



The Carphone Warehouse Group PLC

Interim Results 2006

2 November 2006

The Phone House

...for a better mobile life

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Agenda

- Overview and strategic development
- Financial performance
- Outlook





Overview and strategic development

Charles Dunstone

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Headlines



- **Group revenues up 40.2% to £1.81bn**
- **Distribution revenues up 26.9% to £954.1m**
- **Retail LFL revenue up 12.1%, gross profit LFL 6.8%**
- **Telecoms revenues up 61.9% to £769.9m**
 - **Up 31.7% ex-Onetel**
- **Underlying PBT up 60.1% to £59.3m**
- **Significant investment in future profitable growth**
- **Dividend raised 33.3% to 1.0p**

Vodafone relationship



- Both parties actively engaged in discussions since Vodafone's announcement
- Intention to reach pan-European framework agreement
- Aim to deliver a consistent and clear customer proposition
- Subscription and pre-pay, where appropriate

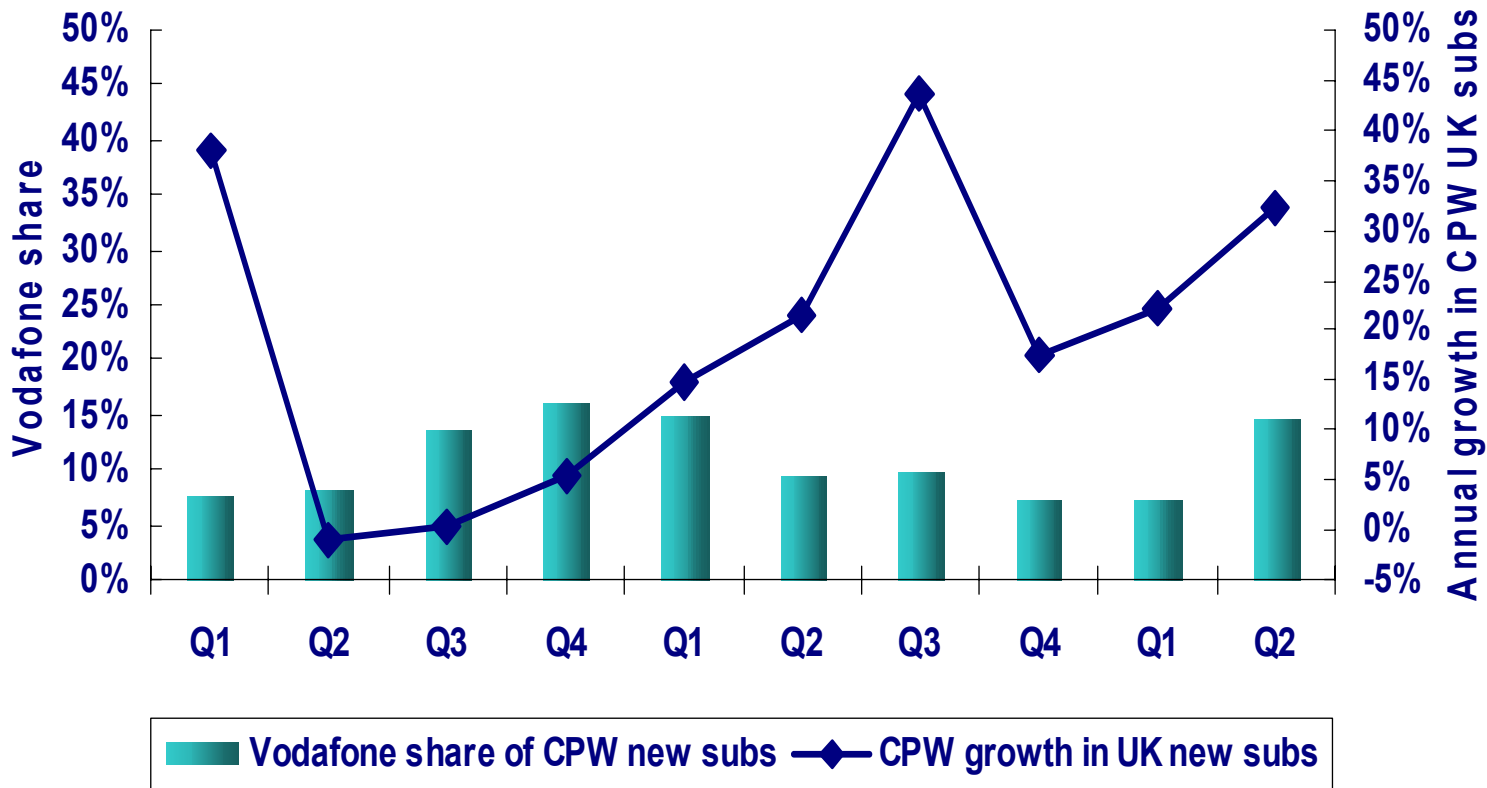
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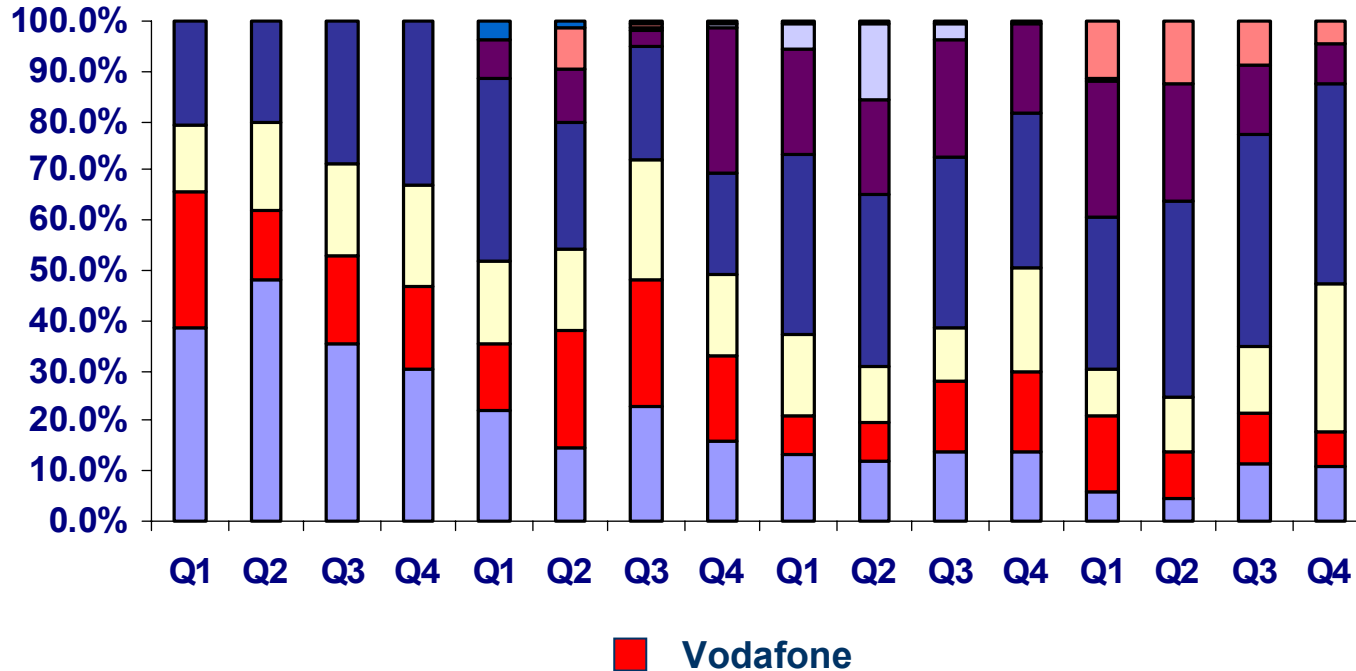
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Vodafone is not a significant part of our UK subscription business



Network shares fluctuate but don't drive the market

Networks' share of CPW UK new subs, 2003-2006

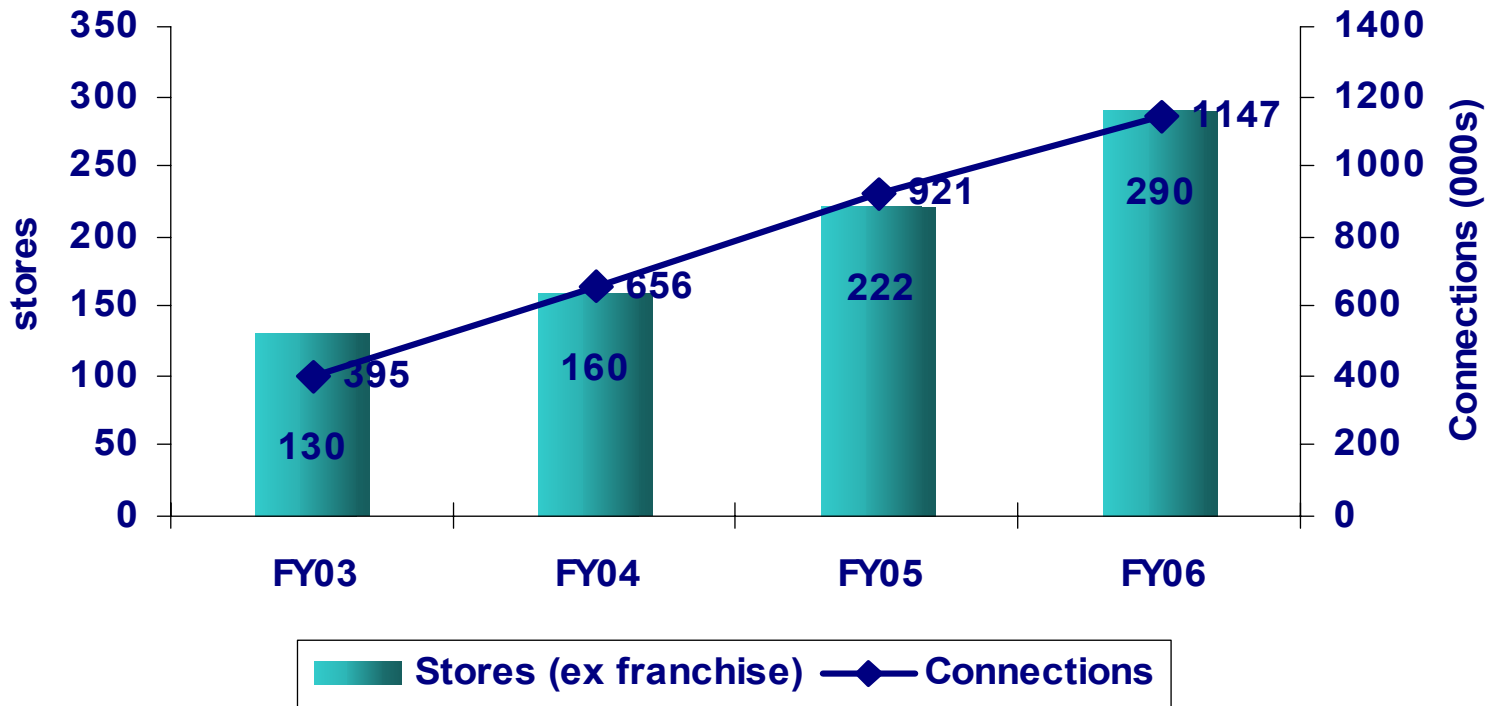


- “Vodafone appears to not understand that it is its competitors that are driving up subsidies rather than its business partners, and is instead trying to shoot the messenger” – Enders Analysis, 16/10/06

