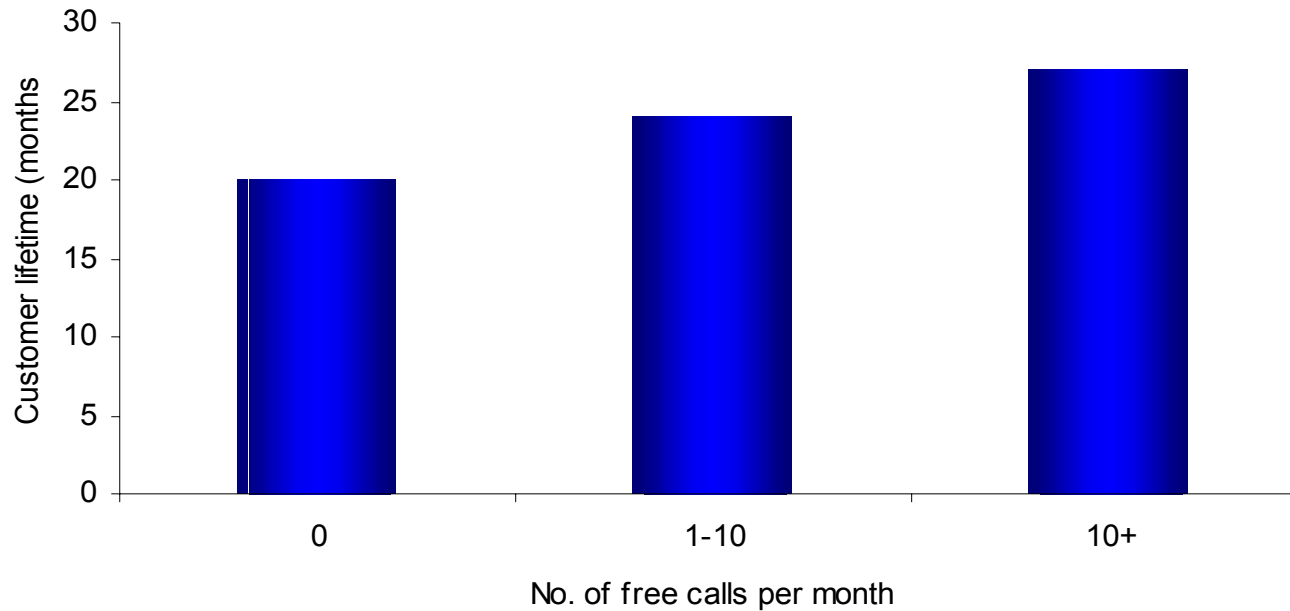
TalkTalk UK

£m	H1 04/05	H1 03/04
Customers (000s)	648	140
Turnover	50.2	6.4
Gross profit	20.6	2.9
Gross margin (%)	41.0%	45.3%
Operating profit	13.1	1.8
Operating margin (%)	26.0%	27.8%
SAC and marketing	(18.9)	(7.3)
Contribution	(5.8)	(5.5)

- Outstanding six months for customer recruitment
- Profitable in August and September
- Positive full year outcome after Broadband costs

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Impact of free calls on customer lifetime



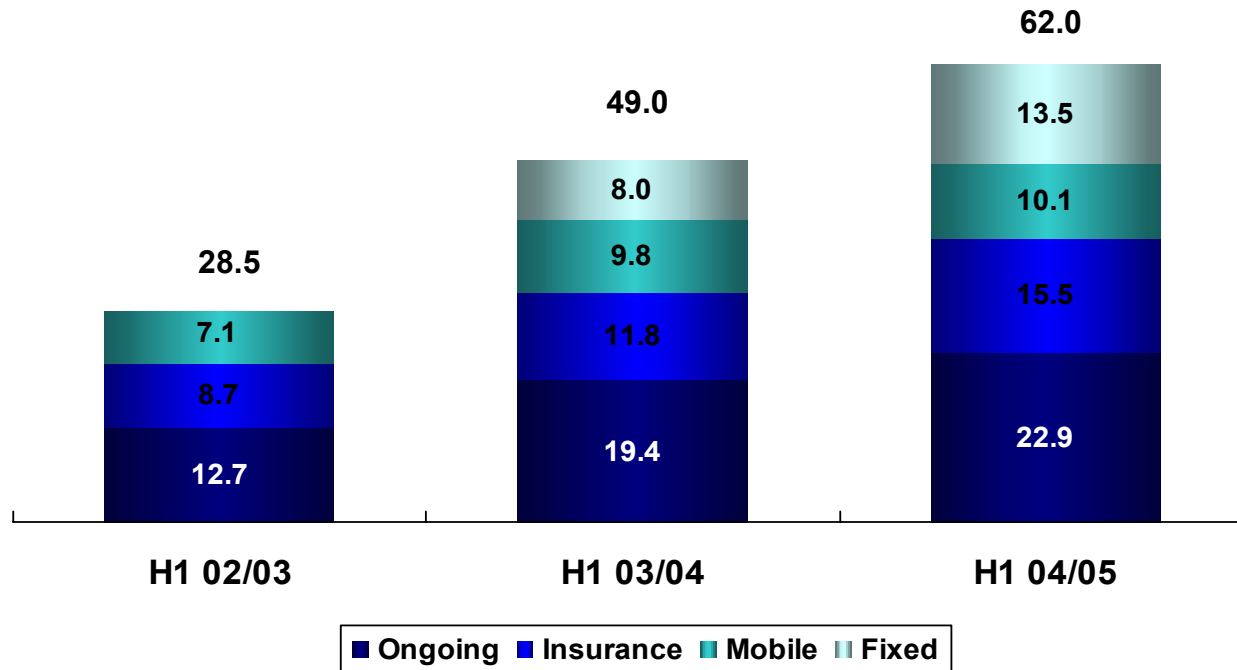
- **Customers who use free calls have a longer tenure than those that don't**

