

The Carphone Warehouse Group PLC

Preliminary Results Presentation 2005

June 2005

THE Carphone Warehouse

...for a better mobile life



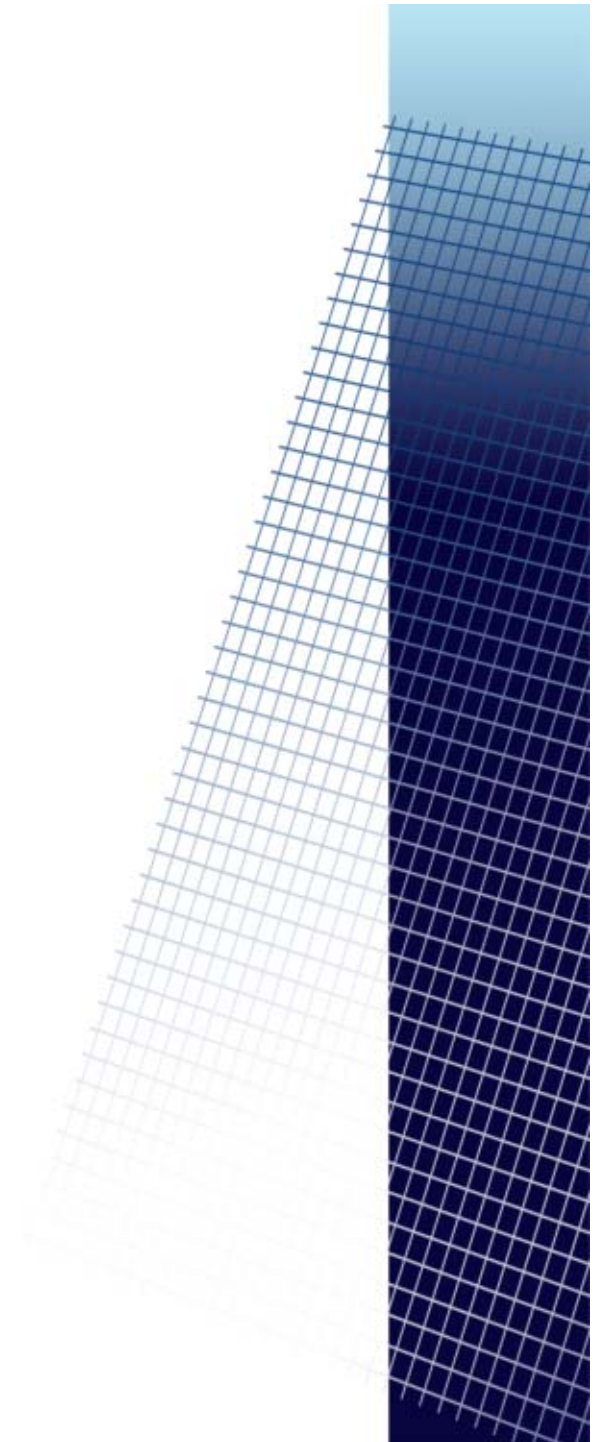
Track record and recent achievements

Charles Dunstone

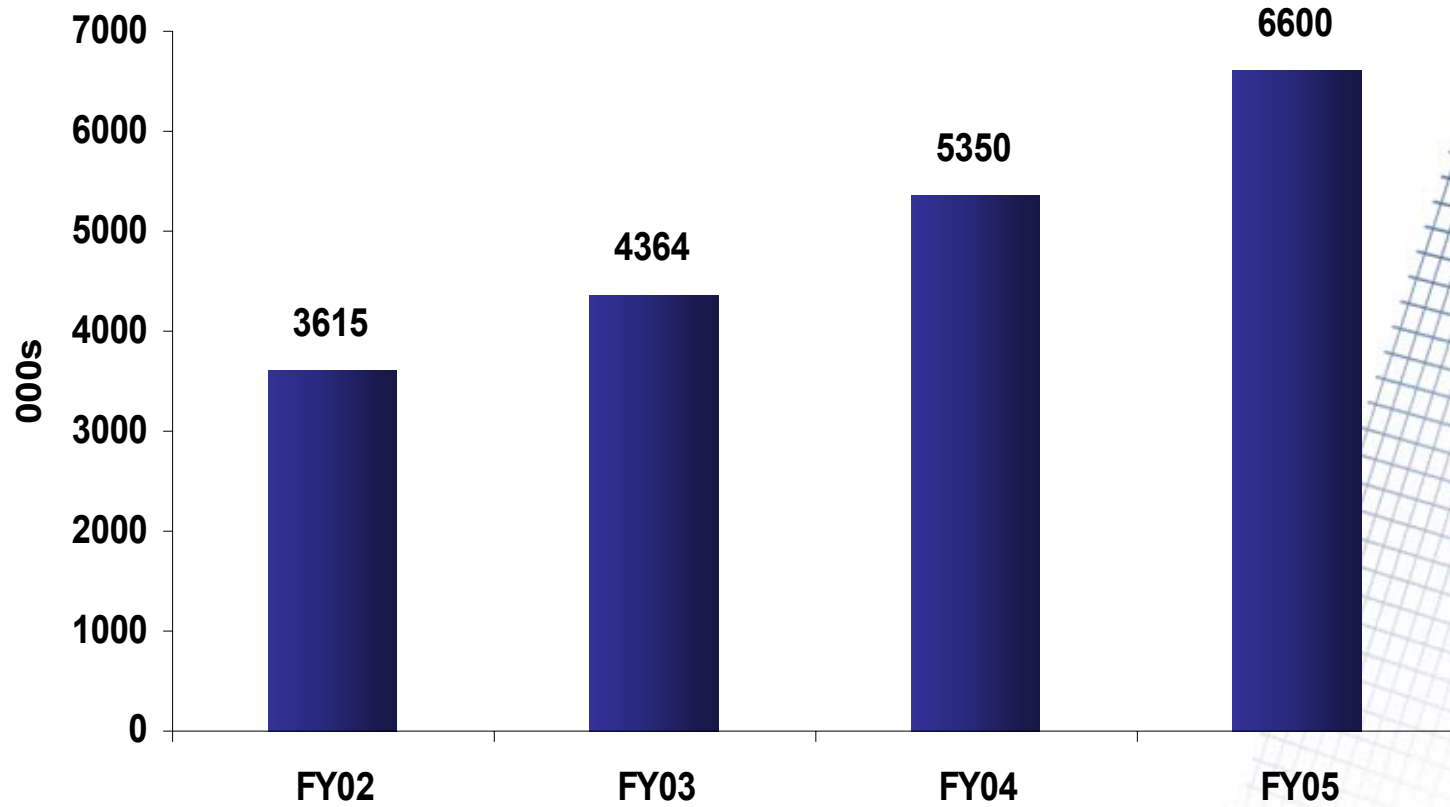
CEO

THE Carphone Warehouse

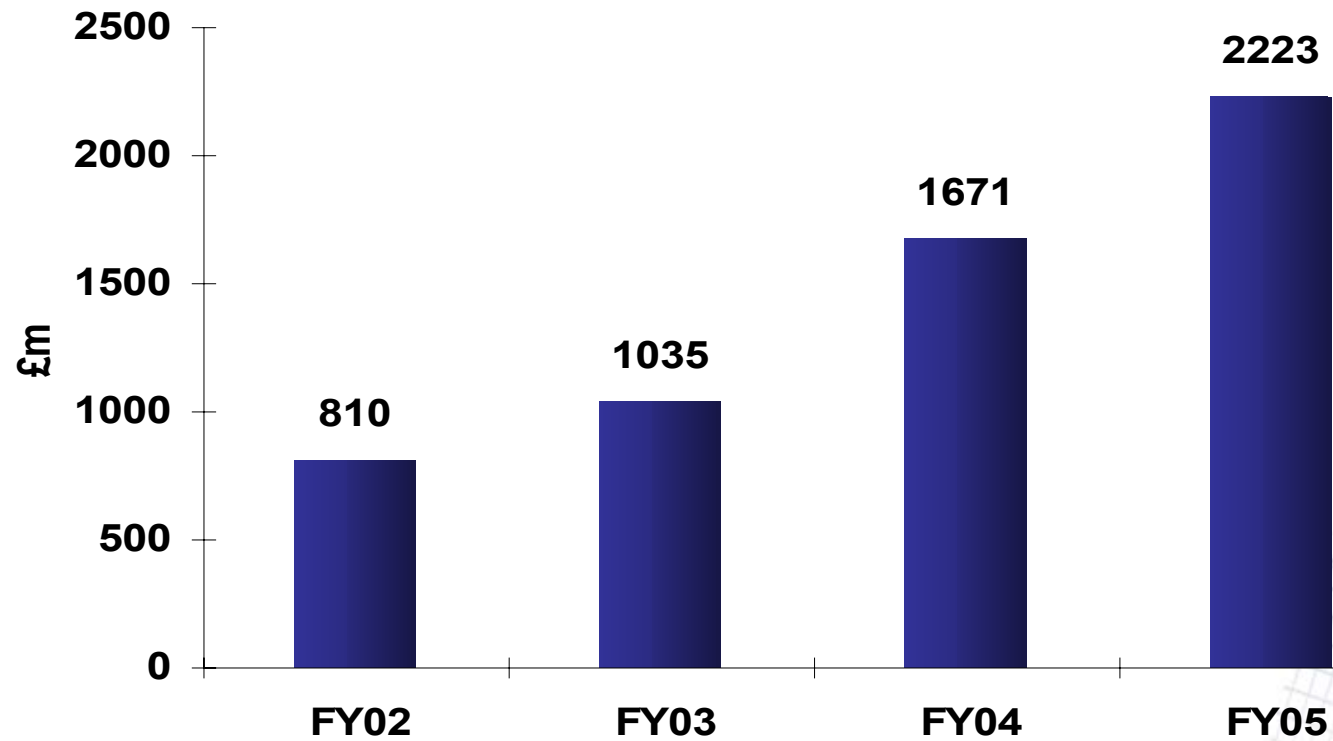
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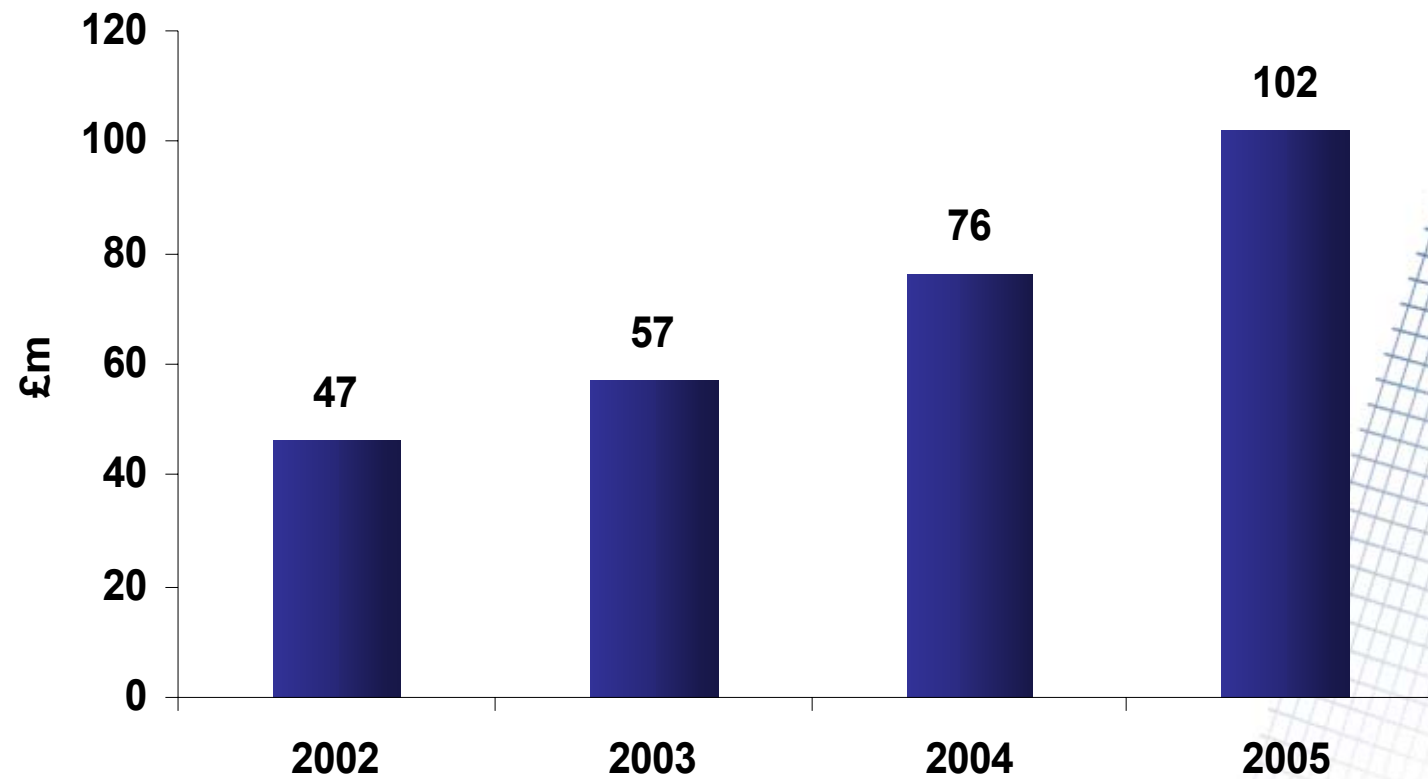
Compound connections growth of 22.2%