We have never sold Telefonica subscriptions in Spain



Spanish business performance



Group strategy



- To grow Distribution market share through new store openings, like-for-like growth and additional distribution channels
- To maximise customer lifetime value through repeat business and new services
- To become the leading alternative provider of fixed line telecoms in the UK

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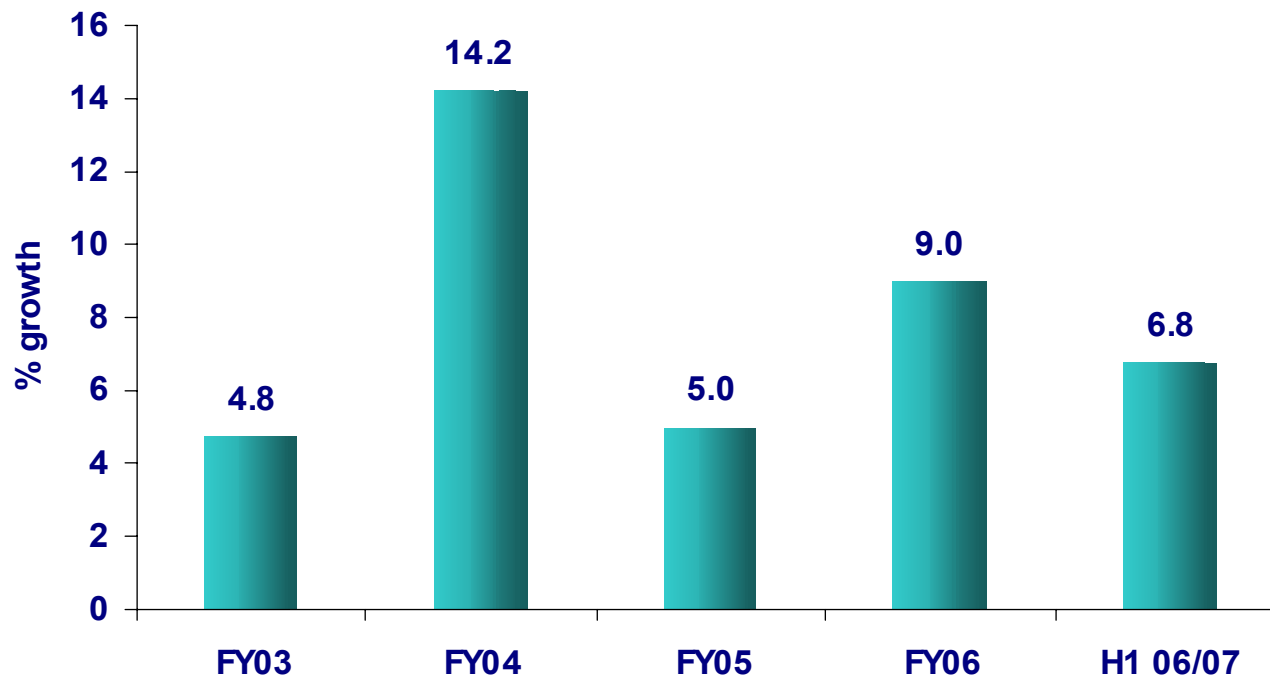
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143 new stores opened



Like-for-like gross profit



- Very consistent LFL gross profit performance

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Group strategy



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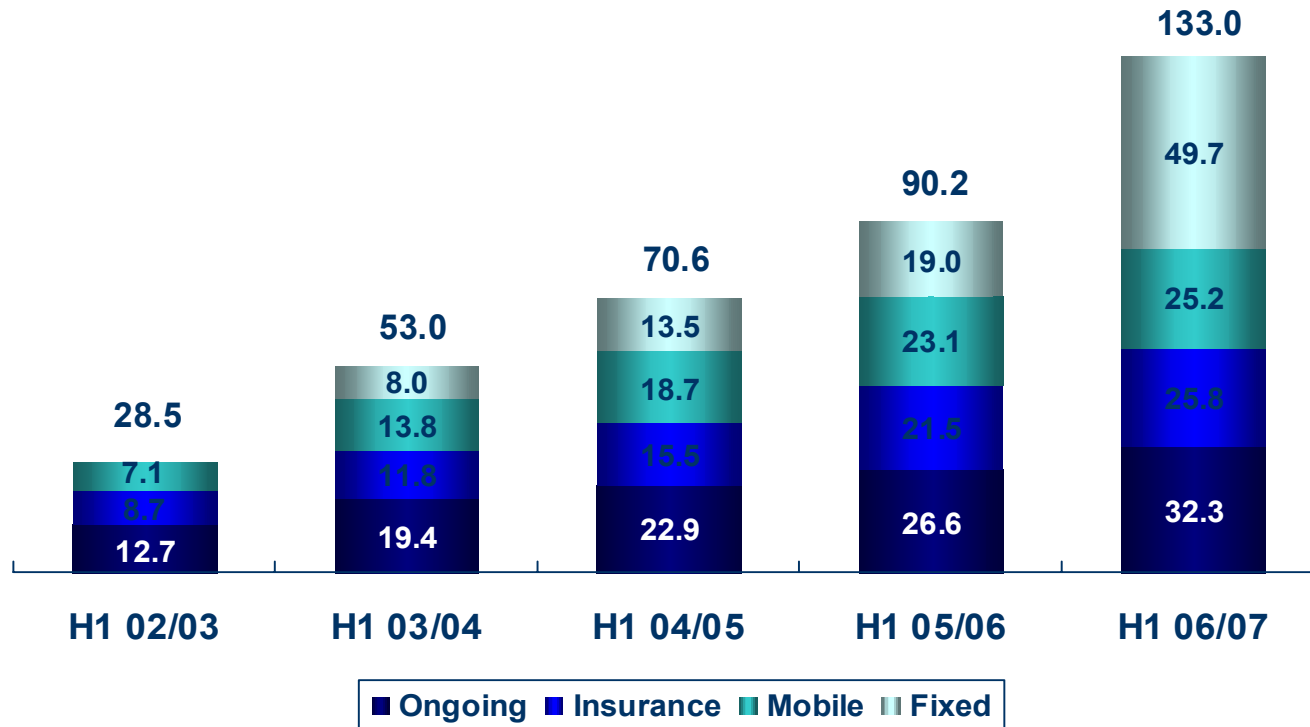
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Contribution from recurring revenues (£m)



- Recurring revenues accounted for 70% of Group contribution before start-up costs (2005: 66%)

New MVNOs and value-added services




MyMobileTarifChecker

Welcome
 We've created this interactive system to help you find the best mobile phone deals that suit your needs. Please touch the screen to choose whether you want to start your search by looking at phones, networks or costs.

Phones

Networks

Cost



5 free minutes

TalkTalk - the free-talking, free-thinking phone company from The Carphone Warehouse is now offering a fantastic deal for Pay As You Go customers... Welcome to **5min**.

With **5min**, Talk for **5** minutes and you get the next **5** minutes for free... everyday.

Your free minutes can be used to call any network or landline at anytime. You can also bring you existing number with you and take advantage of some great phone deals.



MyMobileLife Home

MyMobileLife from the Carphone Warehouse

- ▶ Instant Messaging
- ▶ Chatrooms
- ▶ Free Texts and Picture Messages
- ▶ BBC
- ▶ Domino's Pizza
- ▶ eBay
- ▶ Great Shops on your Mobile
- ▶ Travel & Instant Hotel Room

Select Options

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carphone warehouse

MOWBLI'S GUIDE TO SMART PHONES



Order by phone NOW on 0800 049 0049 or visit carphonewarehouse.com

carphone Warehouse

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Group strategy



- To grow Distribution market share through new store openings, like-for-like growth and additional distribution channels
- To maximise customer lifetime value through repeat business and new services
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Major player in residential telecoms



Company	Broadband customers (000s)	Voice customers (000s)
NTL	2,902	4,233
BT	2,213	15,563
TalkTalk + AOL	2,000	2,750
Tiscali	1,300	350
Orange	1,004	Not known

Note: residential customers only; BT Voice customers measured as BT Together packages



Update on LLU line migration

- 40,000 customers migrated in October, taking the total to 60,000
- BT Openreach very focused on delivery with commitment of significant additional resource
- We expect volumes to ramp up over the rest of the year
- Rate of progress will be subject to the customer experience



