

The Carphone Warehouse

Building a sustainable growth business

14 April 2005

THE Carphone Warehouse

...for a better mobile life

Agenda

- **09.00 – 09.50 Q4 trading, market outlook and strategy**
- **09.50 – 10.30 Distribution and Mobile Services**
- **10.30 – 10.45 Break**
- **10.45 – 11.30 Fixed Line**
- **11.30 – 12.15 FY06 guidance and IFRS**
- **12.15 – 12.45 Closing remarks and Q&A**

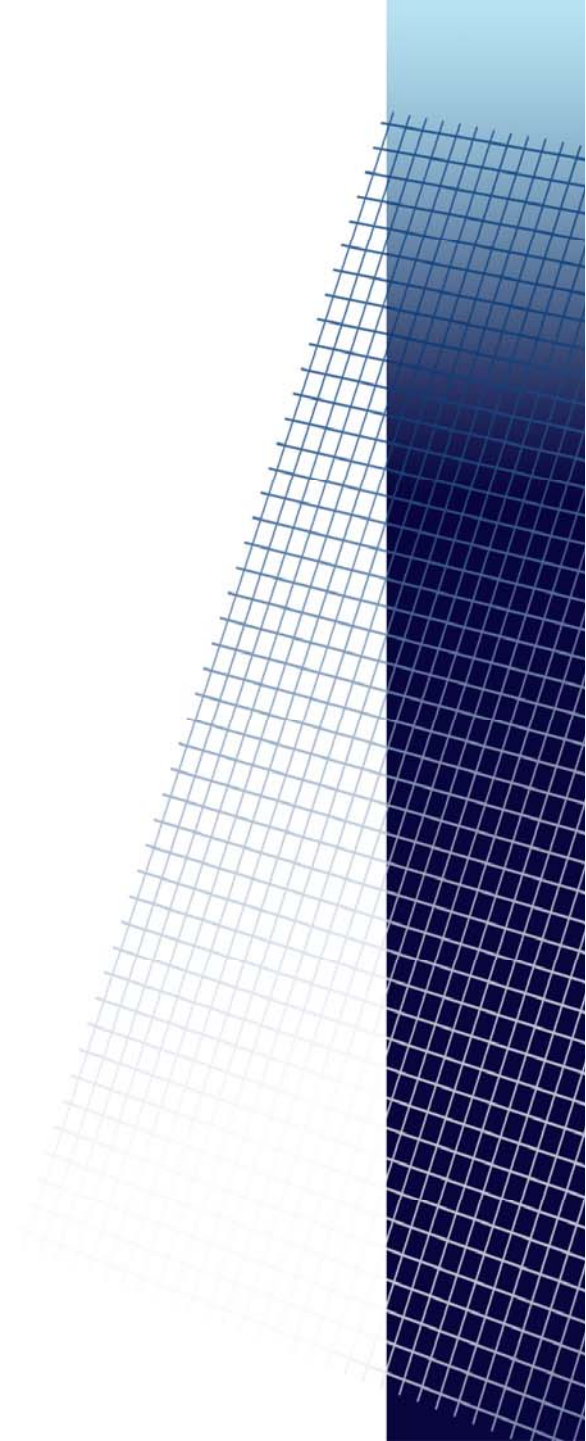
Introduction

Hans Roger Snook

Chairman

THE Carphone Warehouse

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Market environment and strategy