Compound sales growth (ex-Wholesale) of 40.0%



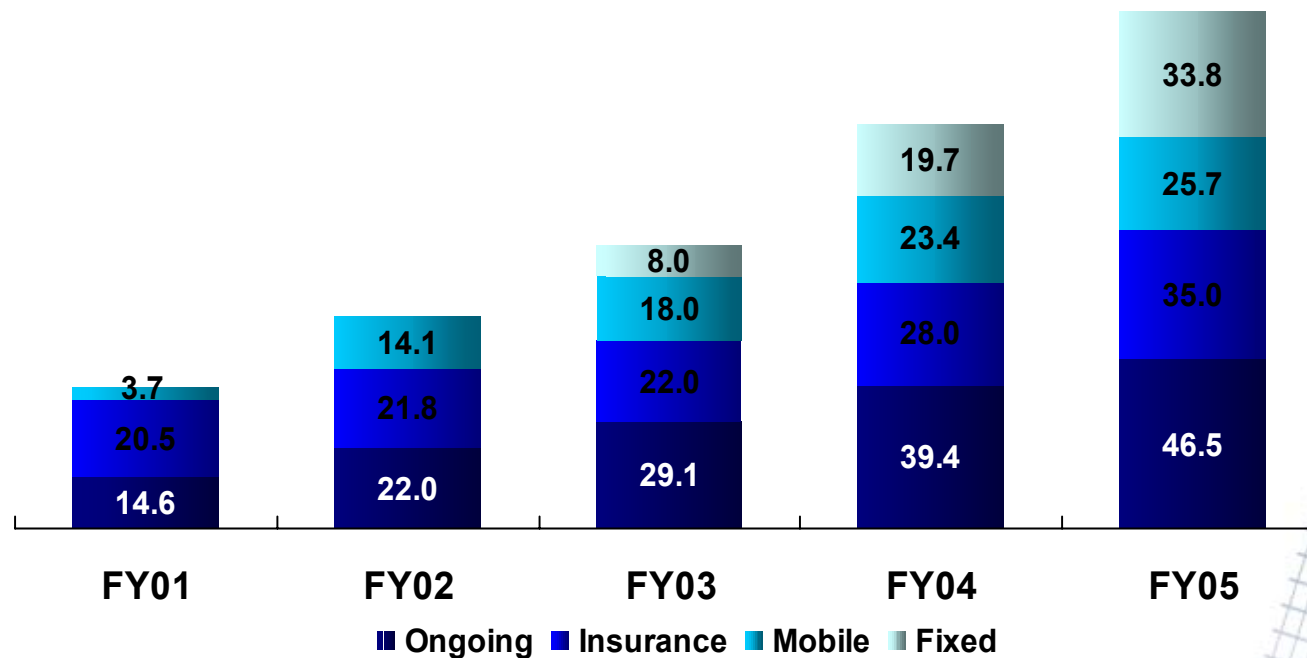
Compound pre-tax profits growth of 29.7%



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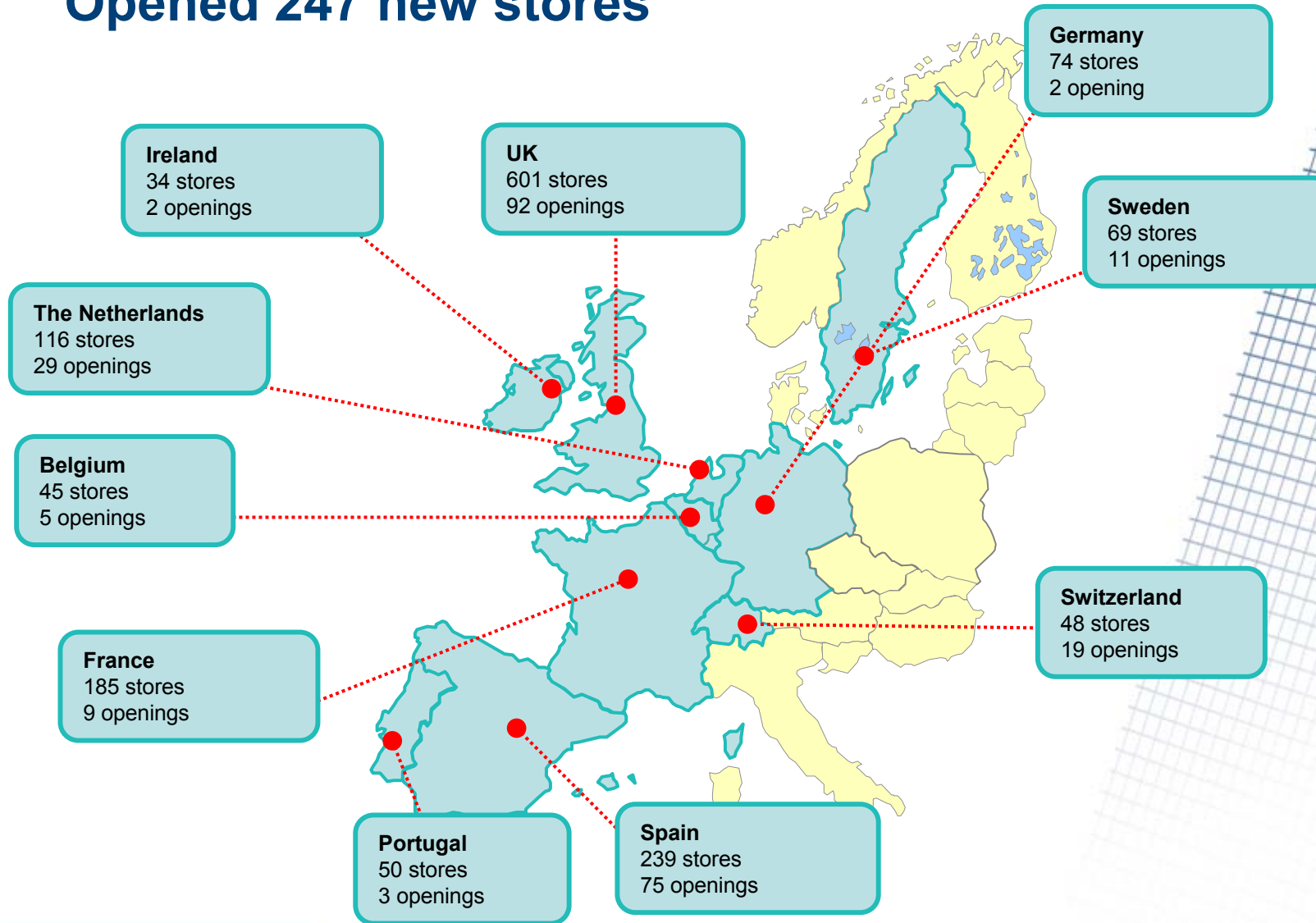
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Contribution from recurring revenues (£m)



- Contribution from recurring revenues up 27.6%
- Recurring revenues now account for 56% of Group contribution (2004: 55%)

Opened 247 new stores



Other achievements

- **Launched TalkTalk in four more countries**
- **Recruited 535,000 net new customers to TalkTalk UK**
- **Launched broadband in UK – over 50,000 customers**
- **Launched two new niche MVNOs – Breizh Mobile and Mobile World**
- **Raised dividend by 38.5% to 1.8p**
- **Current trading – connections up 20% year to date**

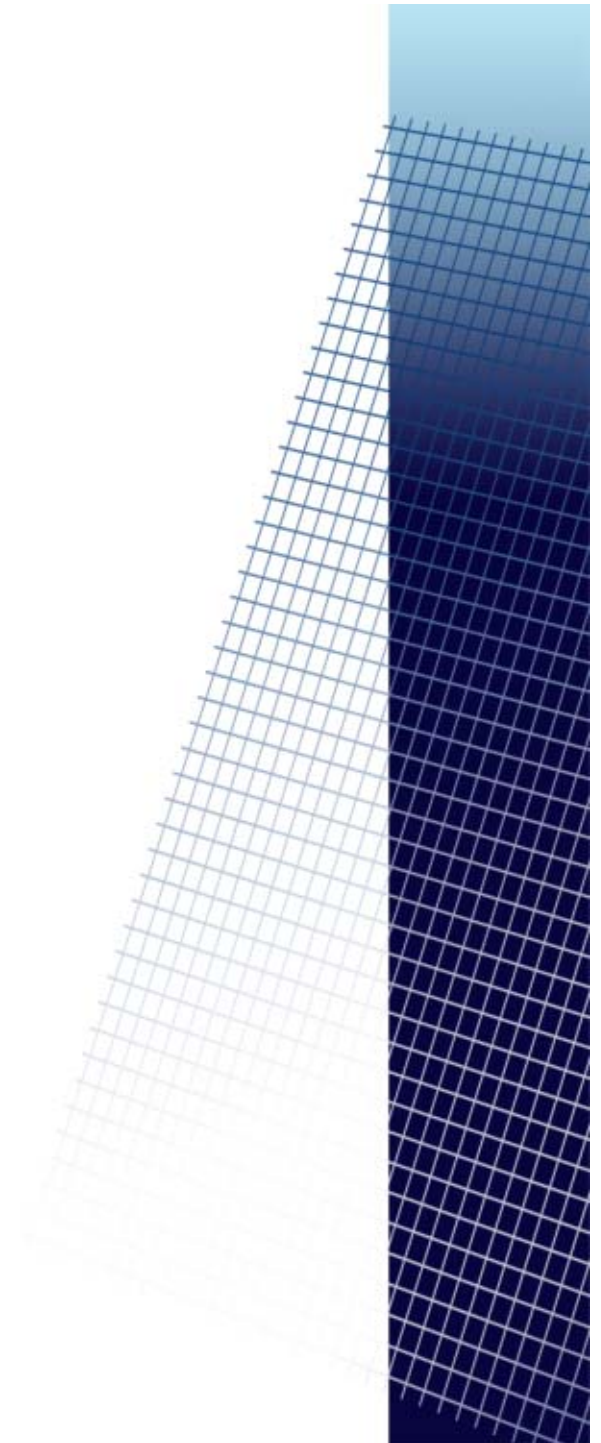
Financial performance

Roger Taylor

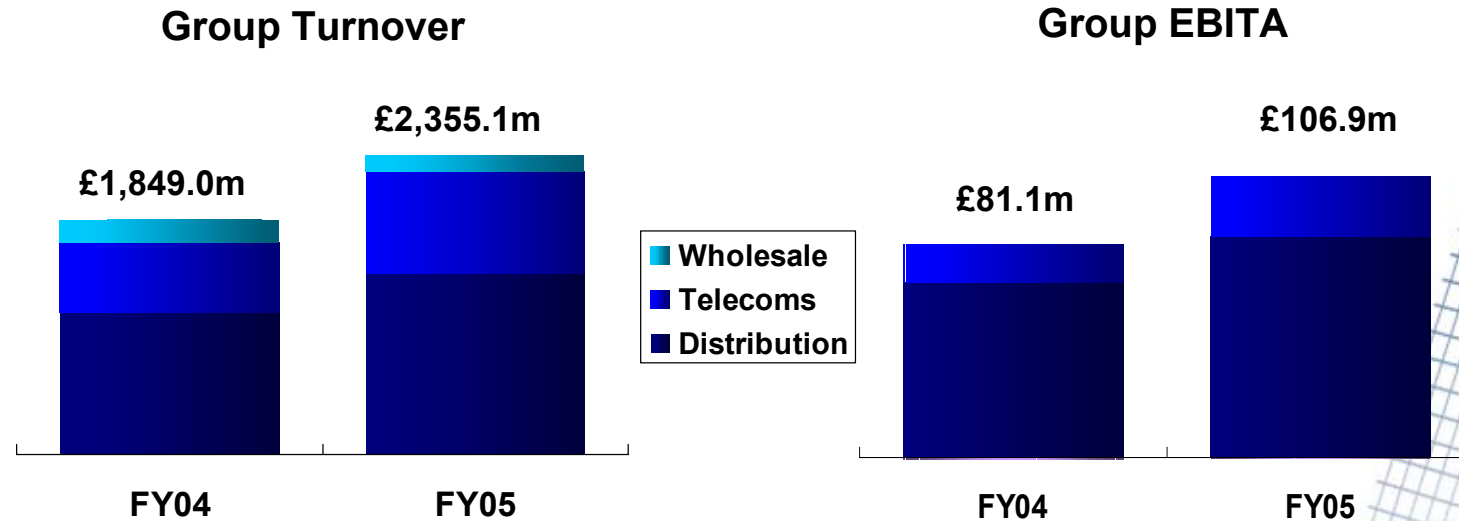
CFO

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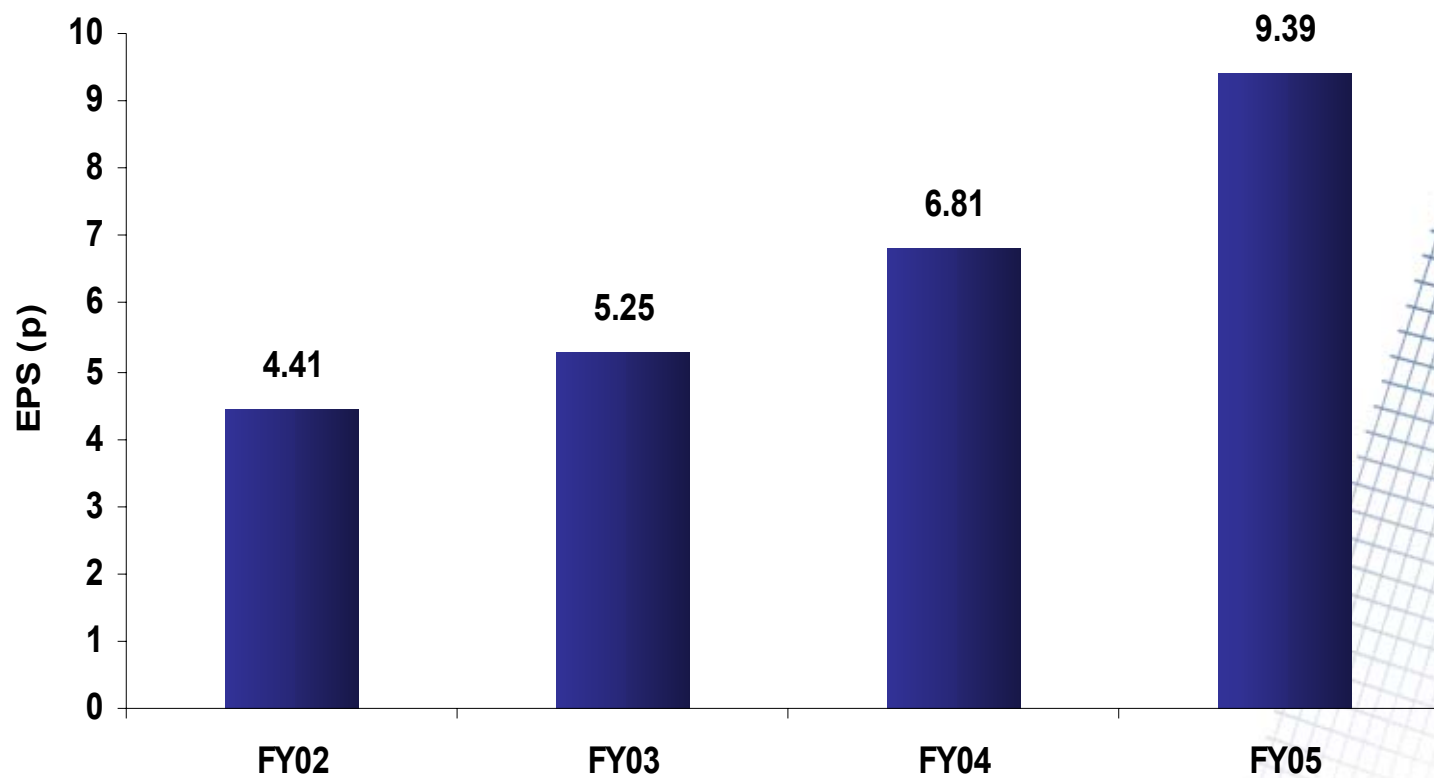