Financial Performance

Roger Taylor - CFO

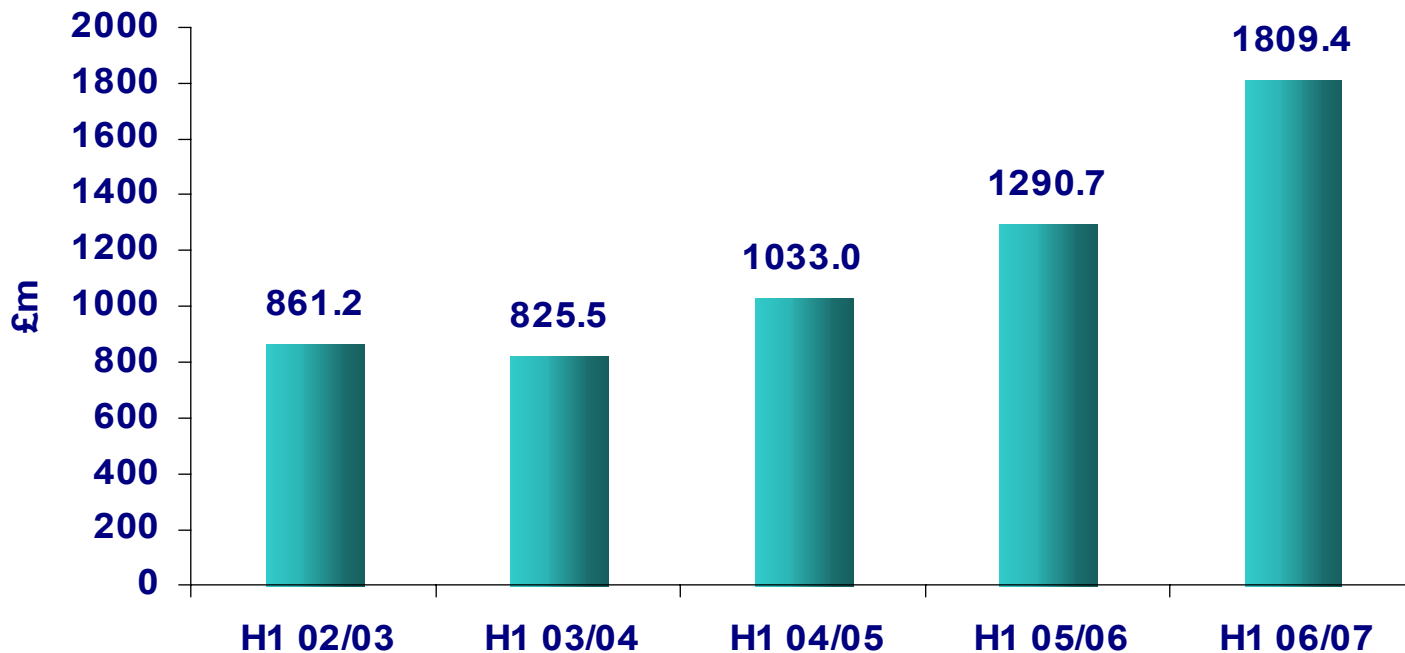
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Continued strong top line growth



- Group revenues up 40.2%
- Up 29.1% ex Onetel

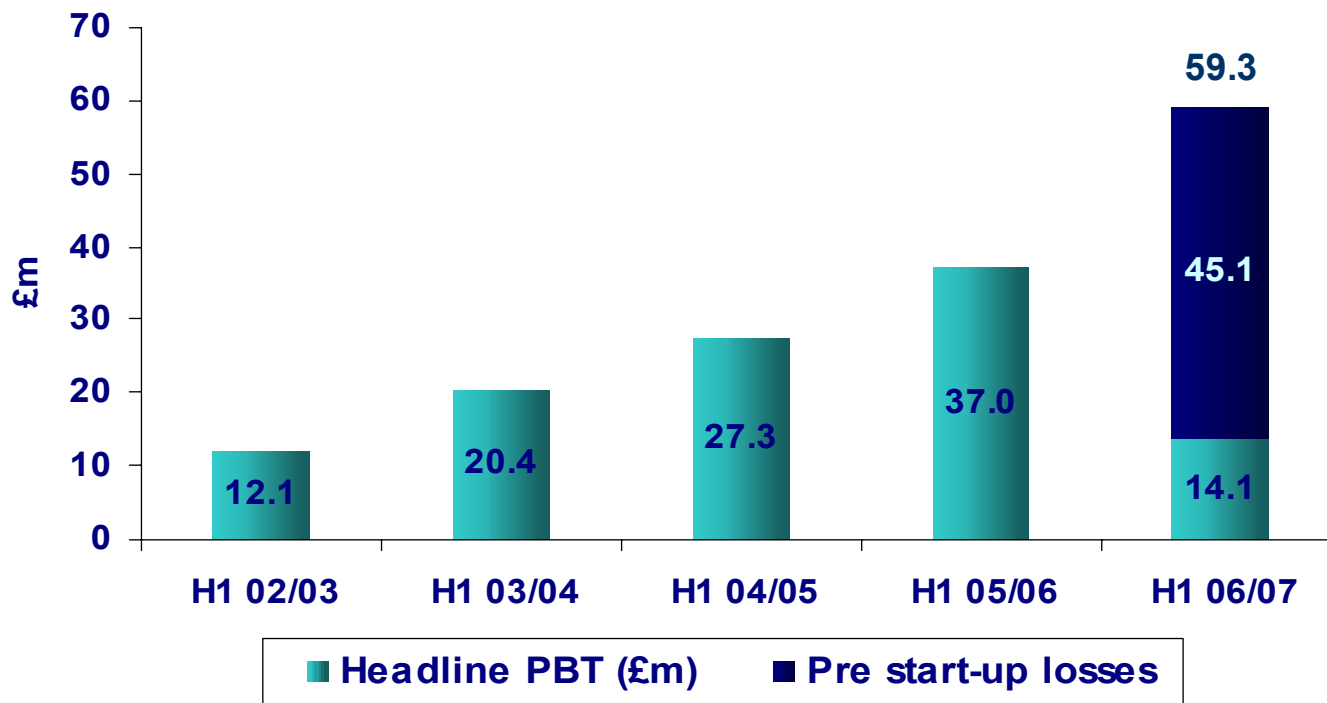
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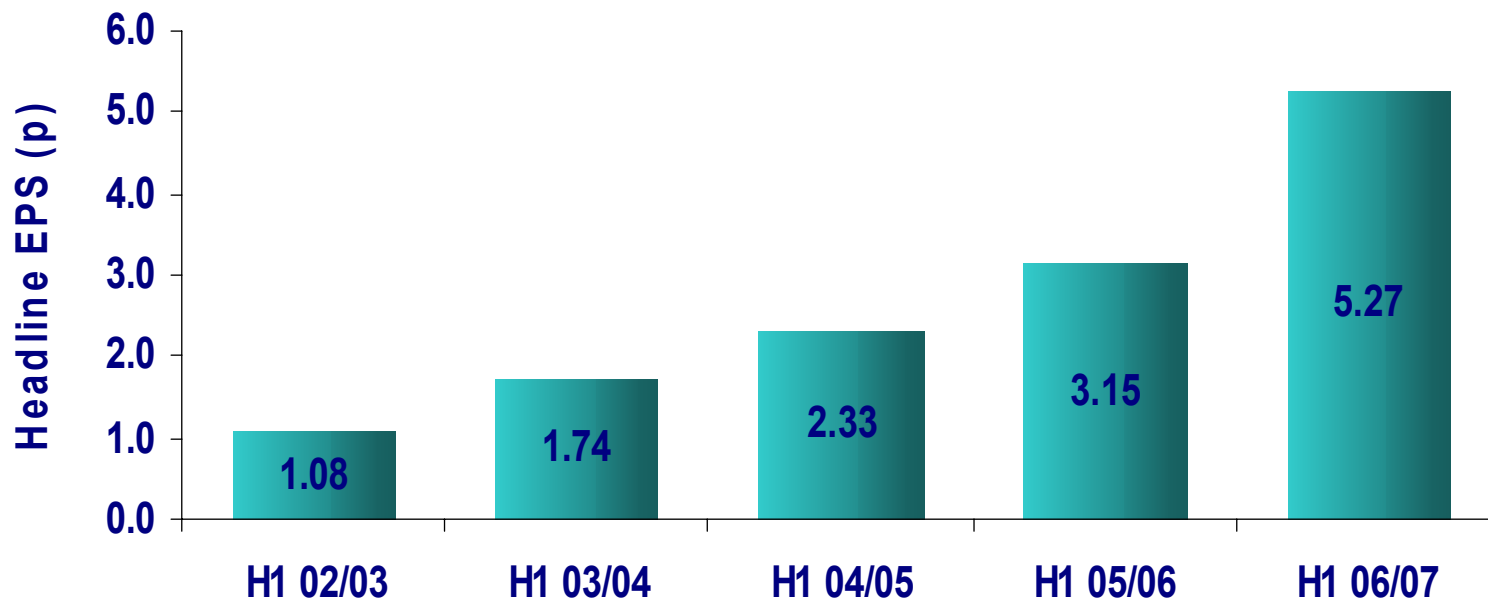
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Headline PBT