Charles Dunstone

CEO

THE Carphone Warehouse

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Structure

- Q4 update
- Market environment
- Our strengths
- Our agenda

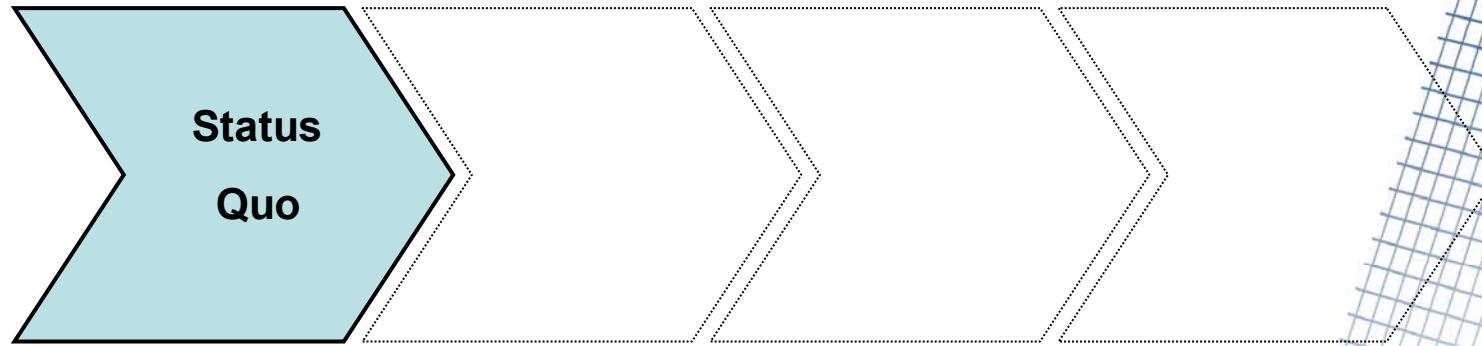
Market environment

Q4 highlights

- **Connections up 16.6% to 1.68m**
- **Subscription connections up 9.9% to 0.73m**
- **Insurance base up 24.3% year-on-year to 1.65m**
- **TalkTalk UK base up to 920,000**
- **Full year pre-tax profit expected to be at the upper end of market expectations**

Markets are at different stages....

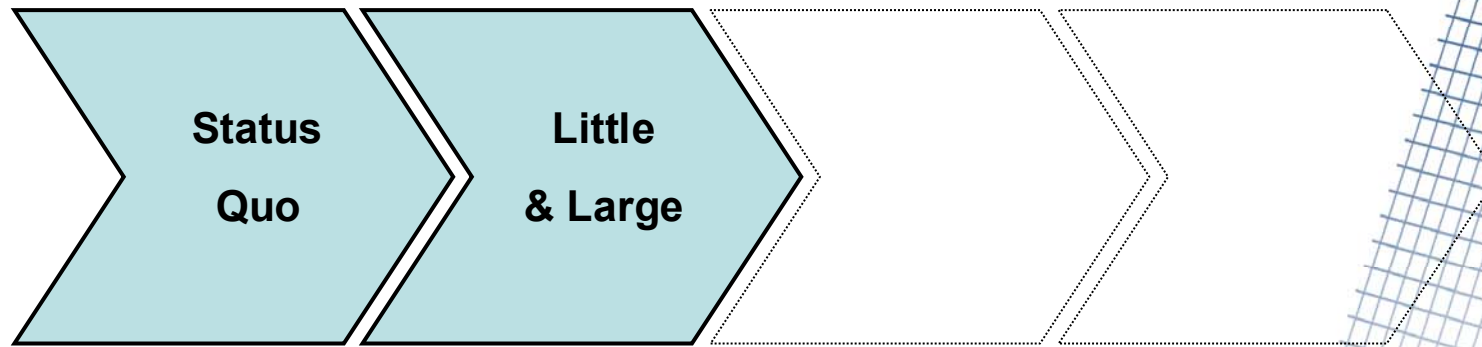
- **Stage 1: Status Quo**



- **Description: few players, little meaningful competition**
- **Countries: France, Ireland**
- **Catalysts for change: new entrants, regulatory intervention**

Markets are at different stages....