Summary performance (£m)

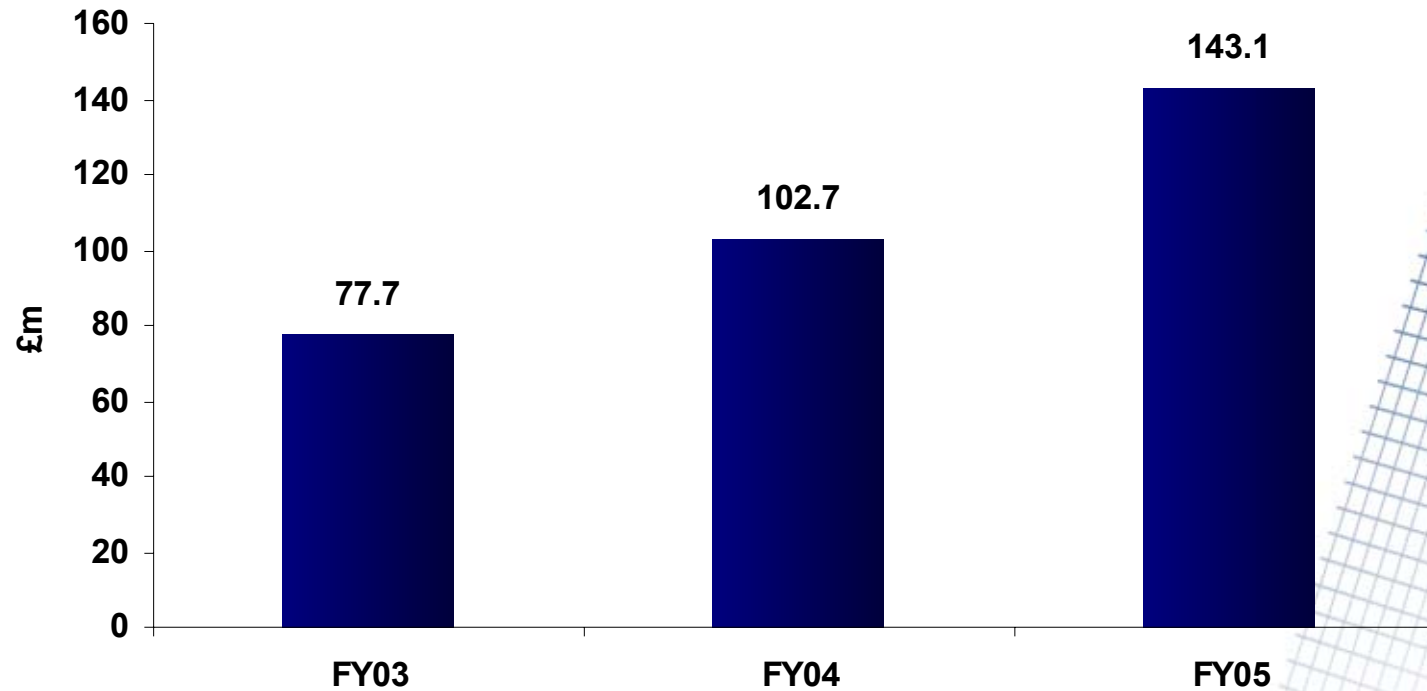


- Revenue growth driven by like-for-like, new stores and customer base growth
- Strong EBITA growth despite significant investment
- Telecoms becoming a greater part of the mix

Compound EPS growth of 28.6%

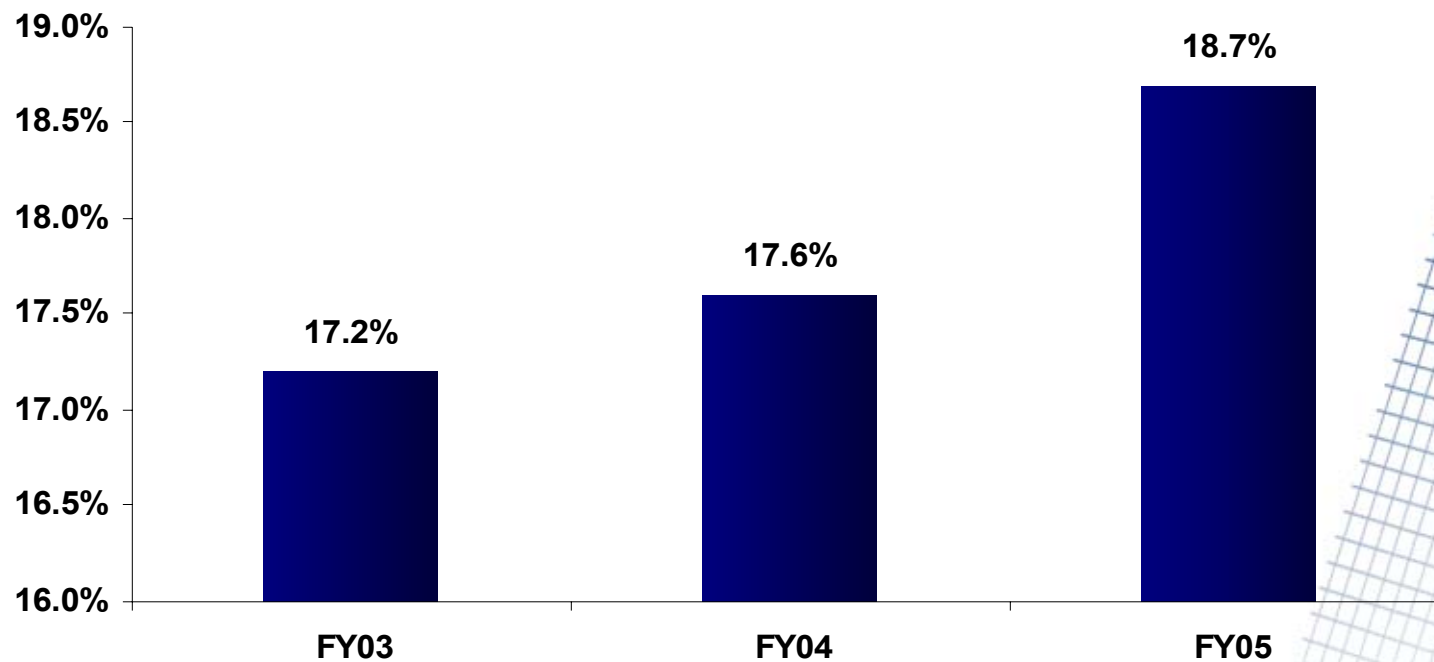


Operating cash flow



- CAGR of 35.7%
- Acquisitions and capex largely funded from cash flow
- Working capital absorption of £12m over the year

ROCE



- Significant improvement year-on-year
- Still targeting 20%
- Detailed calculations in appendix

Distribution

£m	FY05	FY04	% Change
Turnover	1,436.9	1,128.9	27.3%
Contribution	190.6	154.9	23.0%
Contribution %	13.3%	13.7%	
Support Costs	(70.6)	(57.4)	23.1%
EBITDA	120.0	97.5	23.0%
Depreciation	(35.0)	(30.6)	14.2%
EBITA	85.0	66.9	27.1%
EBITA %	5.9%	5.9%	

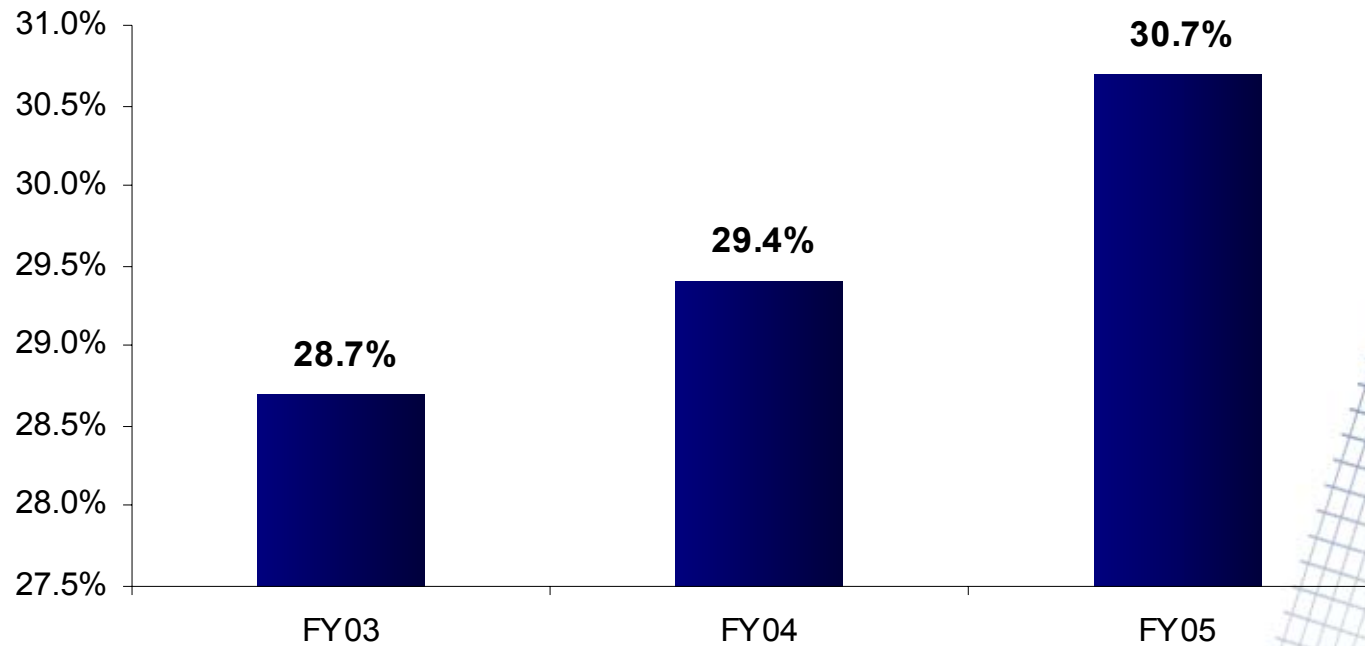
- **EBIT margin maintained despite major space expansion programme and investment in support functions and new business initiatives**

Retail

£m	FY05	FY04	% Change	LFL %
Turnover	1,160.2	946.4	22.6%	8.8%
Gross Profit	330.2	282.3	16.9%	5.0%
Gross Margin %	28.5%	29.8%		
Direct Costs	(228.8)	(199.3)	14.7%	
Contribution	101.4	83.0	22.2%	
Contribution %	8.7%	8.8%		

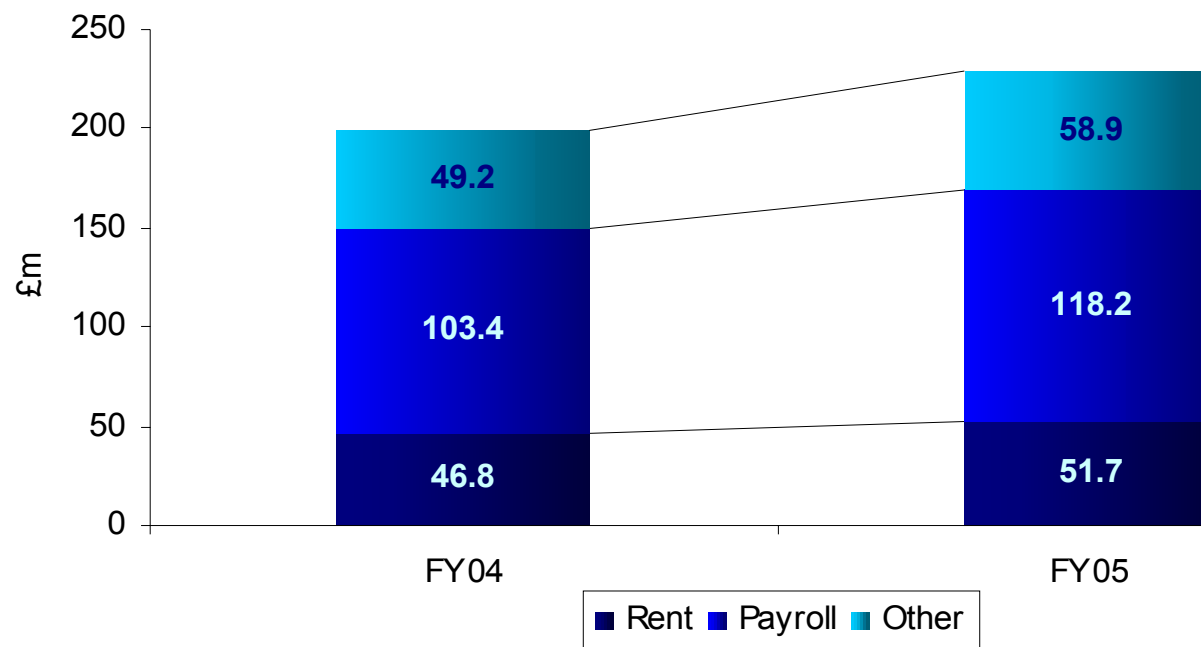
- Strong like-for-like performance on tough comps
- Significant increase in space
- % margin decline due to average revenue per connection increase