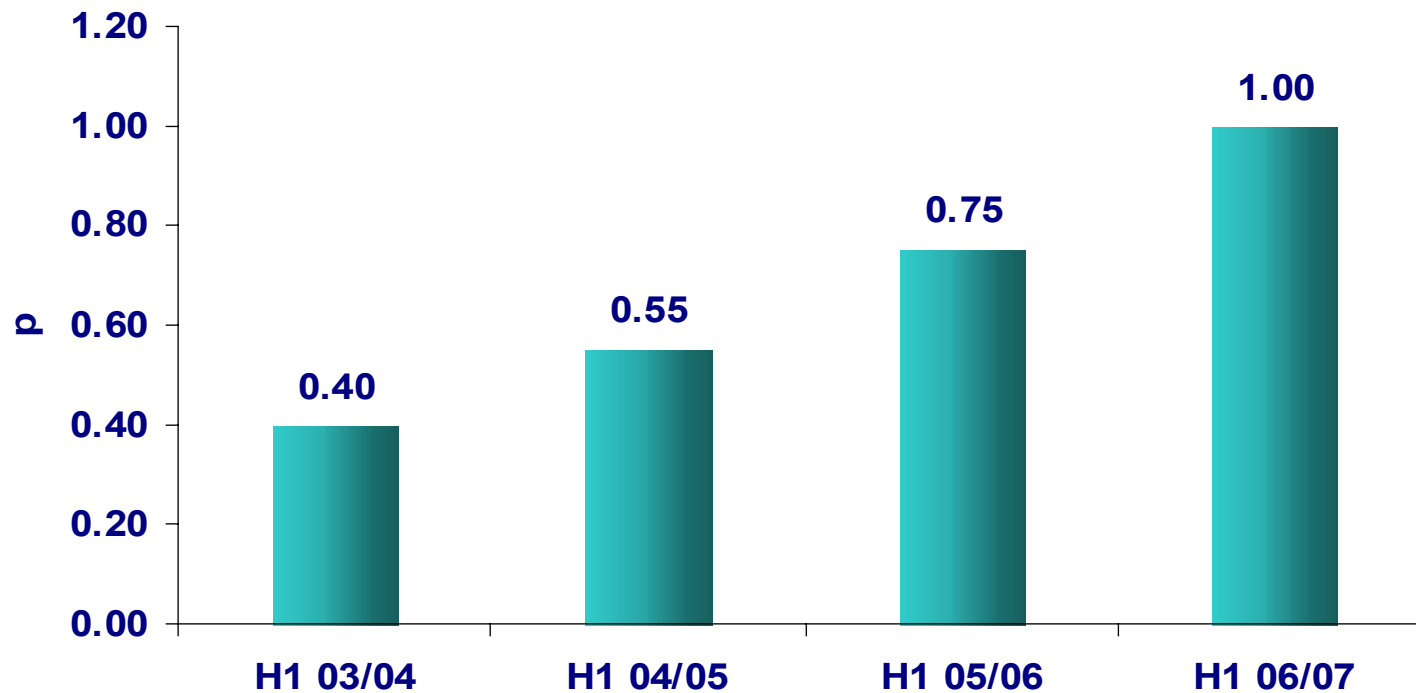


- PBT pre start-up losses up 60.1%
- 4 year CAGR of 48.9%

Underlying EPS growth accelerating



Dividend reflects confidence in future performance



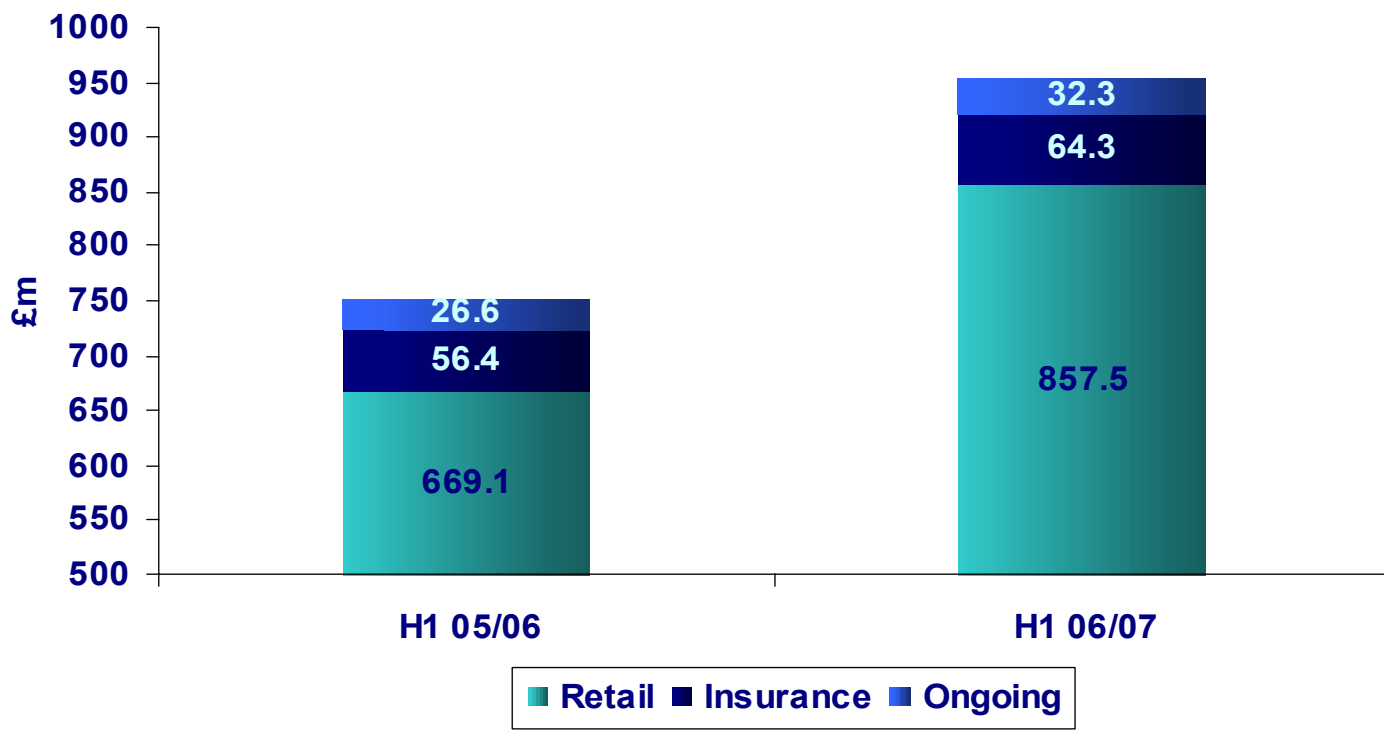
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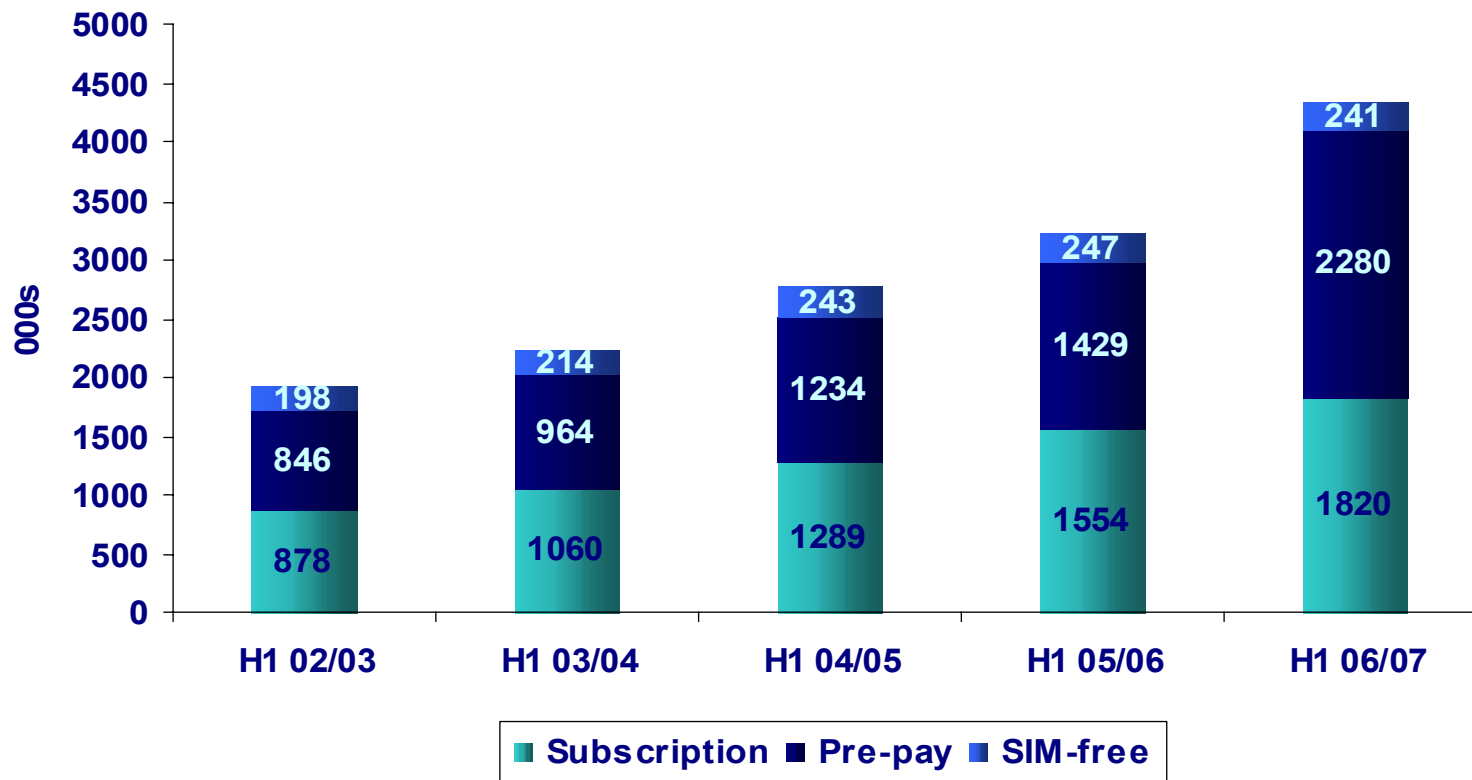
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Distribution revenues