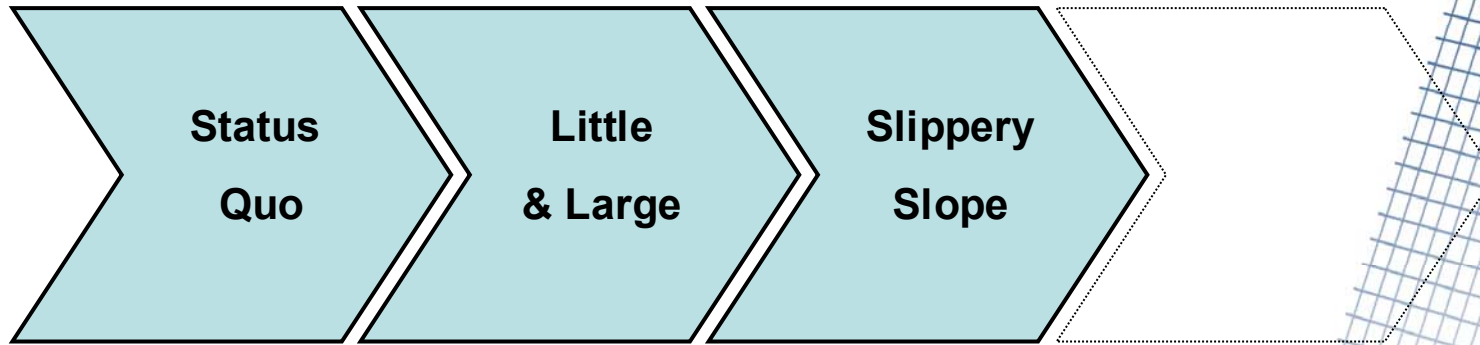
- **Stage 2: Little & Large**



- **Description: few players but with material market share imbalances**
- **Countries: Belgium, Germany, Portugal, Spain, Switzerland**
- **Catalysts for change: smaller players become more aggressive; retaliation by market leaders**

...But they are all heading the same way

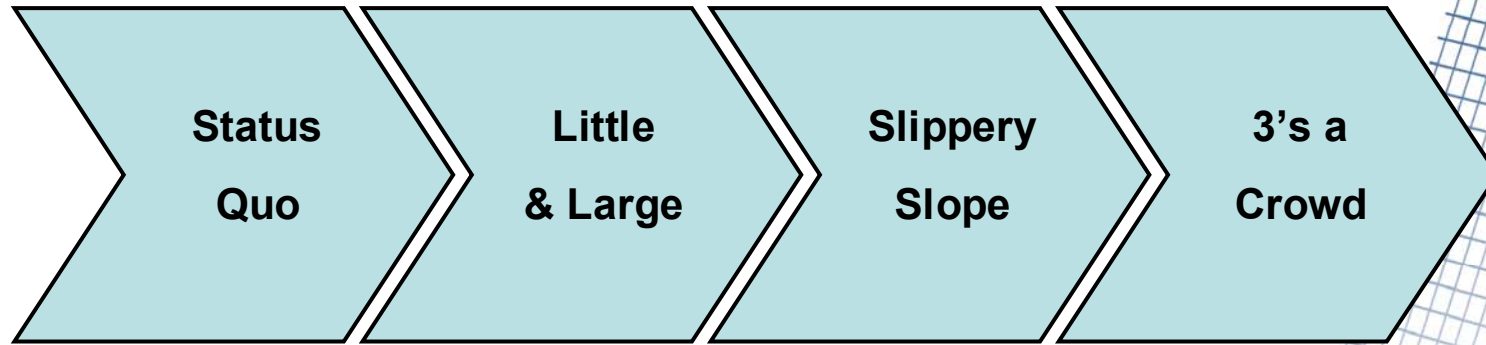
- **Stage 3: Slippery Slope**



- **Description: multiple players, including MVNOs**
- **Countries: now - Netherlands; soon – Ireland**
- **Catalysts for change: More of the same**

...But they are all heading the same way

- **Stage 4: 3's a Crowd**



- **Description:** multiple players, including aggressive new entrants and MVNOs; most networks have launched 3G
- **Countries:** Sweden, UK
- **Catalysts for change:** ?

Did you know which model of handset you wanted before you came to the store?



- Increased number of suppliers has diminished loyalty to particular manufacturers
- Customers have basic awareness of products but need assistance to make final choice
- Stores still play key role on influence of which model is chosen

Did you know which network you wanted before you came to the store?