Retail contribution/GM ratio



- Improvement driven by LFL growth
- In-store productivity improvements

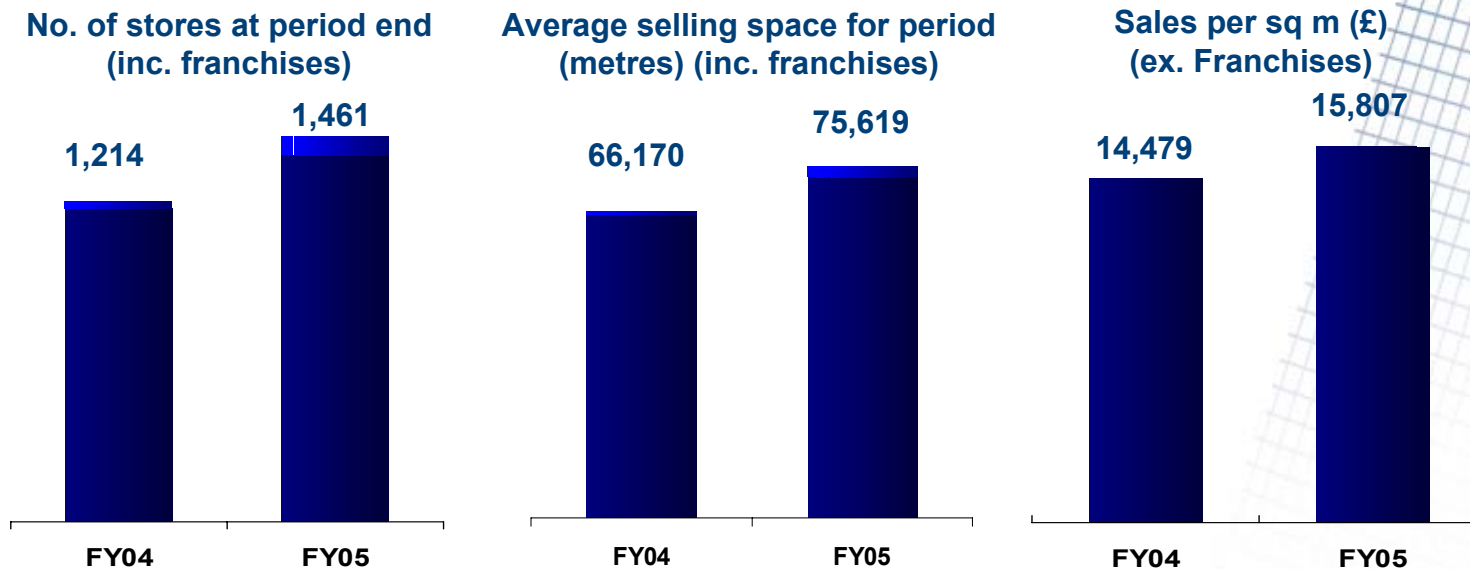
Retail direct costs



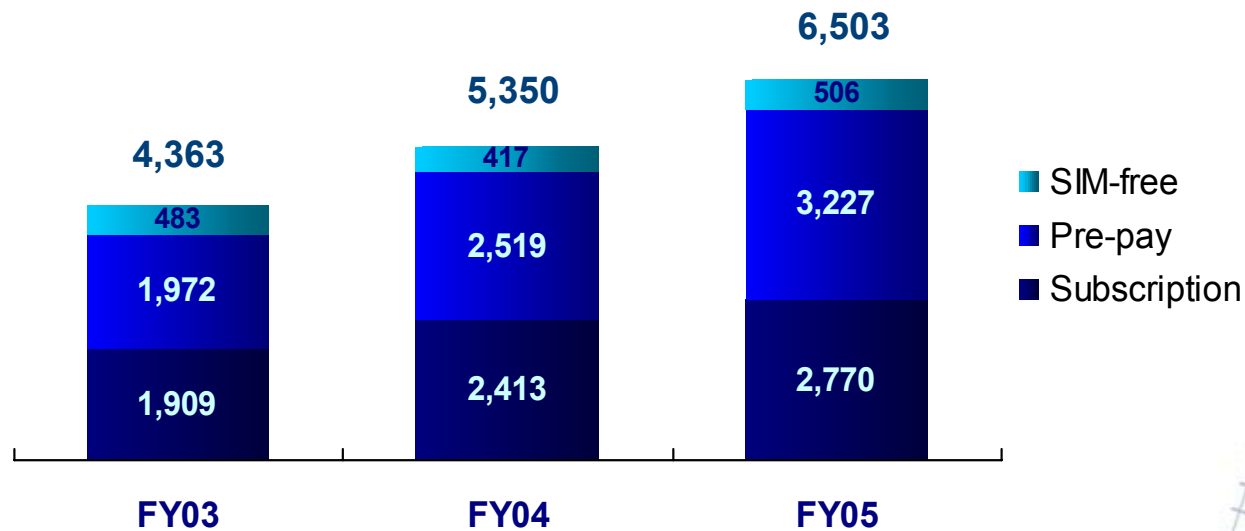
- Retail direct costs were up 14.7%
- Rental cost growth was 10.5%
- Payroll and other costs driven by commission and pre-opening costs

Retail platform

- 247 net new stores opened
 - 250 further new stores planned for FY05
- Figures include 70 franchise stores (March 2004: 26)
- Sales per square metre (ex-franchise) increased by 9.2%

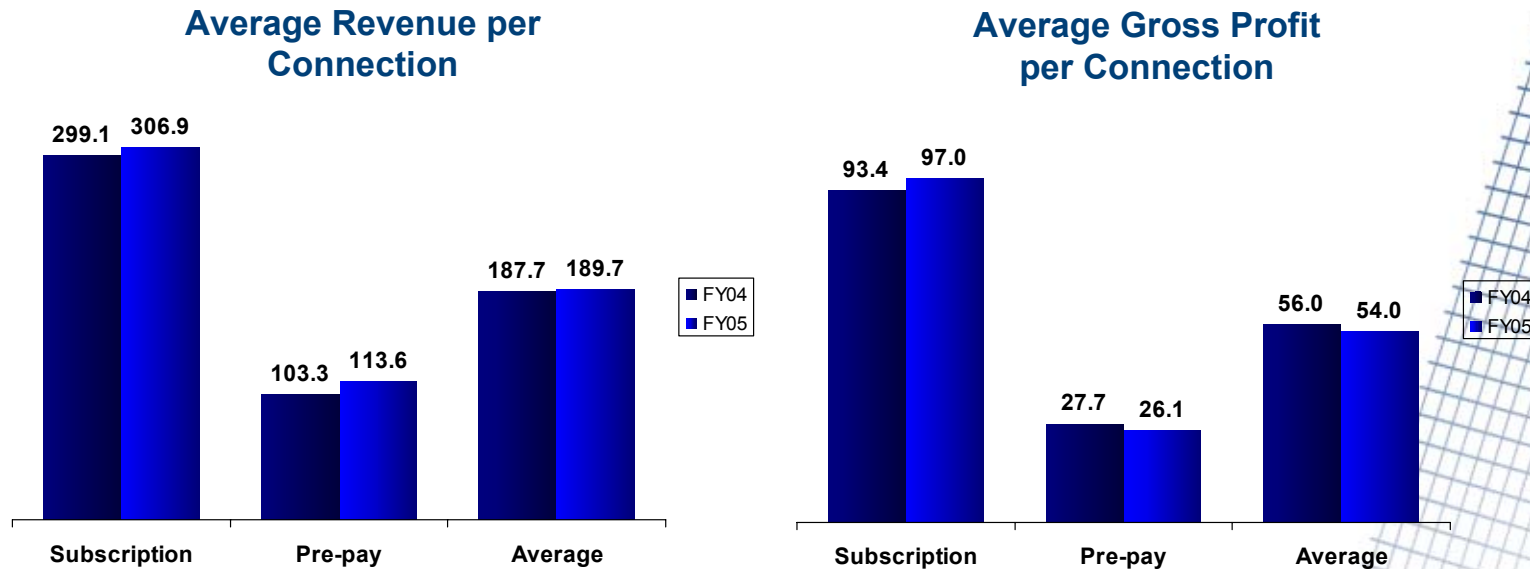


Group connections (52 weeks) (000's)



- Total connections up 21.6%
- Subscriptions up 14.8%
- 5 year CAGR 20.3%

Revenue & gross profit per connection



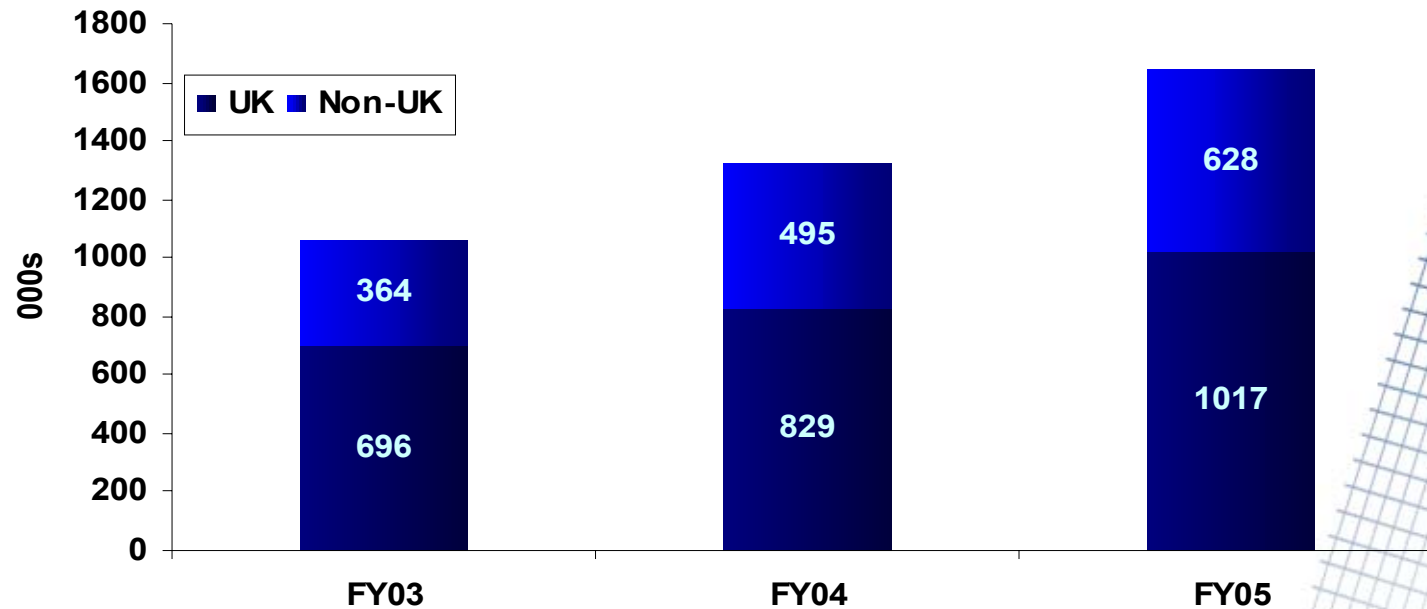
- ARPC rose due to higher value of products sold
- Recovery in pre-pay GPPC in second half
- Robust outlook

Online

£m	FY05	FY04	% Change
Connections (000s)	473	307	53.7%
Turnover	128.2	64.5	98.9%
Contribution	7.7	4.5	68.0%
Contribution %	6.0%	7.1%	

- Strong performance driven by off-the-page activity
- Continued investment in all direct channels
- Still addressing non-UK opportunity

Insurance base

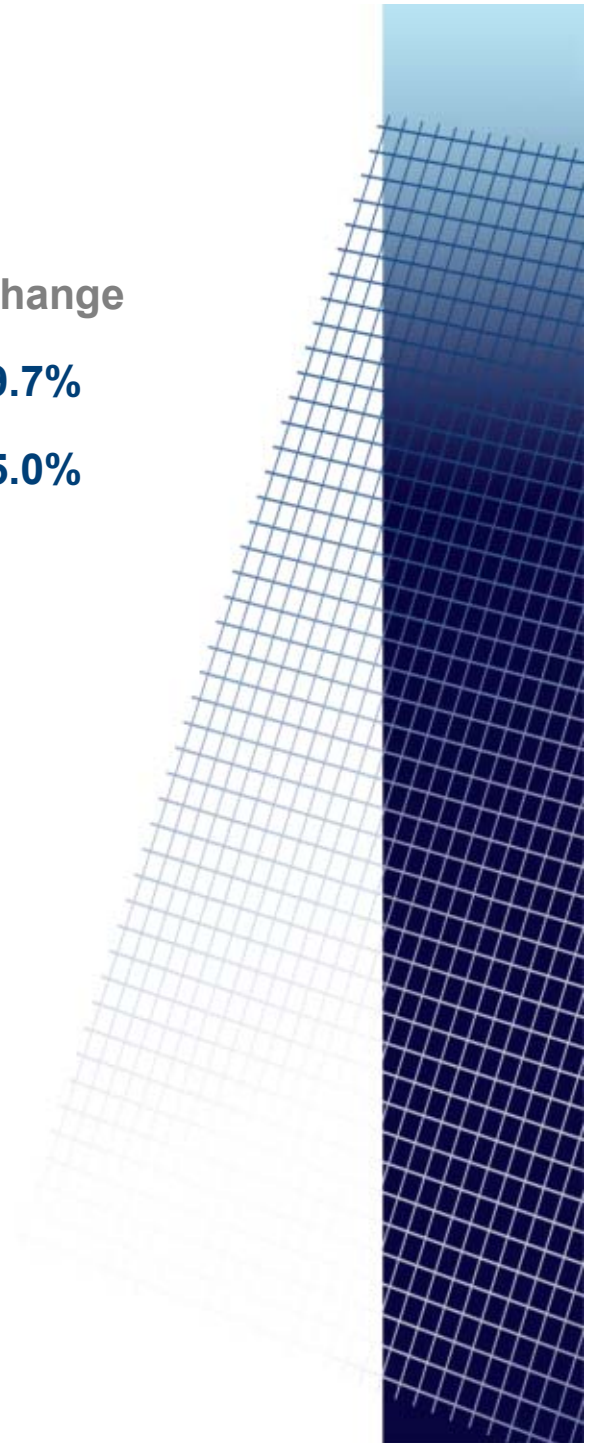


- Total base up 24.3% to 1.65m
- Non-UK mix has grown from 34% to 38% over two years