Telecoms Services - Mobile

£m	H1 04/05	H1 03/04	% Change
Turnover	180.8	128.2	41.0%
Contribution	10.1	9.8	3.0%
Contribution %	5.6%	7.7%	

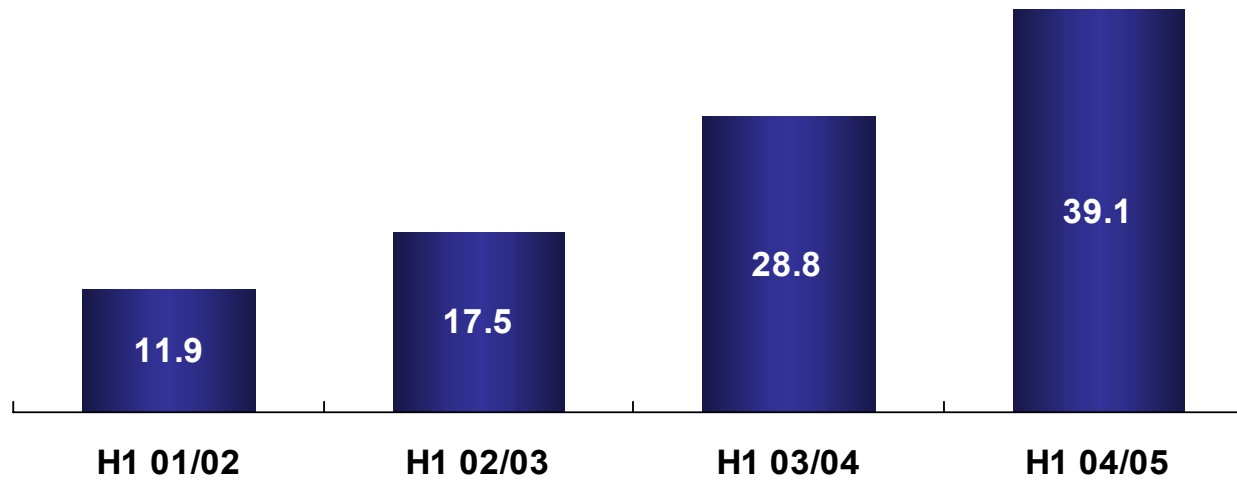
- The Phone House Telecom continues to outperform expectations in customer growth and margin
- Various issues in other parts of Mobile Services have seen profits decline
- Pick-up expected in H2

Contribution from recurring revenues (£m)



- Recurring revenues accounted for 63% of group contribution in H1, up from 62% in H1 2003/04

Non-UK contribution (£m)



- 3 year CAGR of 49%

Support costs, depreciation and interest

£m	H1 04/05	H1 03/04	% Change
Support costs	44.9	37.2	20.6%
Depreciation	23.3	19.6	18.8%
Interest payable	2.4	1.8	31.8%

- Support costs include a £2m full-year accounting charge for the Performance Share Plan
- Rising interest charge reflects purchase of Acton freehold and acquisitions
- Potential Wholesale liability still uncertain

Cash flow (£m)