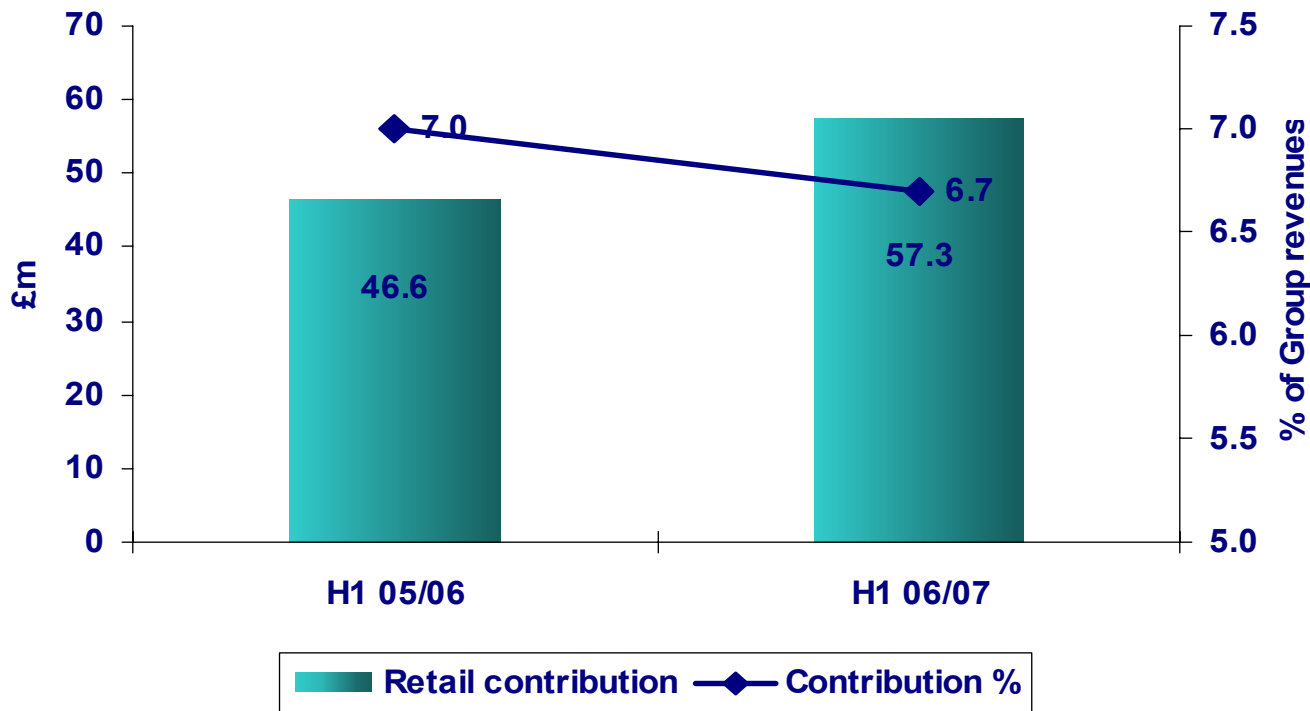
- Revenue growth of 26.9%
- Driven by new space and strong like-for-like performance

Connections (000s)



- 4 year CAGR of 20.0% in subscription connections

Retail contribution



- Strong LFL performance offset by lower margins in pre-pay and significant reinvestment in retail proposition

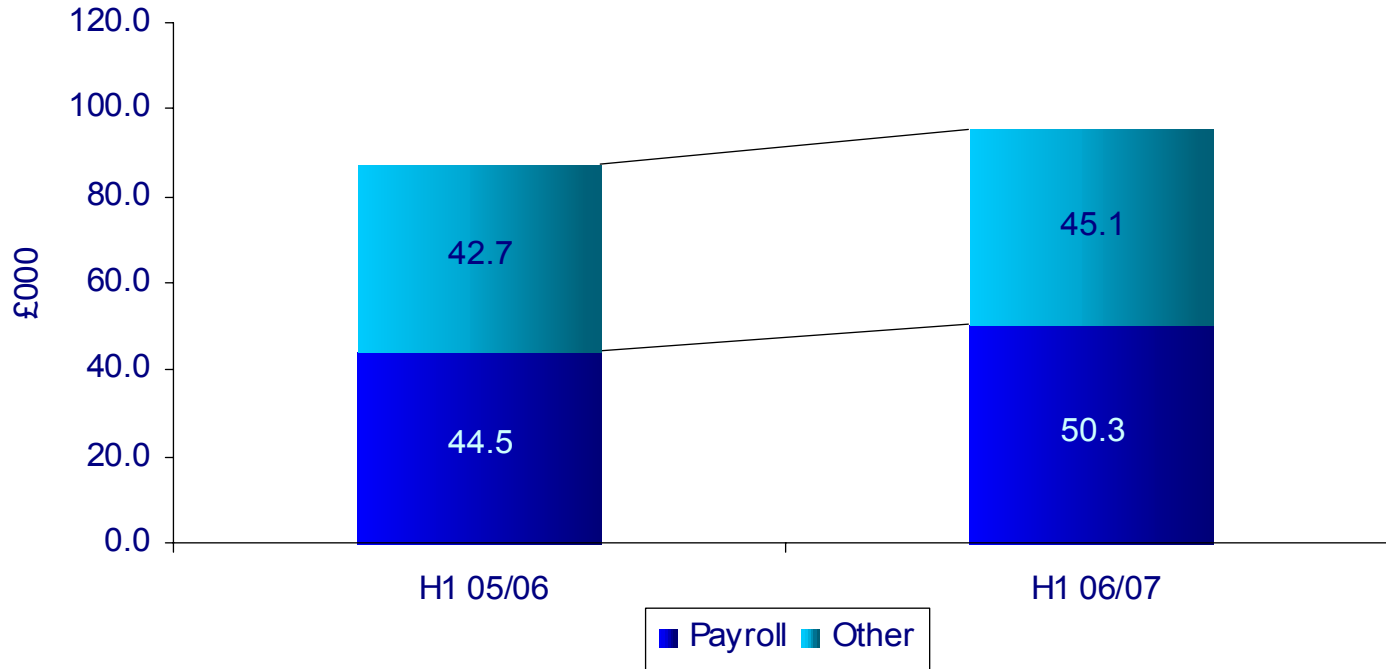
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Retail direct costs per store



- Significant growth in payroll costs driven by commissions and higher number of sales consultants per store
- Inflationary rises in rent and other costs

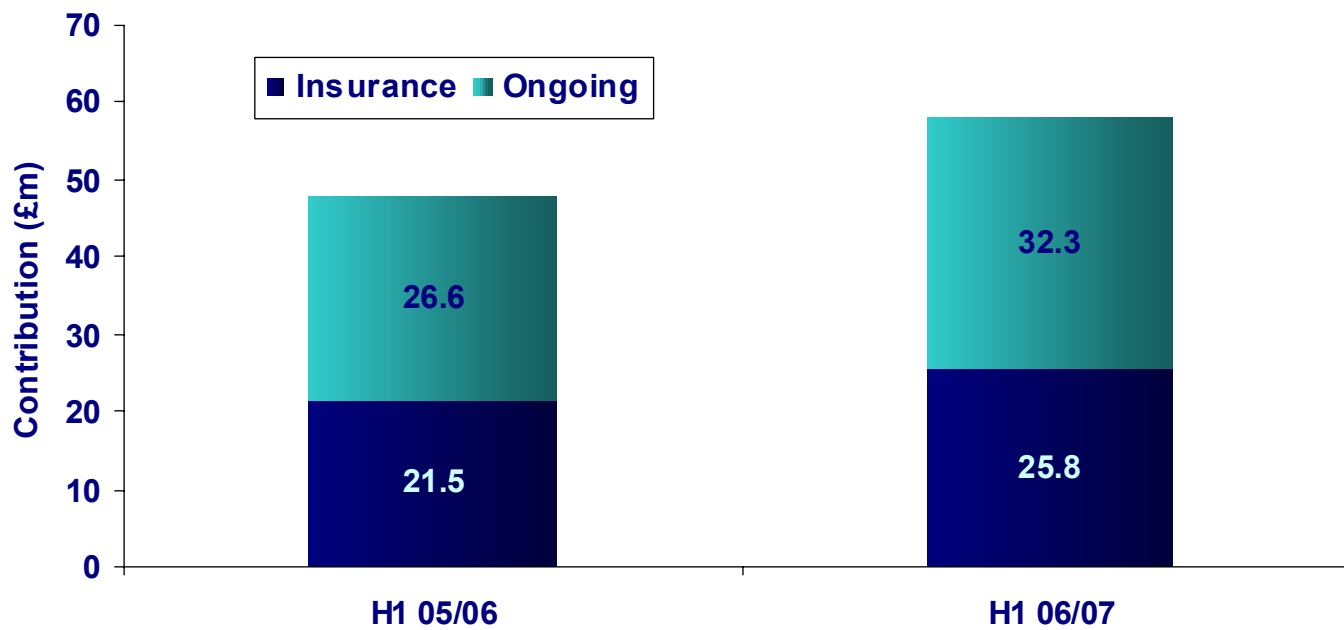


Investment in retail proposition

- Refit of Manchester Market Street in weeks 24/25
- Total cost £9,472
- More FTEs and more terminals = more effective leverage of fixed cost, better footfall and better conversion

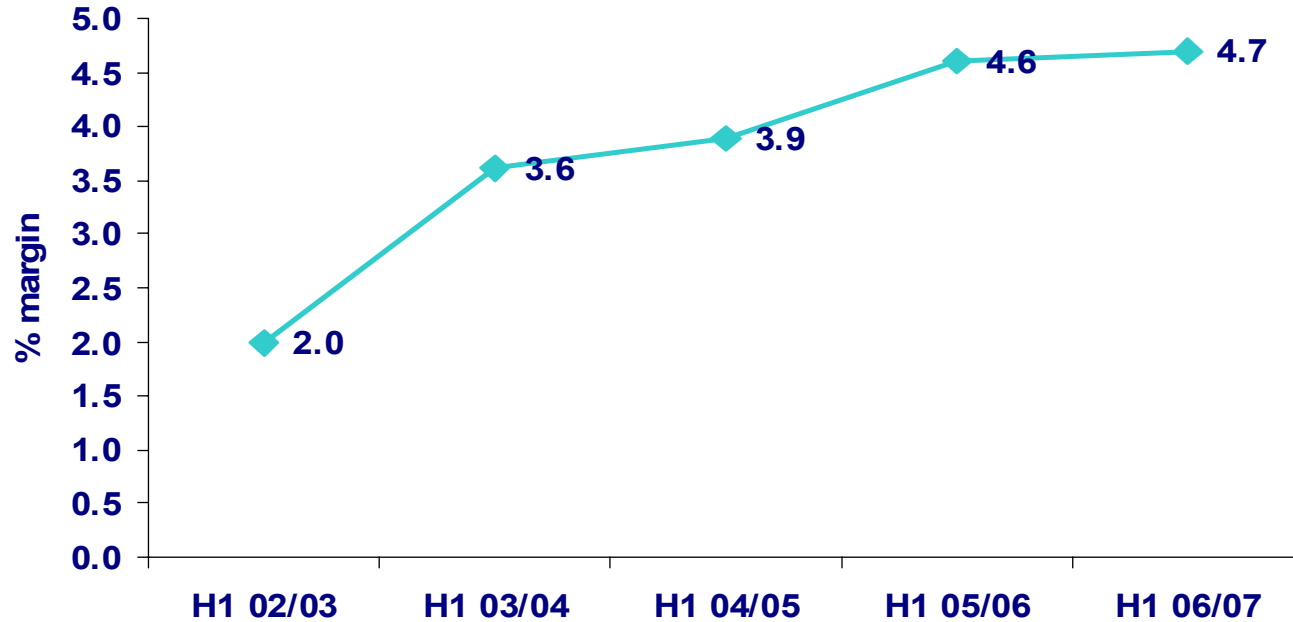
	Before	After
Terminals	10	20
Actual FTEs	15	30
Margin vs budget	128.1%	185.5%
New subs mix	21%	41%
Footfall	7,808	8,764
Conversion %	10.8%	12.6%