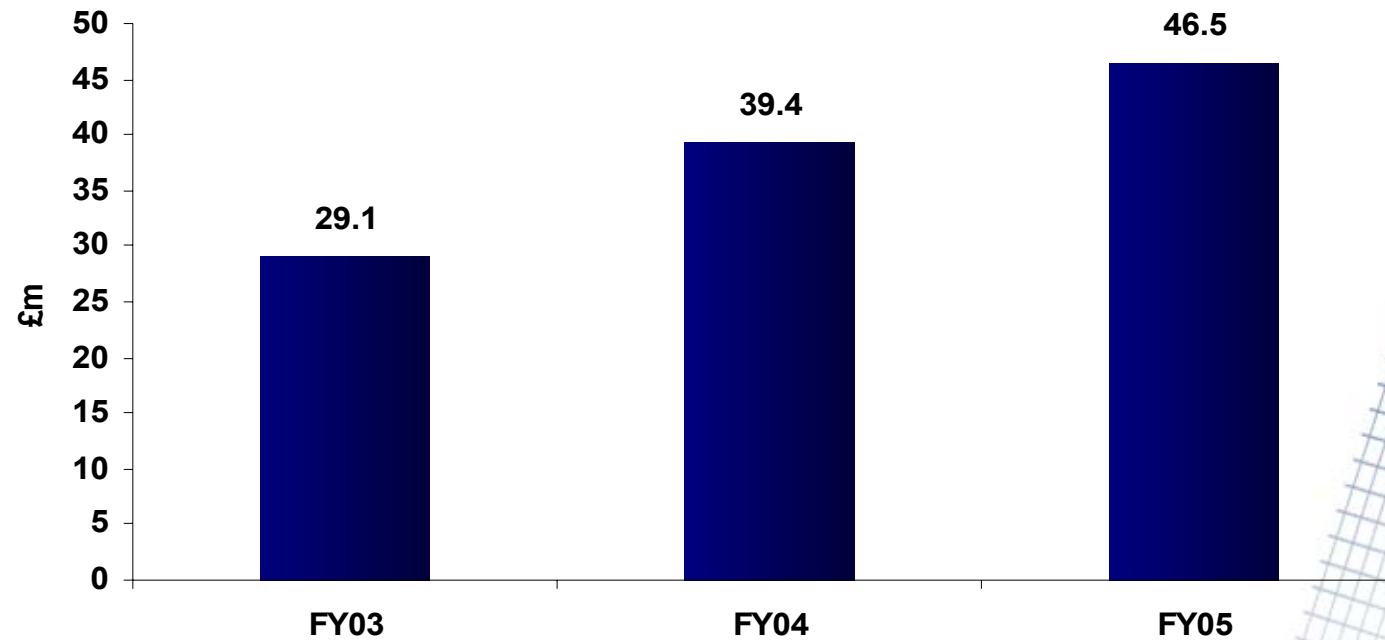
Insurance

£m	FY05	FY04	% Change
Turnover	102.0	78.6	29.7%
Contribution	35.0	28.0	25.0%
Contribution %	34.3%	35.6%	

- **Penetration up due to higher value of handsets/subsidies**
- **Claims rates falling but costs per claim rising**
- **Third party business mildly dilutive to margin**



Ongoing



- Strong performance driven by subscriptions growth
- Further strong growth expected this year

Telecoms Services

£m	FY05	FY04	% Change
Turnover	804.0	554.5	45.0%
Contribution	59.4	43.2	37.7%
Support Costs	(24.7)	(18.1)	37.2%
EBITDA	34.7	25.1	38.1%
Depreciation	(12.2)	(10.1)	20.5%
EBITA	22.5	15.0	50.0%
EBITA %	2.8%	2.7%	

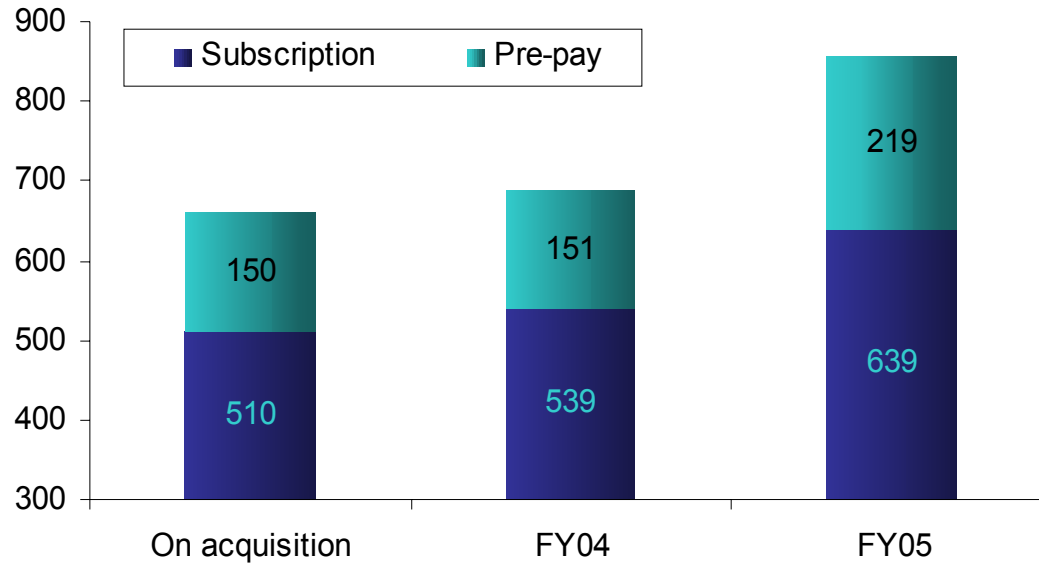
- Revenue growth driven by TalkTalk and TPHT
- Strong progression in EBITA despite continued investment in customer recruitment and new business lines

Telecoms Services - Mobile

£m	FY05	FY04	% Change
Turnover	377.7	305.9	23.5%
TPHT	298.3	211.1	41.3%
Other	79.4	94.8	(16.2%)
Contribution	25.7	23.5	9.3%
TPHT	16.4	10.7	52.8%
Other	9.3	12.8	(27.3%)
Contribution %	6.8%	7.7%	

- **Strong performance from The Phone House Telecom**
- **Investment in MVNO businesses holding back profits elsewhere**
- **Good growth prospects across the business**

Telecom Services – The Phone House Telecom



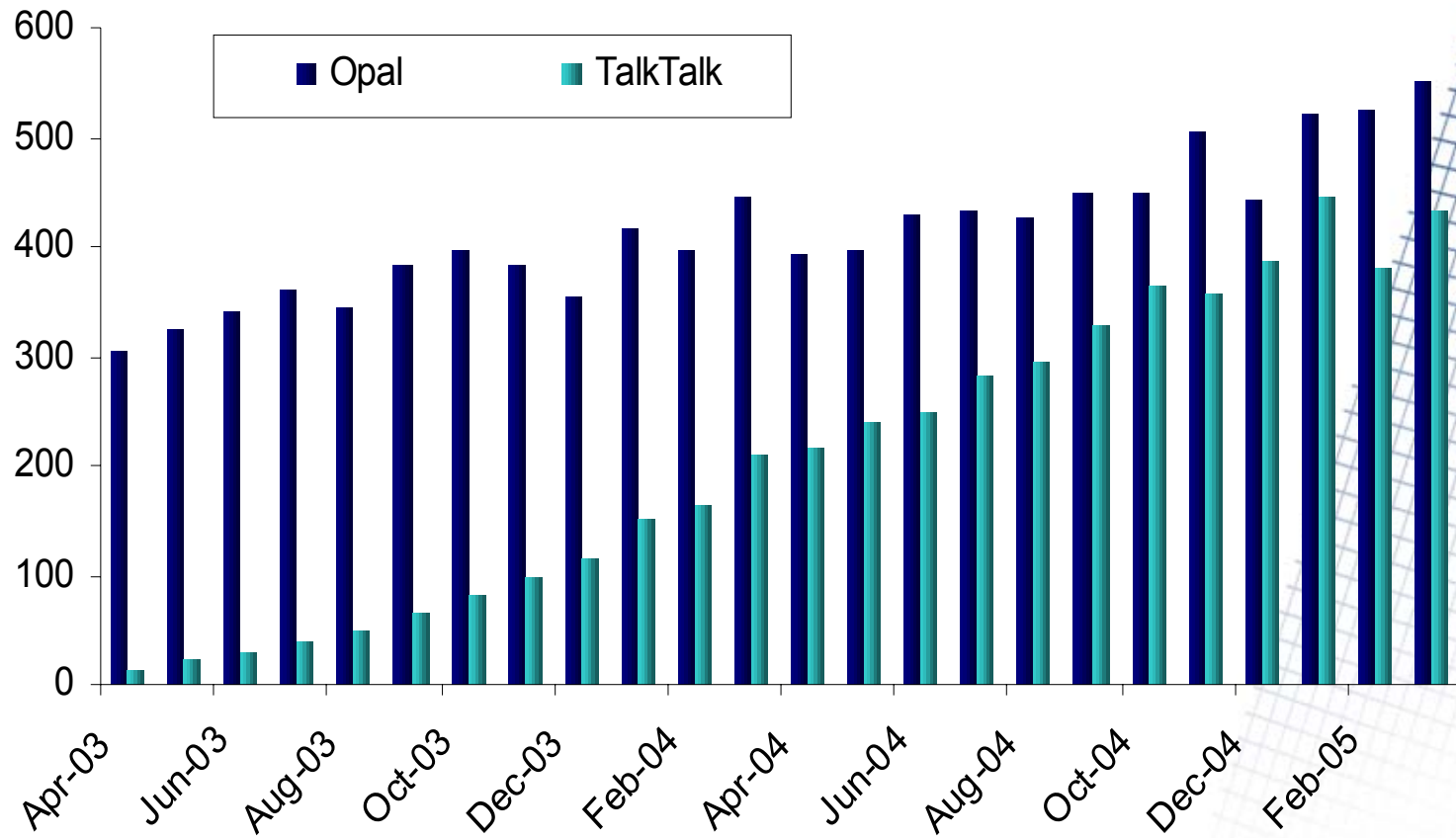
- Further strong base growth anticipated
- SAC increasing marginally
- Significant customer lifetime value

Telecoms Services – Fixed: Business

£m	FY05	FY04	% Change
Turnover	267.3	218.4	22.4%
Contribution	31.5	30.6	2.9%
Contribution %	11.8%	14.0%	

- **Profits flat after a very strong FY04**
 - Acquisition strategy progressing well
 - Margin impacted by competition in reseller segment and changes to mobile termination charges
- Contribution impacted by investment in network due to overall volume of minutes

Opal traffic growth



TalkTalk UK



£m	FY05	FY04
Turnover	123.6	30.2
Voice contribution	1.9	(11.0)
Broadband losses	(1.4)	-
Contribution	0.5	(11.0)

- **535k net customers added**
- **Strong and sustainable operating margin**
- **Continued investment in recruitment and broadband this year**

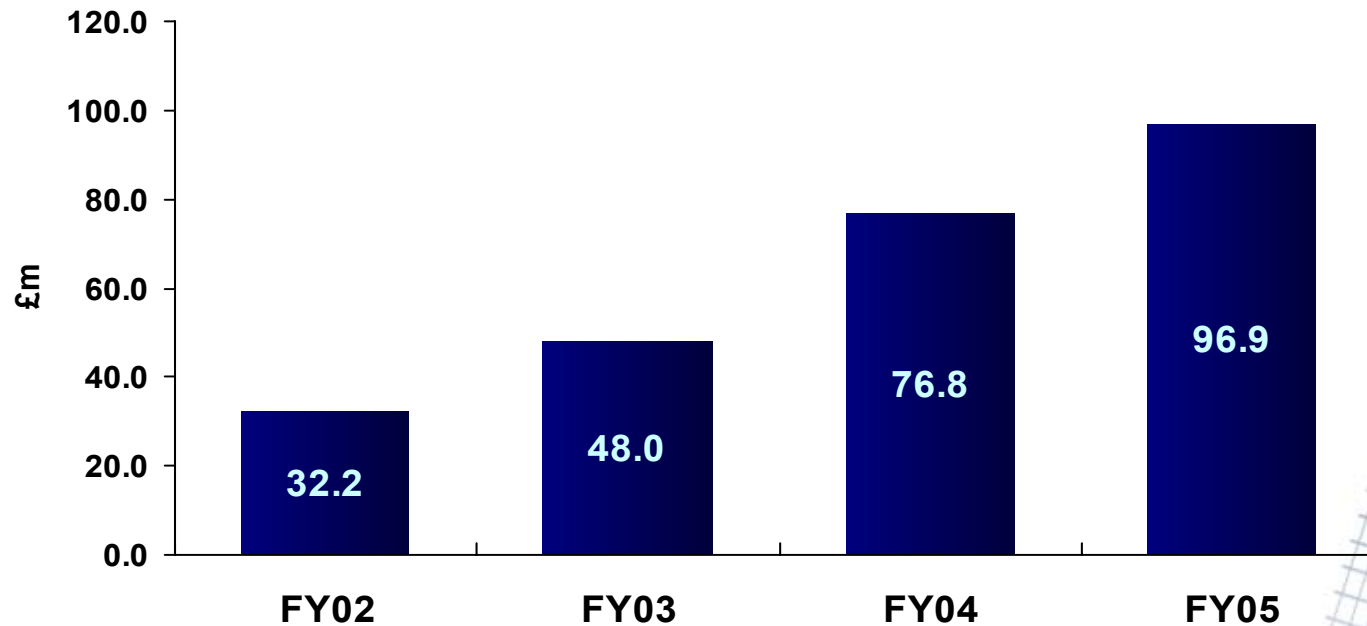
Residential Non-UK

£m	FY05	FY04
Turnover	35.4	-
Contribution	1.8	-

- 170k customers at year end
- Good performance from N Tel offsetting start-up losses elsewhere
- Similar overall result expected for FY06