£m	H1 04/05	H1 03/04
EBITDA	53.8	37.0
Working capital	(17.3)	(0.4)
Tax and interest	(11.9)	(3.8)
Capex (ex new stores)	(21.8)	(14.5)
Free cash flow	2.8	18.3
New store capex	(9.3)	(3.6)
Acquisitions	(22.5)	(31.0)
Purchase of own shares	(8.1)	-
Dividends	(7.9)	(8.7)
Net cash outflow	(45.0)	(25.0)
Opening net (debt)/funds	(40.6)	29.1
FX movements / shares	(1.0)	(1.2)
Closing net (debt)/funds	(86.6)	2.9

IAS

- Full implementation of IFRS for March 2006 year
- Key impacts include
 - Goodwill amortisation vs impairment
 - Accounting charge for share-based payments: estimated at c. £3m a year from FY06 onwards, which includes the c. £2m charge for the PSP
- Full briefing on IAS at 2005 analysts' day – provisionally 14th April 2005

Highlights of H1

- **25% growth in revenue driven by Retail, TPHT and TalkTalk**
- **Business model working well**
 - **Strong growth in high margin ancillary business streams**
 - **Significant Gross Retail LFL gross profit growth**
- **Recurring revenues at 63% of Group contribution after £5.8m TalkTalk losses**
- **TalkTalk now profitable month-on-month**
- **Free cash flow positive after significant investment in infrastructure and Christmas inventory**
- **Tax charge staying at 25% for FY05**
- **EPS and dividend increased by 38%**

Outlook

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Distribution is key



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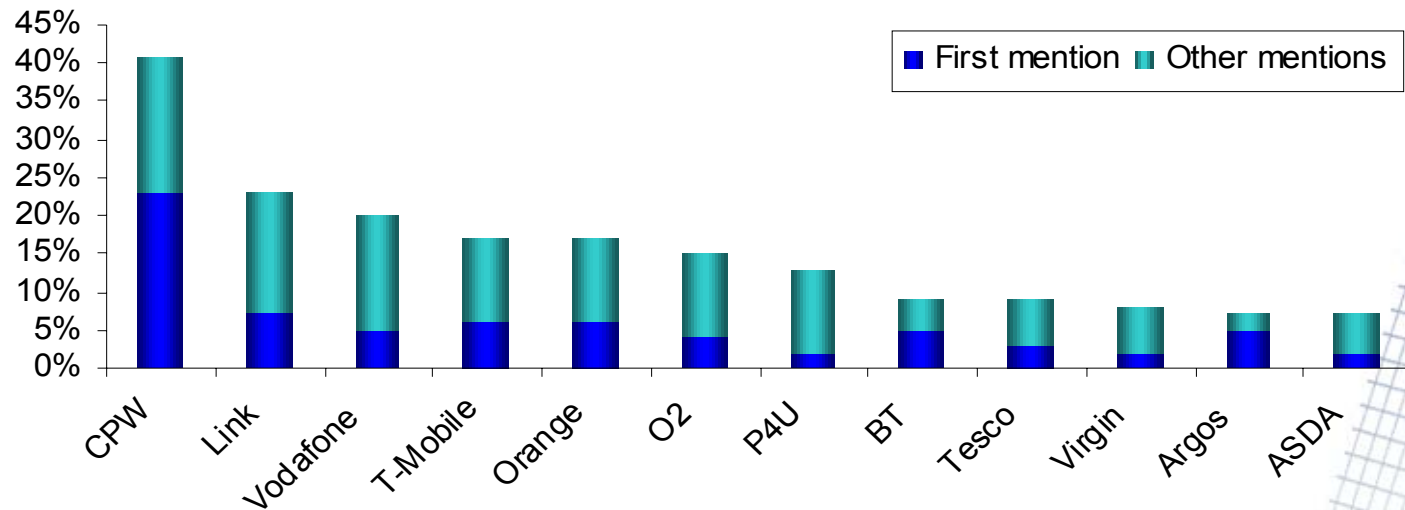
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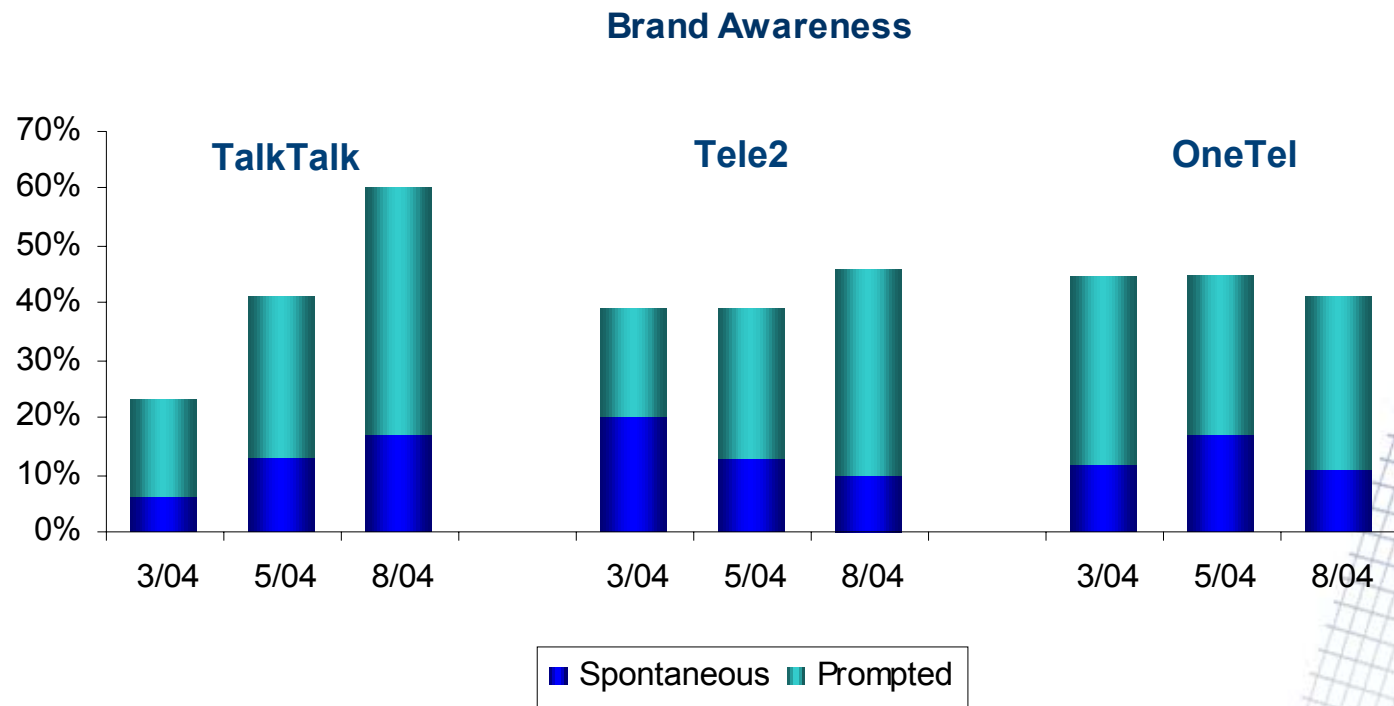
The importance of brand