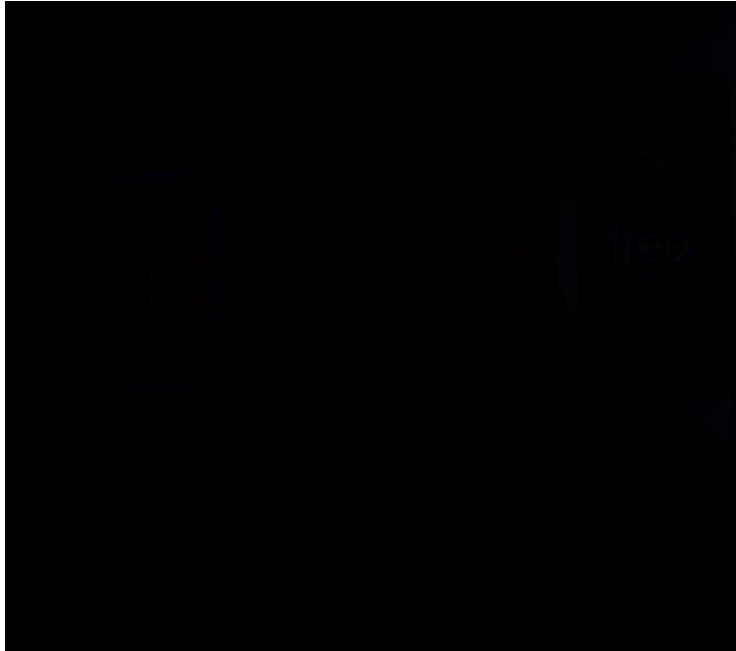
- Pricing key motivator of choice
- Promotional offers are a significant influence
- Availability of a wide range of handsets is critical
- No talk of network features or Data Services

What do you think are the principal differences between the networks?



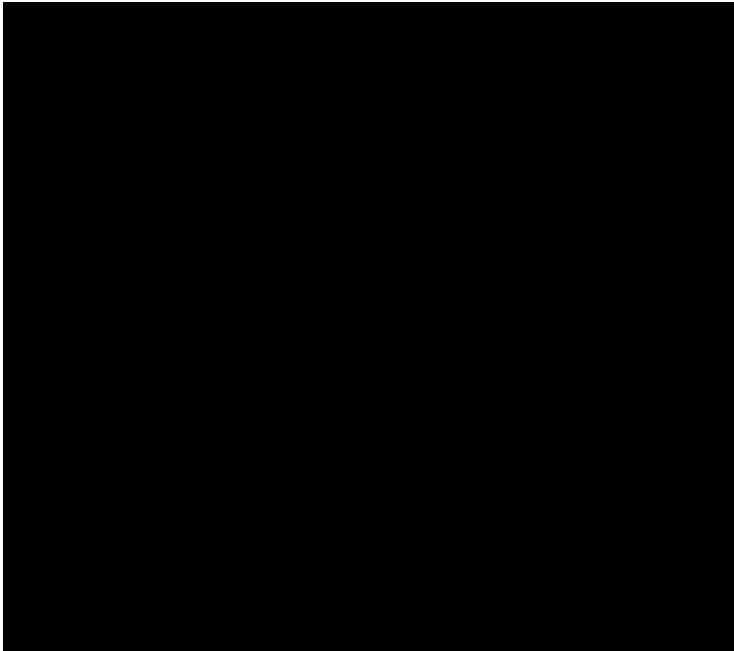
- Perceived lack of differentiation between operators
- Coverage perceived as equivalent
- Pricing significant differentiator
- Inclusive cross-network minutes have reduced loyalty for families or friends all to be on the same network

How regularly do you change your handset?