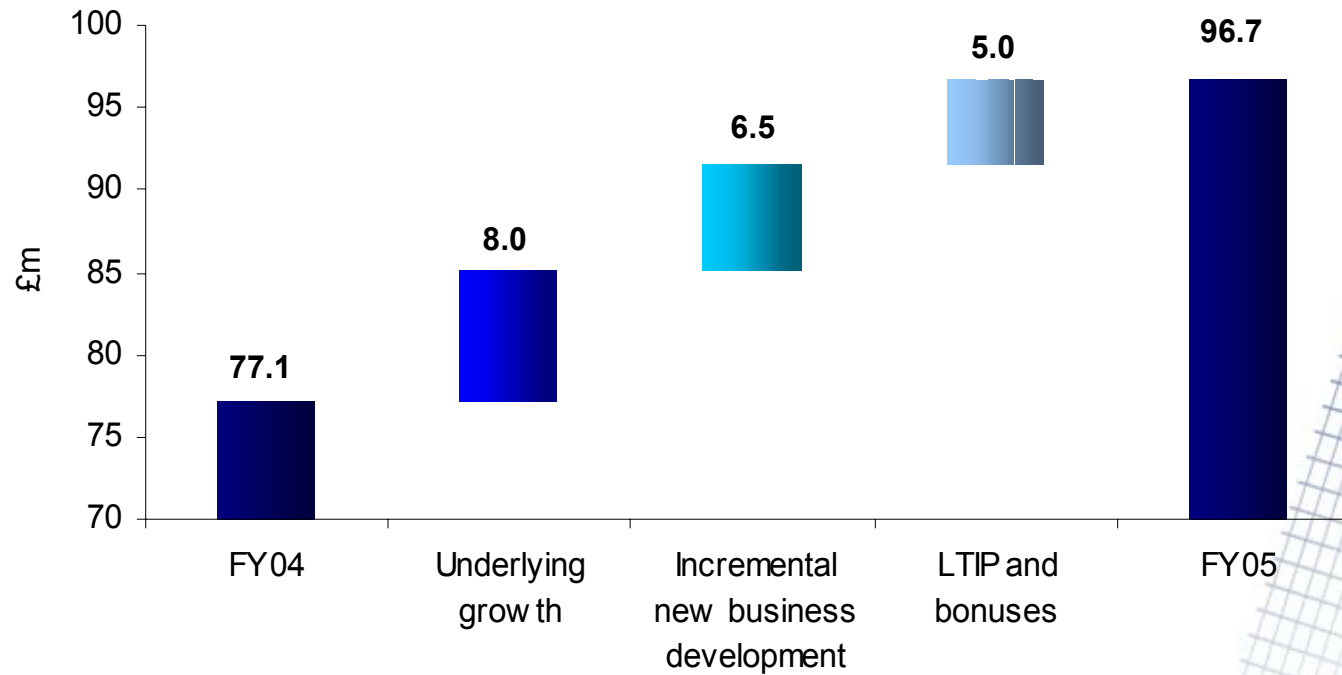


Non-UK contribution (£m)



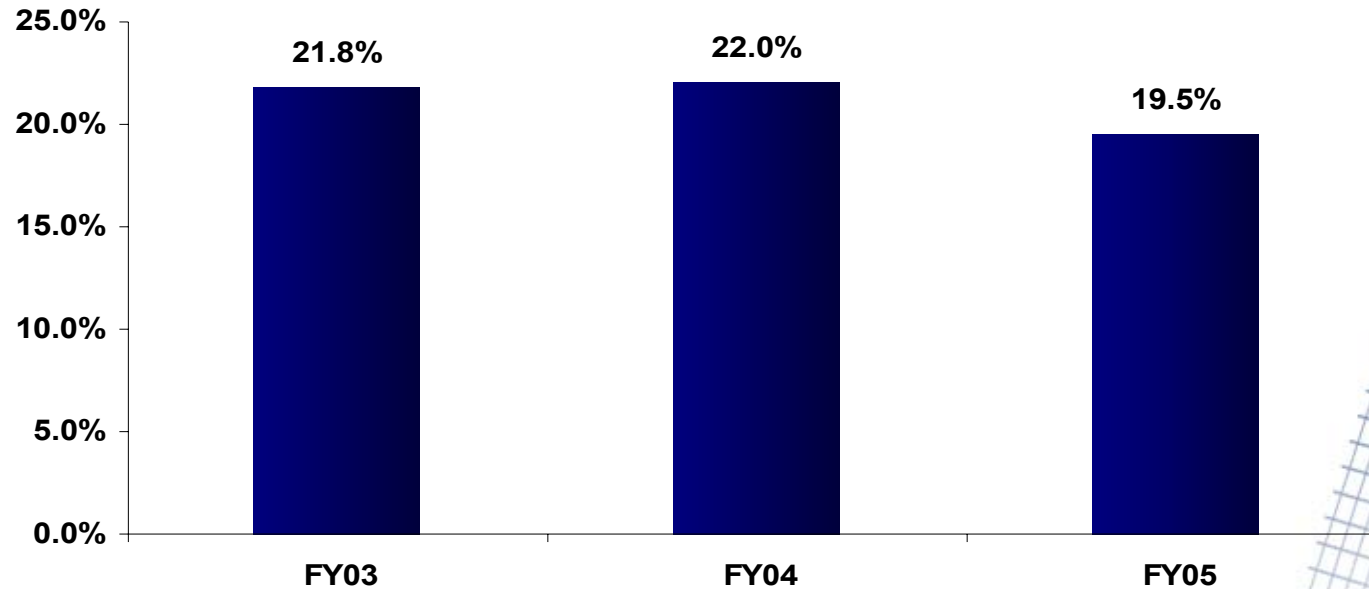
- Non-UK contribution up 26.2%
- Very strong performances in a number of markets
- Switzerland loss-making but significant turnaround in last few months

Support costs



- A significant element of support costs growth stems from building a platform for future growth and rewarding strong performance
- c. £12m directly incurred in new business development for FY05

Tax rate



- Underlying tax rate reduced by low rate jurisdictions and available losses brought forward
- FY05 affected by relief on historical IPO costs and share gift scheme
- Forward rate nearer mid-20s%

2004-05 Profits bridge

	Total	Distribution	Telecoms	Wholesale
FY04 contribution	199.9	154.9	43.2	1.8
Acquisitions:				
Full year of FY04	8.8	2.0	6.8	
FY05	3.0		3.0	
New business investments	(5.0)		(5.0)	
Contribution before underlying growth	206.7	156.9	48.0	1.8
Underlying growth	44.8	33.7	11.4	(0.3)
Underlying growth %	22.4%	21.8%	26.4%	(16.7%)
FY05 Contribution	251.5	190.6	59.4	1.5

Reconciliation to headline PAT and EPS

£m	FY05	FY04	% Growth
Total Contribution	251.5	199.9	25.8%
Support Costs	(96.7)	(77.1)	25.5%
EBITDA	154.8	122.8	26.1%
Depreciation	(47.9)	(41.7)	14.9%
Interest	(4.8)	(4.9)	-
Normalised PBT	102.1	76.3	33.8%
Tax	(19.9)	(16.8)	18.6%
Profit After Tax	82.2	59.5	38.2%
Headline EPS	9.39p	6.81p	37.9%
Exceptional items	-	(6.4)	

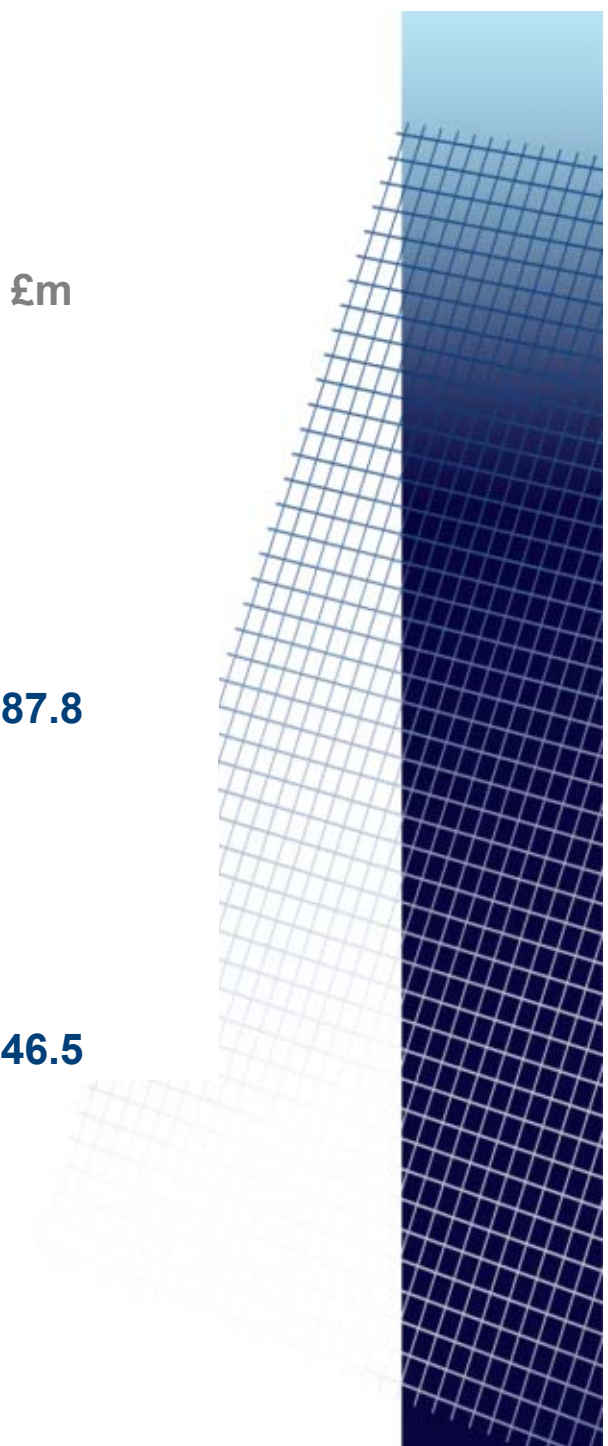
Cash flow

£m	FY05	FY04
Headline EBITDA	154.8	122.8
Working capital	(11.7)	(20.1)
Operating cash flow	143.1	102.7
Tax and interest	(16.5)	(7.2)
Capex and freeholds	(87.8)	(99.5)
Acquisitions	(46.5)	(59.3)
Dividends	(12.7)	(12.2)
FX movements / shares	(7.4)	5.8
Closing funds	(68.4)	(40.6)

- **Good working capital management despite strong underlying growth**

Capex and acquisitions

	£m	£m
New stores	25.2	
IT	27.5	
Opal	14.0	
Freeholds	4.2	
Other	16.9	
Total capex and freeholds	87.8	87.8
Opal earn-out and other deferred consideration	16.2	
FY05 acquisitions	30.3	
Total acquisitions	46.5	46.5



Highlights of FY05

- Turnover up 27.4%
- EPS up 37.9%
- Dividend up 38.5%
- Operating cash flow up 39.4%
- New business initiatives to support future growth in earnings and cash generation
- Investment in future growth platform funded largely from cash flow

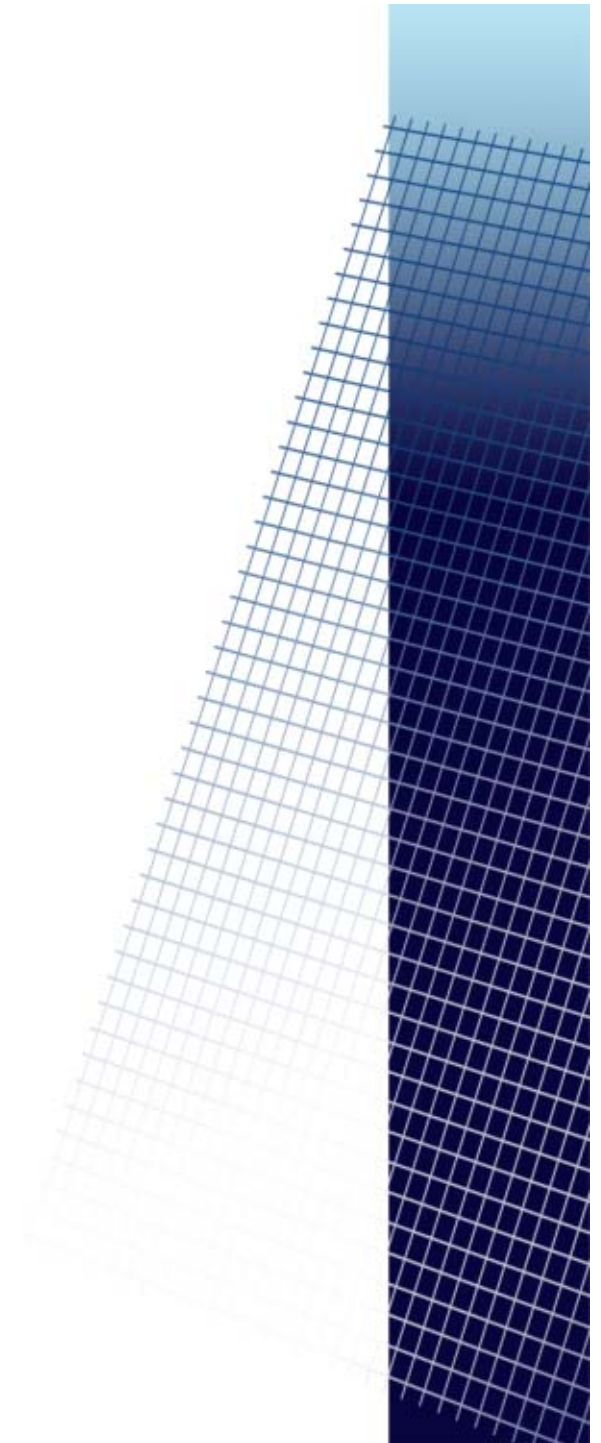
Strategy and outlook

Charles Dunstone

CEO

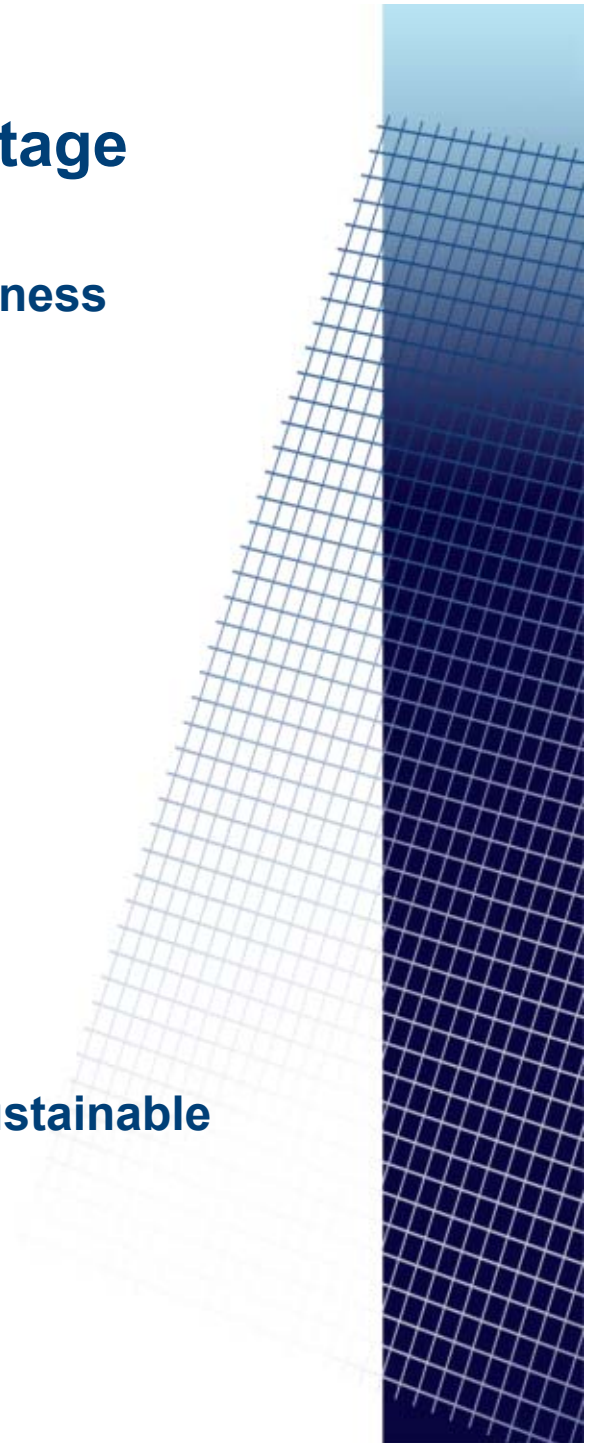
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Building sustainable competitive advantage