Thinking of all the places you can buy mobile phones, which ones would you consider purchasing a mobile phone from?



- Network stores are becoming our natural competitors across all markets
- CPW has as many first mentions as any other chain's total mentions

The importance of brand



- TalkTalk's total brand awareness is growing rapidly
- Competitors are stagnating, with declining spontaneous awareness

Network competition

- **Competition still intense**
 - **Increasing competition on line rental/tariffs, not just handset prices**
- **New entrants and smaller networks have been the stimulus**
 - **Larger players need to defend market share**
- **Mass market 3G adoption will be the next key driver**

Numerous applications are converging on mobile



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Christmas offers

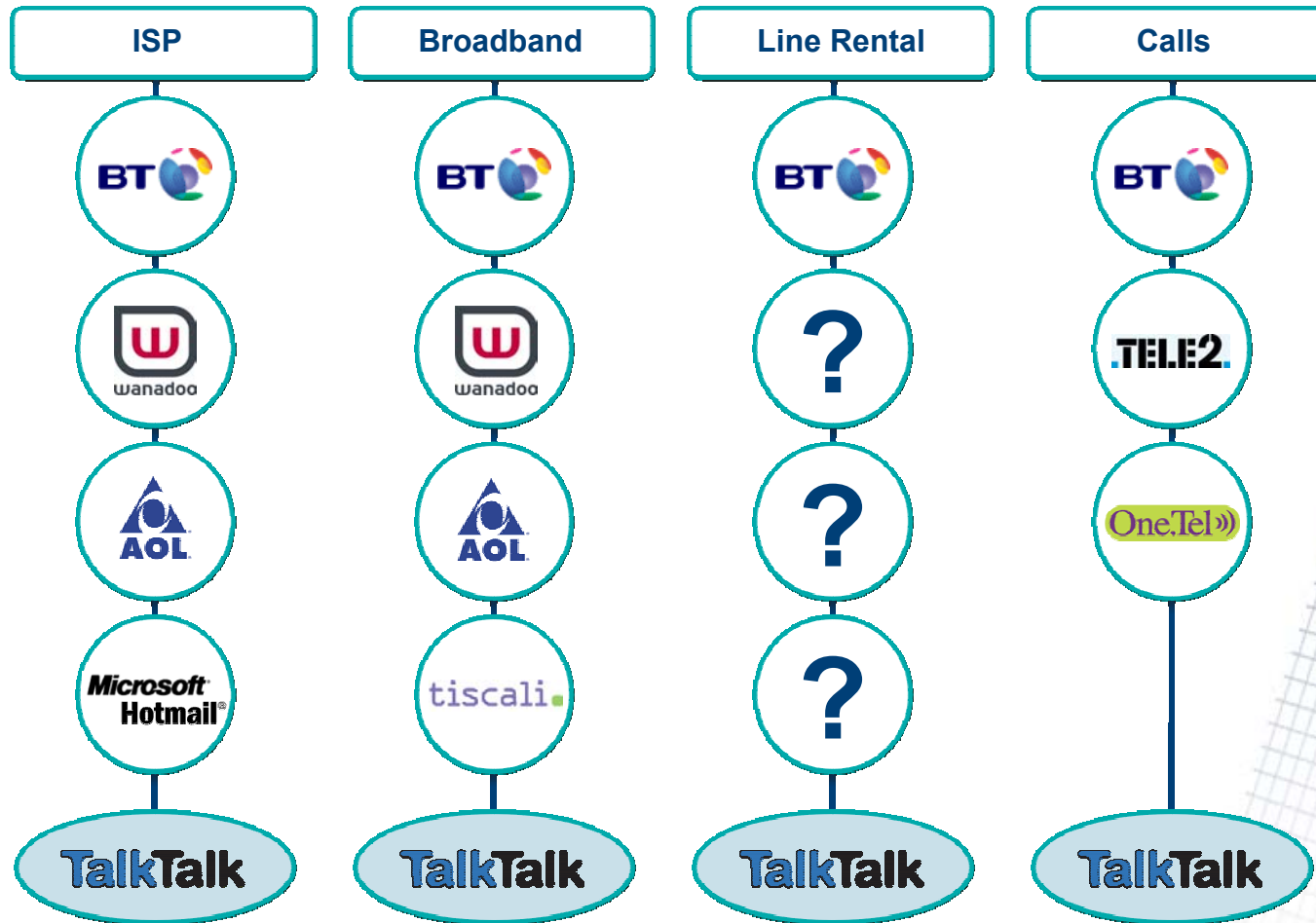
£	2002	2003	2004
Cheapest Nokia pre-pay	79.99	49.99	Nokia 7600 - 29.99
Cheapest pre-pay colour	199.99	69.99	Siemens A60 - 39.99
Pre-pay camera phone (ex 3G)	N/A	99.99	Siemens MC60 - 59.99
Sony-Ericsson T610	N/A	199.99 on pre-pay	99.99 on pre-pay
Cheapest Bluetooth headset	79.99	49.99	Plantronics - 39.99

Broadband launch

- Launched on Monday with a range of bundles
- Core product is £19.99 512k mbps
 - Unlimited usage plus free evening and weekend calls
- 12 month contract, deepening customer relationship
- Line rental next year

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Becoming the number one alternative to BT



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Summary outlook

- **Short term**
 - Good Christmas in prospect...
 - ...although we outperformed the market significantly last year
 - TalkTalk customer momentum to continue
- **Medium term**
 - 3G take-up will accelerate next year
 - Ongoing store opening programme
 - TalkTalk UK becoming a significant profit contributor
 - Line rental to complete the fixed line offer

Appendix

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Store Portfolio

	March 2004	Opened	Closed / Sold	September 2004
UK	509	49	3	555
France	176	13	8	181
Spain	164	26	-	190
Netherlands	87	12	2	97
Germany	72	2	4	70
Sweden	58	4	-	62
Portugal	47	3	2	48
Belgium	40	4	1	43
Ireland	32	1	-	33
Switzerland	29	22	1	50
Total	1,214	136	21	1,329

Connections by country (000's)

	H1 04/05	H1 03/04	% Change
UK	1,331	1,147	16.1%
Spain	408	256	59.6%
France	303	270	12.5%
Netherlands	137	97	41.2%
Sweden	135	99	36.9%
Ireland	114	92	23.2%
Portugal	100	92	8.2%
Belgium	110	70	56.7%
Germany	66	57	15.3%
Switzerland	62	42	47.4%
Czech	-	15	-
Total	2,766	2,237	23.6%

Services by country