Insurance and Ongoing



- Strong subscriptions growth continuing to drive high margin ancillary revenues

Distribution EBIT margin



- H1 margin continues to rise despite strategy of reinvesting margin in driving top line growth

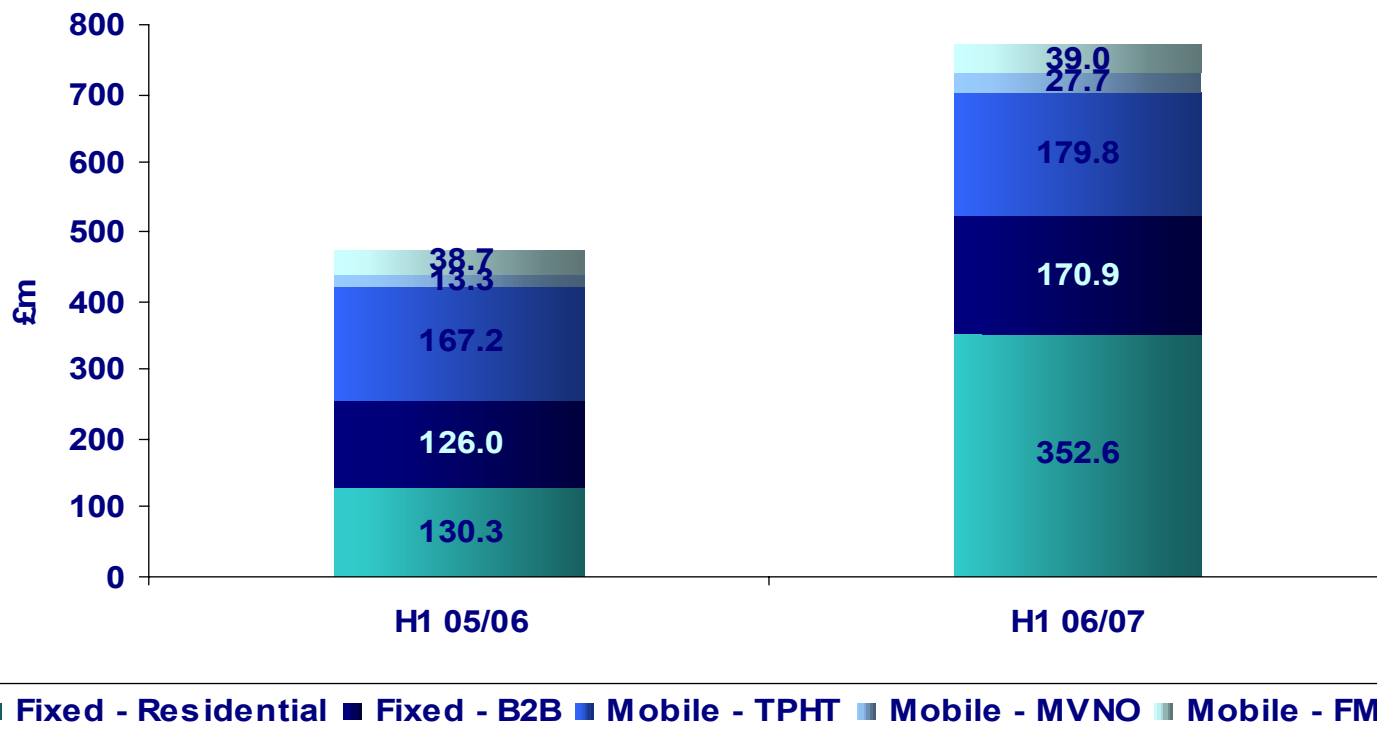
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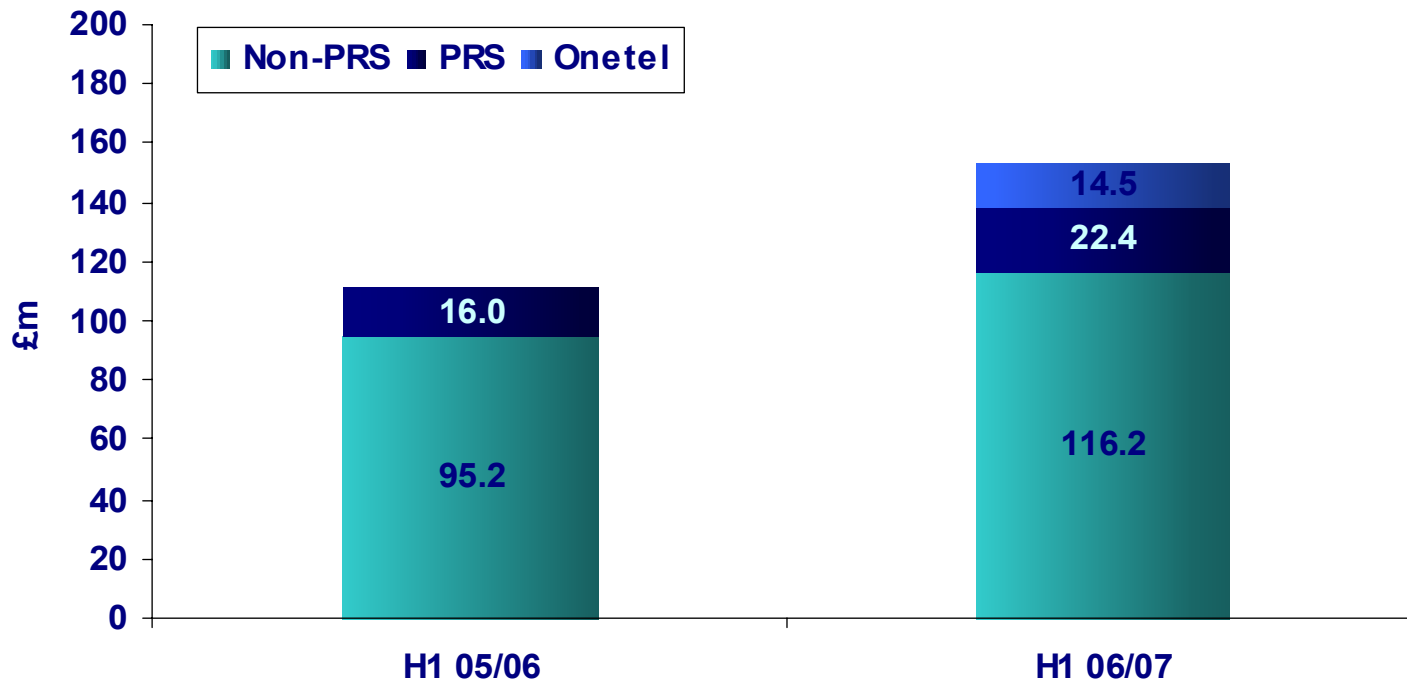
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Telecoms revenues



- Strong organic growth enhanced by the Onetel acquisition

Opal B2B



- Underlying business showing good growth – revenues up 22.1% ex PRS
- Overall revenue boosted by Onetel acquisition and premium rate
- Contribution up 27.7% to £14.3m

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Corporate ISP opportunity



- Acquired Rednet with Onetel
- Recently acquired Alto Hiway, small B2B ISP
- Significant opportunity to grow Solutions business in fragmented SME market
- Critical advantage of LLU and all-IP network
- Unbundled platform “paid for” by TalkTalk

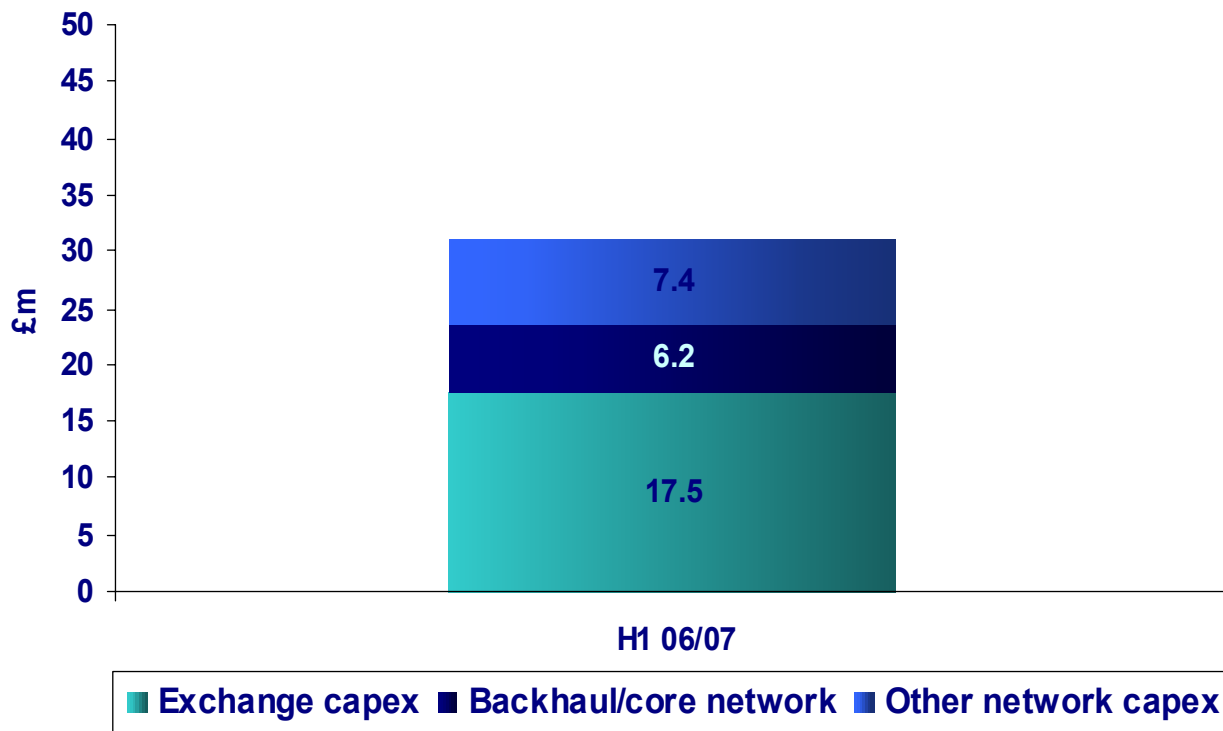
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Opal network investment