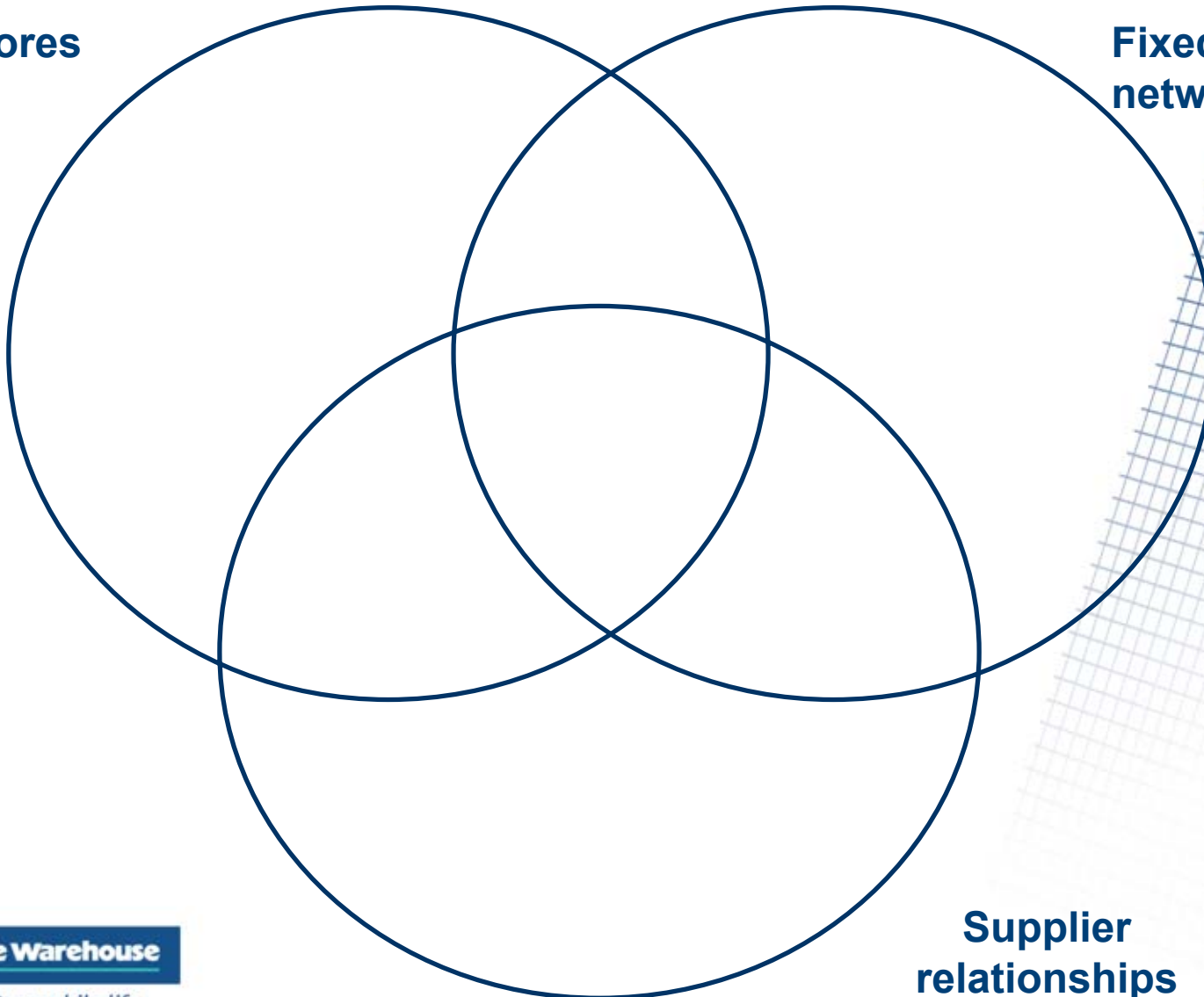
- We have a number of key assets that drive the business
- Tangibles:
 - Stores and scale
 - Fixed line network
 - Employees
 - IT infrastructure
- Intangibles:
 - Supplier relationships
 - Entrepreneurial approach
- The combination of these assets is what creates sustainable competitive advantage



Three key business assets...

Stores

Fixed line
network

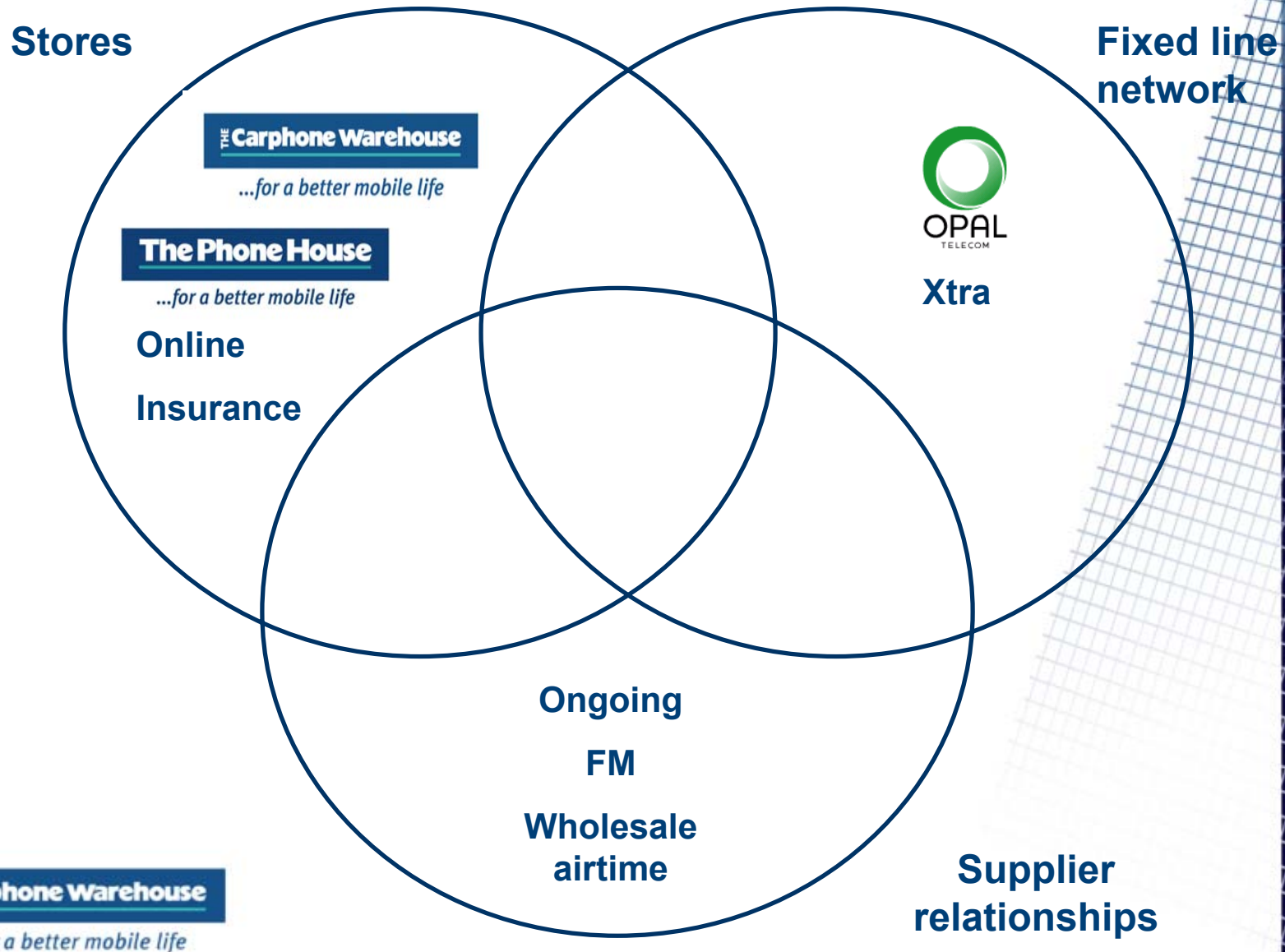


Supplier
relationships

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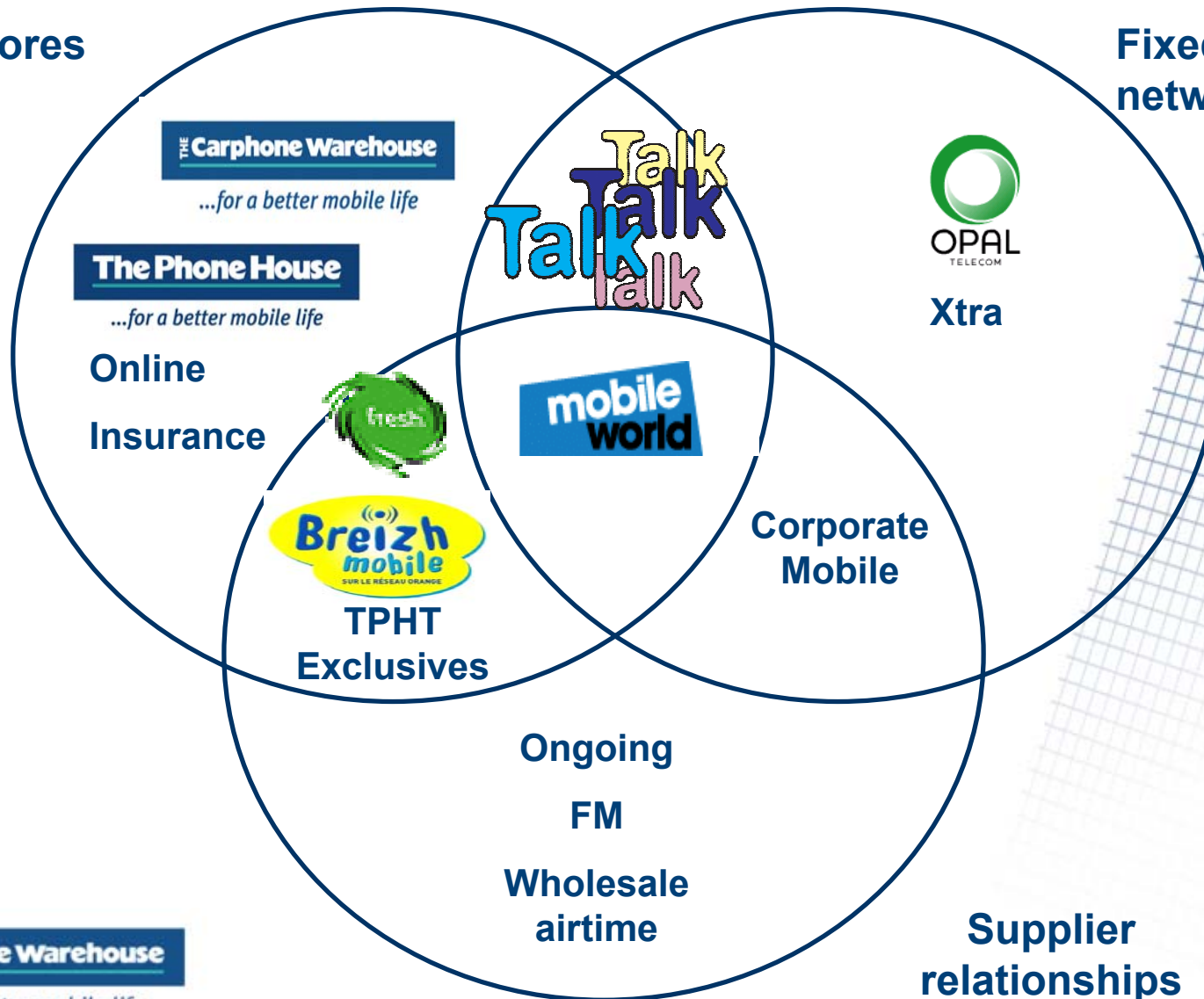
...underpinned by scale, brand and efficiency