- LLU build progressing well and 21 CN upgrade on track

TalkTalk UK Voice



£m	H1 06/07	H1 05/06
Revenue	268.1	99.1
Contribution	33.2	4.1
Contribution %	12.4%	4.2%
Voice customers (000s)	2,141	1,059
WLR customers (000s)	819	0

- **Highly successful Onetel integration**
- **Legacy voice business delivering substantial profitability and cash**
- **ARPU and margin outlook encouraging**
- **Significant source of free broadband customers**

TalkTalk Free Broadband



£m	H1 06/07
Revenue	47.9
Customer operating loss	(7.7)
Written off SAC/marketing	(30.0)
Contribution	(37.7)
Depreciation and SAC amortisation	(2.0)
EBIT	(39.7)

- **ARPU and voice margin very encouraging**
- **Total start-up costs of £70m this year**
- **Acceleration in migration to unbundled lines remains key**

Non-UK TalkTalk



£m	H1 06/07	H1 05/06
Revenue	36.6	31.2
Contribution	1.7	3.4
Customers (000s)	372	249

- **Weak ARPUs, especially in Switzerland**
- **Contribution hit by SAC in Belgium and Ireland**
- **Move to bundled services and network-based competition**
- **Re-appraisal of business model to identify maximum NPV**

The Phone House Telecom



£m	H1 06/07	H1 05/06
Revenue	179.8	167.2
Contribution	21.3	21.5
SAC amortisation	(14.6)	(13.7)
Cash SAC deferred	(13.9)	(24.0)

- **ARPU stabilising with focus on higher quality channels**
- **Market pressures easing**
- **Base up 28.0% to 1.3m but with significant reduction in SAC investment**

Virgin Mobile France



- **Successful launch and good momentum over first six months**
- **Brand enjoying good recognition**
- **Distribution channels building volume steadily**
- **Encouraging trends on ARPU**
- **YTD start-up costs in line with plan at £4.6m**
- **Full update in April 2007 teach-in**



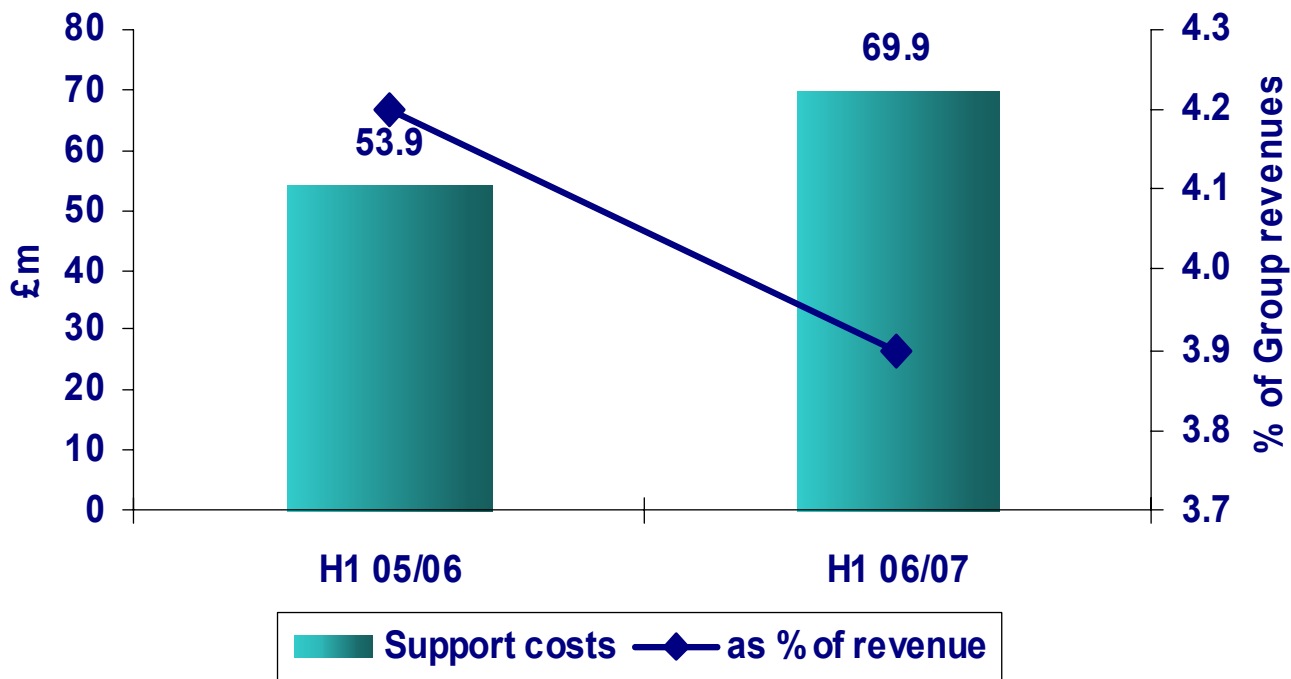
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Support costs



- Significant additional investment in management, infrastructure and IT
- Continuing to achieve operating leverage

Depreciation and amortisation



£m	H1 06/07	H1 05/06
Depreciation	28.9	23.4
Operational intangibles amortisation	27.5	20.2
SAC	18.5	15.7
Key money and Internal software	9.0	4.5
Total	56.4	43.5

- **Rises reflect continued investment across the Group**
- **£2.0m of depreciation and amortisation relates to broadband**

Cash flow (£m)

£m		H1 06/07		H1 05/06
	Pre-Broadband	Broadband	Total	Total
Operating cash flow net of interest and tax	45.6	(38.5)	7.1	21.9
SAC	(16.2)	(7.5)	(23.7)	(26.6)
Capex	(79.6)	(25.4)	(105.0)	(61.9)
Acquisitions	(14.9)	-	(14.9)	(4.0)
Dividends	(15.4)	-	(15.4)	(11.0)
Shares/FX	14.1	-	14.1	(5.9)
Net cash outflow	(66.4)	(71.4)	(137.8)	(87.5)
Opening net debt			(273.5)	(68.4)
Closing net debt			(411.4)	(155.9)

- **Strong underlying cash generation**
- **Capex in line with budget**

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Broadband capex



£m	H1 06/07
Exchange set-up	8.7
MSAN set-up	8.1
Backhaul	3.4
Core network	2.8
IT/other	2.4
SAC	7.5
Total	<hr/> 32.9 <hr/>

- **Broadband spend controlled and on plan**

Working capital

Talk



£m	H1 06/07	H1 05/06
Headline EBITDA	120.8	83.7
Working capital		
Stock	(32.0)	(47.2)
Debtors / creditors	(32.5)	(32.7)
	<hr/>	<hr/>
	(64.5)	(79.9)
Cashback / reorg / other provisions	(5.7)	23.4
	<hr/>	<hr/>
Net working capital	(70.2)	(56.5)
Other non-cash movements	2.1	2.0
Tax and interest	(7.1)	(7.3)
	<hr/>	<hr/>
Net operating cash flow pre-broadband	45.6	21.9
	<hr/>	<hr/>

- Stock days reduced from 48 to 44
- Debtors/creditors neutral year-on-year with Telecoms compensating for Distribution growth

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Highlights of H1



- A period of strong headline earnings growth
- Continuing to develop established, cash generative businesses by ongoing reinvestment
- Controlled approach to broadband investment with good visibility of future profitability
- Other growth avenues initiated with Virgin and Best Buy
- Dividend rise underlines confidence in the future

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Outlook

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Other exclusives



Xmas 2005

N/A

N/A

£129.99

£89.99

N/A

Xmas 2006

£119.95

£199.95

£59.95

£39.95

£139.95

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Mowbill's coolest Pay monthly deals



SAMSUNG DP00 RED

Free phone

- 3 megapixel camera with autofocus
- Expandable memory
- World's slimmest slider phone

new & only at
T-Mobile



our best value text offer ever

Free phone + up to 900 minutes or 1800 texts
only £35 per month*

T-Mobile

*Based on the phone's full RRP of £149.99. Offer is available while stocks last. See our website for full terms and conditions.

m 52% of people who own mobile phones have pay monthly contracts - Source Mobile Life 2006

We believe we should offer you the lowest possible pay monthly prices so we've added some incredible offers to this month's most popular phones.

MOTOROLA MOTOKRZR K1

- 3 megapixel camera
- Expandable memory
- MP3 player

save
£140



Free phone + 600 minutes and 500 texts + 8 months half price line rental
only £35 per month*

O2

*Based on the phone's full RRP of £149.99. Offer is available while stocks last. See our website for full terms and conditions.

NOKIA CASH REDTON 6111/6230

Cash Kidston
the + LIMITED EDITION
this winter

Pre-order now

Demand for this limited edition Cash Kidston Nokias 6230 and 6111 is expected to be very high. Pre-order starts by logging on to www.carphonewarehouse.com/cashkidston and be guaranteed to be among the first people in the UK to receive the most exclusive fashion accessory of the year.

Free phone

up to 900 minutes or 1800 texts
only £35 per month*

T-Mobile

new & only at
Carphone Warehouse

- 1 megapixel camera
- MP3 player and Bluetooth
- Compact slider with FM radio

- 1.3 megapixel camera
- MP3 player and FM radio
- Bluetooth

our best value text offer ever

NOKIA

LG PINK CHOCOLATE

Free phone

- 1.3 megapixel camera
- Bluetooth
- Touch sensitive control

our best value text offer ever

only at
Carphone Warehouse



WHAT MOBILE
Gives you the best value

Free phone

+ up to 900 minutes or 1800 texts
only £35 per month*

T-Mobile

*Based on the phone's full RRP of £149.99. Offer is available while stocks last. See our website for full terms and conditions.

SONY ERICSSON K800i

Free phone

- 3.2 megapixel CyberShot™ digital camera with built-in flash and autofocus
- 3G technology
- MP3 player with expandable memory

£55
guaranteed cash**

WHAT MOBILE
Gives you the best value

Free phone + 600 minutes and 100 texts + **£55 guaranteed cash
only £35 per month*

O2

**Based on the phone's full RRP of £149.99. Offer is available while stocks last. See our website for full terms and conditions.



SONY ERICSSON W850i

Free phone

- 2 megapixel camera
- 3G technology
- Walkman™ MP3 player

free Walkman Bluetooth stereo headset**

Free phone + 600 minutes and 100 texts + free Bluetooth stereo headset
only £35 per month*

O2

*Based on the phone's full RRP of £149.99. Offer is available while stocks last. See our website for full terms and conditions.



Mobli's coolest
Pay as you go deals



MOTOROLA C261

£29.95

\$10 additional top-up required*

- Integrated camera
- Colour screen
- Built-in games

new



C261

vodafone **take5**

*The top-up will be deducted from all of that card's balance. See our website for more details.

m
 mobile life

14% of people have two or more mobile phones that they use regularly - Source Mobile Life 2006.

Make someone feel special with the ultimate Christmas present; this season's hottest phone. In fact, with such great deals on offer, you'll be tempted to keep one for yourself!

MOTOROLA L6

£39.95

was ~~£44.95~~

save ~~£5~~

\$10 top-up required*

- Integrated camera
- Bluetooth
- Ultra slim design

new & only at Carphone Warehouse



orange

*The top-up will be deducted from all of that card's balance. See our website for more details.

£59.95

was ~~£64.95~~

save ~~£5~~

\$10 top-up required*

- 3m flip design
- Integrated camera
- Bluetooth

new & only at Carphone Warehouse

orange

take5

MOTOROLA V3 ULAC

**£109.95**

\$10 top-up required*

includes £30 airtime on Virgin Mobile*

- 1 megapixel camera
- MP3 player and Bluetooth
- Compact slider design with FM radio

new & only at Carphone Warehouse

Virgin mobile

NOKIA CATH KIDSTON 6111



Cath Kidston

NOKIA

£99.95

\$10 top-up required*

includes £30 airtime on Virgin Mobile*

- 1.3 megapixel camera
- MP3 player & FM radio
- Bluetooth

new & only at Carphone Warehouse

Virgin mobile

NOKIA CATH KIDSTON 6230I



Cath Kidston

NOKIA

Pre-order now

Demand for limited edition Cath Kidston® Nokia 6230I and 6111 is expected to be very high. Pre-order yours by logging on to www.carphonewarehouse.com/cathkidston and be guaranteed to be among the first people in the UK to receive the most exclusive fashion accessory of the year.

*The top-up will be deducted from all of that card's balance. See our website for more details.

LG CHOCOLATE

£139.95

\$10 top-up required*
 includes £30 airtime on Virgin Mobile*

- 1.5 megapixel camera
- Bluetooth
- Touch sensitive controls

only at Carphone Warehouse



Virgin mobile

*The top-up will be deducted from all of that card's balance. See our website for more details.

£119.95

was ~~£129.95~~

save ~~£10~~

\$10 top-up required*

- 2 megapixel camera
- MP3 player
- Bluetooth and Expandable memory

only at Carphone Warehouse



SAMSUNG D600 RED

T-Mobile

Broadband



- Focus on controlled migration to unbundled lines
- Integrate AOL acquisition
- Continue LLU exchange roll-out
- Renewed marketing push after Christmas
- Underlying economics remain very encouraging

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Summary outlook



- **Shorter term**
 - **Tough comps at Christmas but we have a great line-up**
 - **Reduced independent capacity with exit of The Link**
 - **Plans in place to mitigate impact of Vodafone decision**
 - **LLU line migration to accelerate subject to quality**
- **Longer term**
 - **Retail business model remains robust**
 - **Investment cycle peaking with strong cash generation ahead**
 - **Broadband to be a major contributor to Group profitability**



Appendix

Distribution



£m	H1 06/07	H1 05/06	% change
Revenue	954.1	752.0	26.9%
Retail	857.5	669.0	28.2%
Insurance	64.3	56.4	14.1%
Ongoing	32.3	26.6	21.7%
Contribution	115.4	94.7	21.9%
Retail	57.3	46.6	22.9%
Insurance	25.8	21.5	19.7%
Ongoing	32.3	26.6	21.7%
EBITDA	70.0	55.4	26.3%
EBIT	45.3	34.8	30.2%
EBIT %	4.7%	4.6%	

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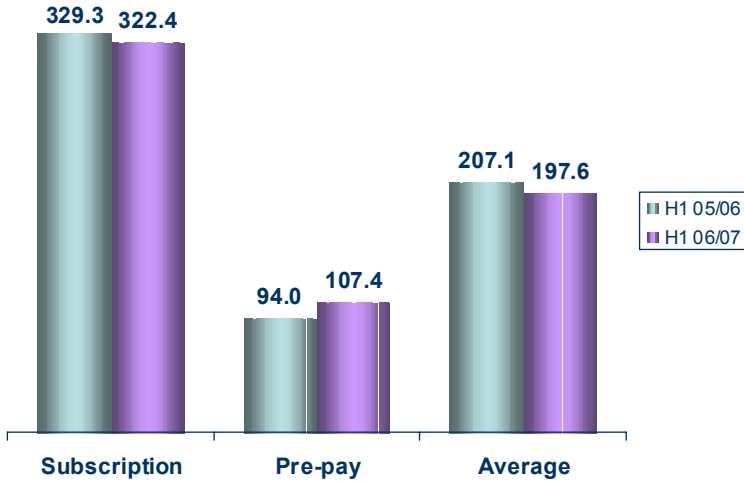
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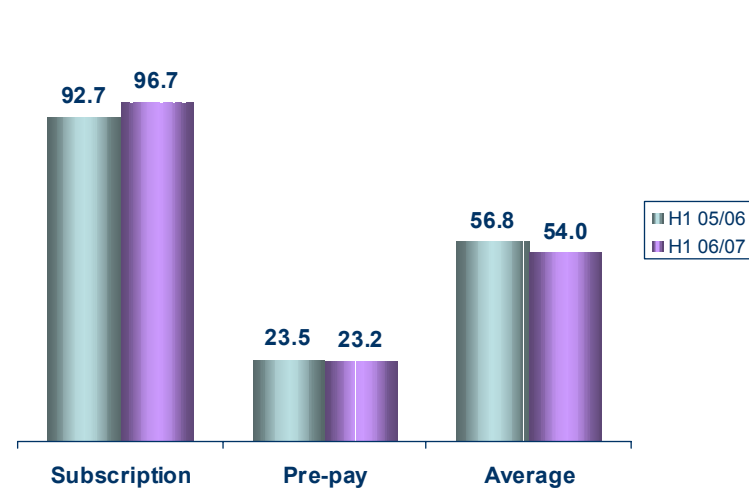
Revenue & gross profit per connection



Average Revenue per Connection



Average Gross Profit per Connection



- NB now includes Online

Telecoms Services



£m	H1 06/07	H1 05/06	% Change
Revenue	769.9	475.6	61.9%
Fixed	523.4	256.4	104.2%
Mobile	246.5	219.2	12.4%
Contribution	37.2	42.1	(11.6)%
Fixed	12.0	19.0	(36.6)%
Mobile	25.2	23.1	9.0%
EBITDA	13.4	28.4	(52.5)%
EBIT	(22.5)	5.9	-
EBIT %	-	1.2%	-

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Fixed Line Business



£m	H1 06/07	H1 05/06	% Change
Revenue	170.9	126.0	35.6%
Opal	153.1	111.2	37.7%
Xtra	17.8	14.8	19.7%
Contribution	14.8	11.5	28.0%
Opal	14.3	11.2	27.7%
Xtra	0.5	0.3	39.3%
Contribution %	8.6%	9.1%	

Fixed Line Residential



£m	H1 06/07	H1 05/06
Customers (000s)	3,029	1,308
UK (inc Broadband)	2,657	1,059
non-UK	372	249
Revenue	352.6	130.3
UK Voice	268.1	99.1
UK Free Broadband	47.9	-
non-UK	36.6	31.2
Contribution	(2.7)	7.5
UK	33.2	4.1
UK Free Broadband	(37.7)	-
non-UK	1.7	3.4

The Phone House

...for a better mobile life

THE Carphone Warehouse

...for a better mobile life

Telecoms Services - Mobile



£m	H1 06/07	H1 05/06	% Change
Revenue	246.5	219.2	12.4%
TPHT	179.8	167.2	7.5%
MVNO	27.7	13.3	108.8%
FM	39.0	38.7	0.6%
Contribution	25.2	23.1	9.0%
TPHT	21.3	21.5	(0.6)%
MVNO	(0.3)	(1.8)	-
FM	4.2	3.4	22.0%
Contribution %	10.2%	10.5%	

Store Portfolio



	March 2006	Opened	Closed / Sold	September 2006
UK	669	36	9	696
Spain	338	46	3	381
France	220	13	1	232
Netherlands	152	12	-	164
Germany	104	26	1	129
Sweden	77	4	1	80
Portugal	70	10	3	77
Belgium	58	6	2	62
Ireland	45	4	-	49
Switzerland	45	9	3	51
Total	1,778	166	23	1,921

Warehouse

Connections by country (000's)



	H1 06/07	H1 05/06	% Change
UK	2,319	1,604	44.6%
Spain	634	491	29.1%
France	379	329	15.2%
Netherlands	141	137	2.6%
Sweden	175	129	36.1%
Ireland	197	131	50.8%
Portugal	140	113	23.0%
Belgium	170	140	21.3%
Germany	118	84	40.7%
Switzerland	66	71	(7.0%)
Total	4340	3,230	34.4%

Services by country