Significant additional opportunities where assets are combined

Stores

Fixed line network



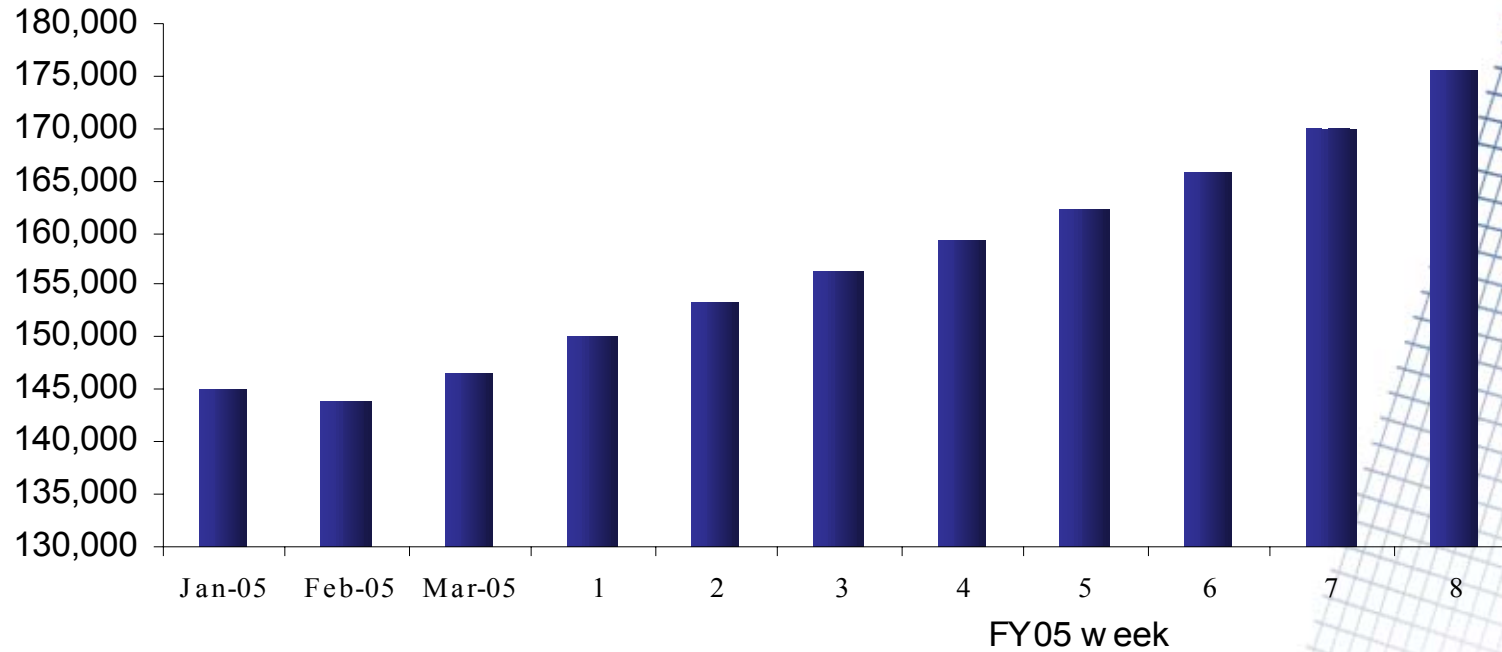
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MVNO strategy

- **Developing our MVNO strategy is a key objective for the year**
- **Markets are becoming more fragmented**
- **Opportunities exist in niche segments (e.g. discount, international, regional)**
- **Strong brand and distribution platform to leverage**

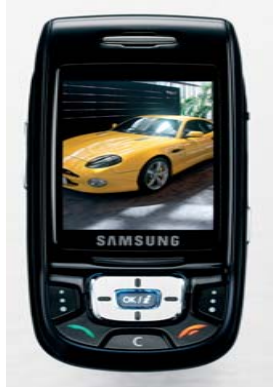


MVNO strategy



- **Growth in base across all services – Fresh, Mobile World, Breizh**

Deals get better and better



Equivalent:
Samsung E700

Network: Virgin

Saving: £132



Equivalent: Nokia
7600

Network: 3

Saving: £150



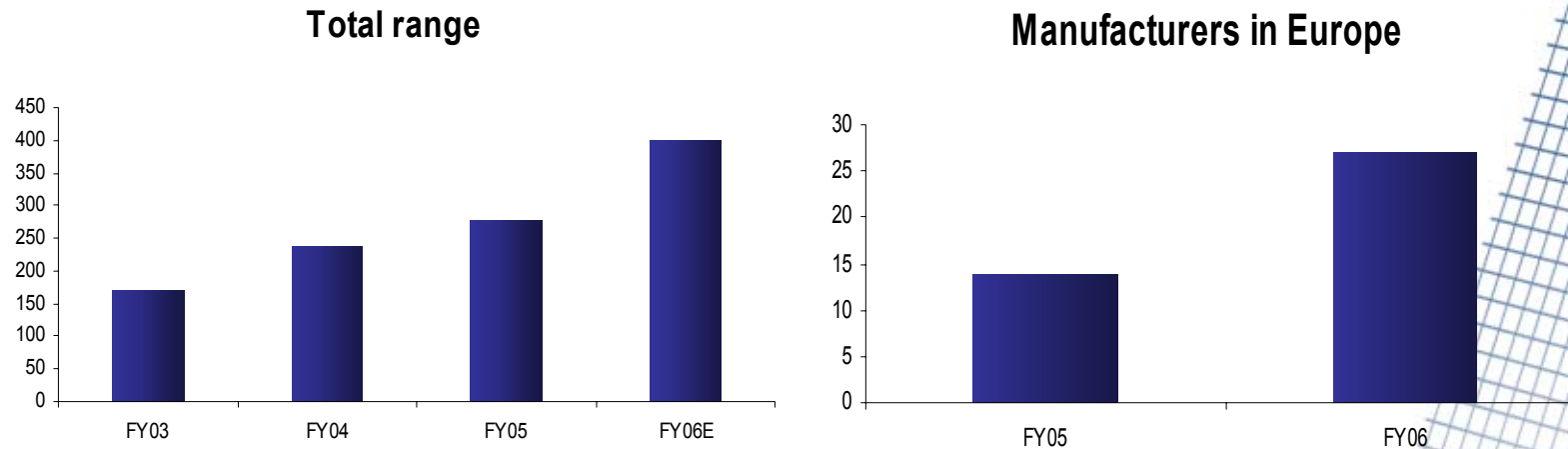
Equivalent:
Motorola V600

Network: O2

Saving: £237

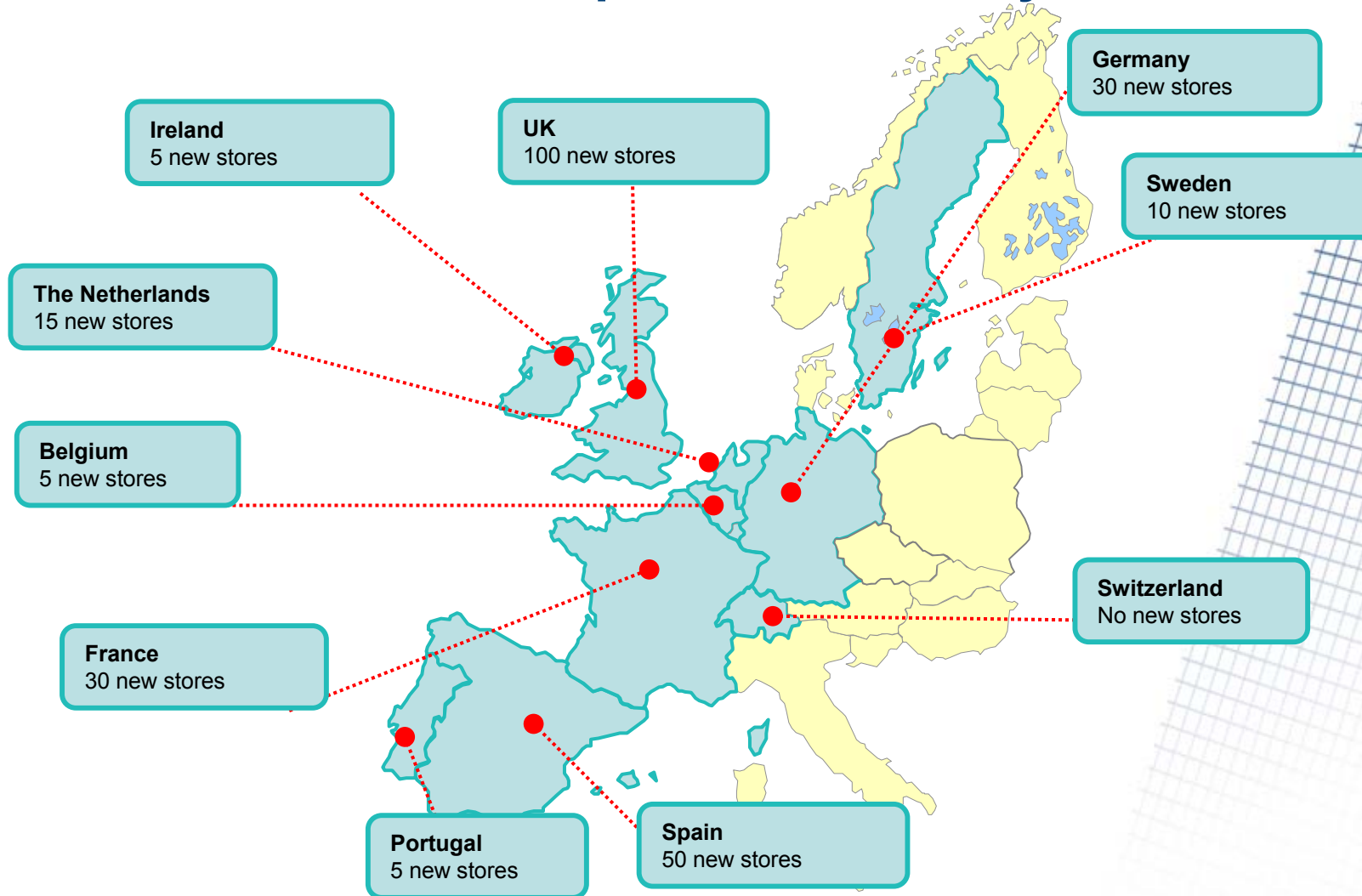
- Comparison of today's offers with 12 months ago
- Calculation based on line rental plus average minutes/text usage
- Market stimulated by improving value as well as new handsets

Our annual range continues to grow



- **We expect to range up to 400 different handsets in the course of this year**
- **A significant number of new manufacturers are seeking to break in**

A further 250 stores planned for this year



Fixed line outlook

- Long term growth prospects for TalkTalk with 2m target by March 2008
- Opal broadening its product range and its target market
- Regulatory change imminent on pricing and processes
 - We continue to review our approach to the UK broadband market
- Non-UK platform now includes Ireland and Belgium – a further source of long term growth

Summary outlook

- **Mobile**

- Network competition set to continue driven by 3G and new entrants
- Handset market remains vibrant
- Store expansion plans to enhance growth
- Increasing MVNO opportunities

- **Fixed Line**

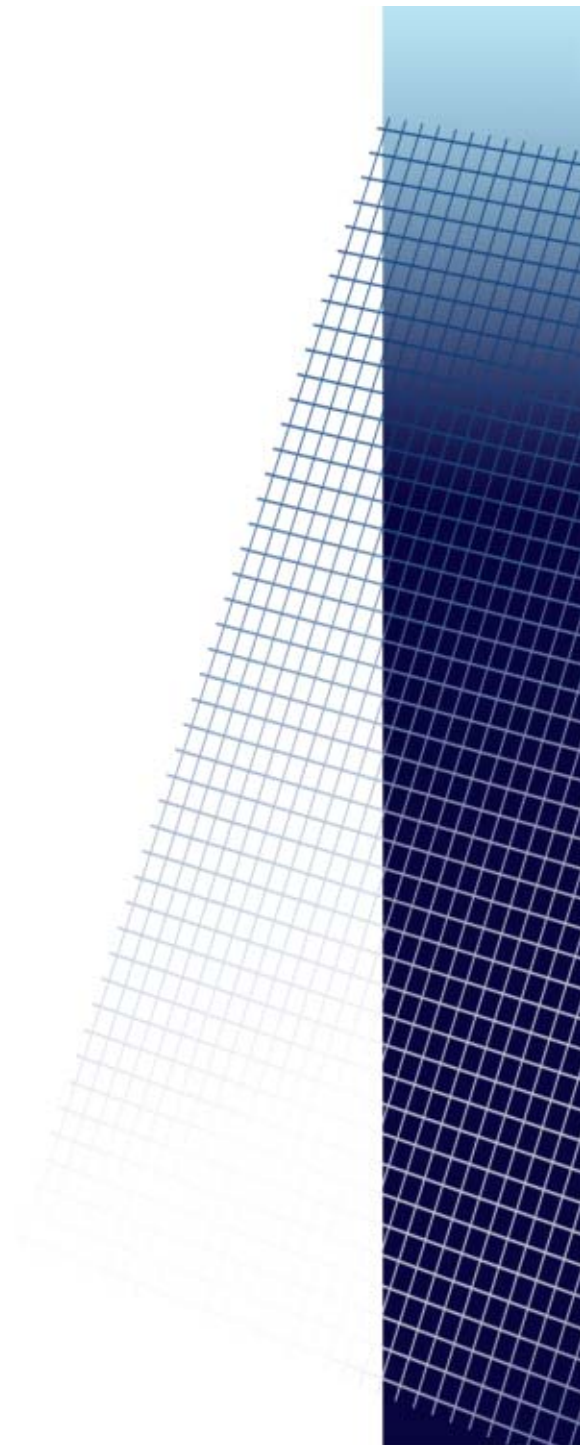
- Opal set for renewed growth from network investment and new services
- Customer recruitment remains a priority
- Regulatory change to provide further opportunities in line rental and broadband



Appendix

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Store Portfolio

	March 2004	Opened	Closed / Sold	March 2005
UK	509	112	(20)	601
France	176	23	(14)	185
Spain	164	75	-	239
Netherlands	87	36	(7)	116
Germany	72	9	(7)	74
Sweden	58	12	(1)	69
Portugal	47	5	(2)	50
Belgium	40	7	(2)	45
Ireland	32	3	(1)	34
Switzerland	29	24	(5)	48
Total	1,214	306	(59)	1,461

Connections by country (000's)

	FY05 (53 wks)	FY05 (52 wks)	FY04	% Change (52 wks)
UK	3,332	3,281	2,797	17.3%
Spain	936	921	656	40.4%
France	694	687	590	16.4%
Netherlands	277	272	245	11.2%
Sweden	309	305	235	29.9%
Ireland	288	283	213	32.9%
Portugal	214	211	195	8.3%
Belgium	249	246	165	49.1%
Germany	162	159	134	18.6%
Switzerland	139	137	91	50.2%
Czech	-	-	29	-
Total	6,600	6,503	5,350	21.6%

Cash Flow (£m)

£m	FY05	FY04
Operating cash flow	143.1	102.7
Tax and interest	(16.5)	(7.2)
Capex (ex new stores)	(58.4)	(38.5)
Free cash flow	68.2	57.0
New store capex	(25.2)	(13.7)
Acquisitions	(46.5)	(59.3)
Freehold acquisitions	(4.2)	(47.3)
Dividends	(12.7)	(12.2)
Net cash (outflow) inflow	(20.4)	(75.5)
Opening funds	(40.6)	29.1
FX movements / shares	(7.4)	5.8
Closing funds	(68.4)	(40.6)

ROCE

Methodology

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

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

Capital employed calculation (£m)

	FY05	FY04
Average shareholders' funds	487.4	463.7
Average net debt	54.5	5.8
Average cumulative acquisition goodwill writeback	53.7	33.2
Less average unamortised minority goodwill	(135.2)	(143.7)
Capital employed	460.3	358.9