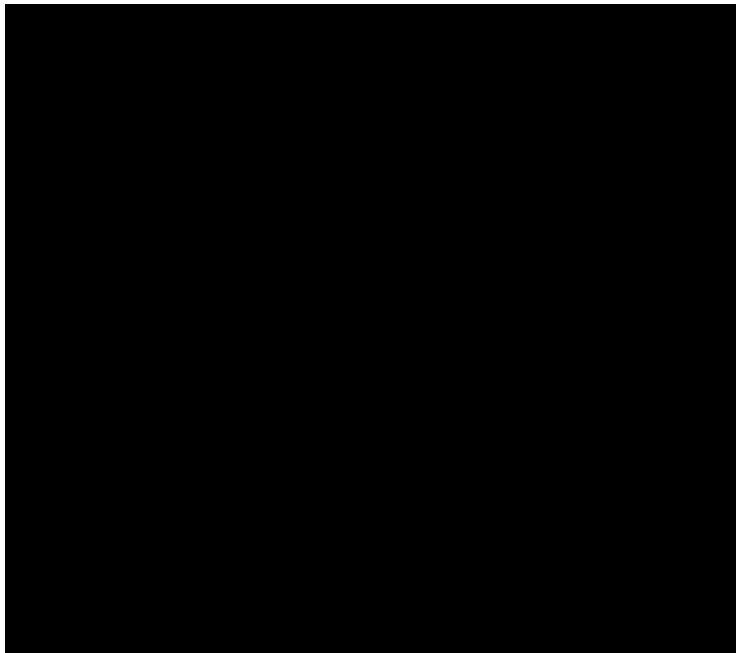
- Increasing awareness of 'right' to change handset annually
- Influenced by faster product life cycles and pricing competition between the networks

What influenced your purchase more, the handset or the network?



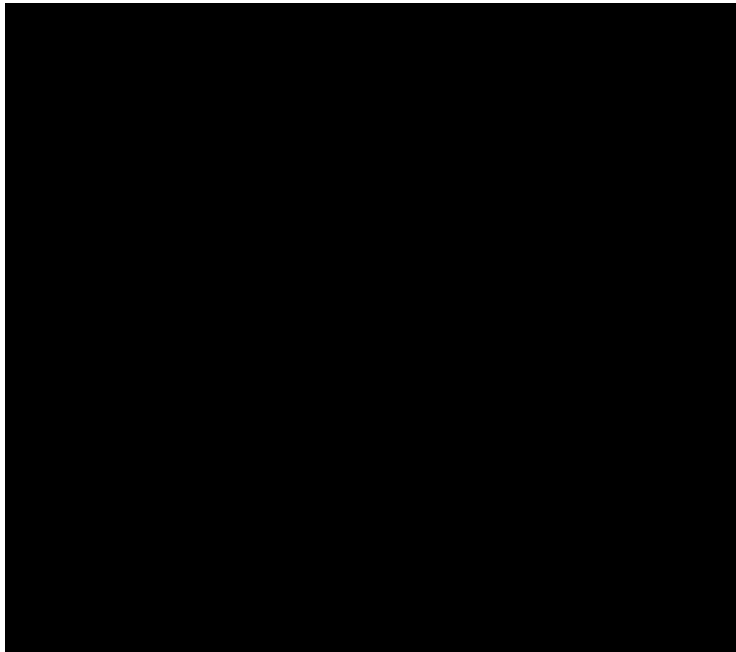
- Handset more important influence than network
- Networks with widest range of handsets invariably win
- Increased fashionability of product is a key driver
- Customers generally have higher awareness of handset features over network features

Are you aware of what 3G is, and what it gives you in addition to normal phones?



- Awareness low on 3G
- Ideas of quality are mixed
- Principally regarded as cheaper than 2G

Can you see yourself making video calls with your phone?



- Video calls were the only 3G feature we could get people to name
- Attitudes towards demand for the service were mixed and people have trouble imagining how they would use it

Conclusions

Customers

- **Educated**
- **Cynical about market practices**
- **Aware of breadth of choice**
- **Not yet excited about 3G**

Market

- **Increasingly fragmented**
- **Failing to differentiate**
- **Failing to innovate in the eyes of customers**

How these mobile market conditions suit CPW

- **Increasing network fragmentation**
 - **Greater choice**
 - **More competition for customers**
 - **Growing need for impartial advice**
- **Increasing handset market innovation**
 - **Greater choice**
 - **More product complexity**
 - **Acceleration of replacement cycle**
- **3G**
 - **Will need to be sold; will not be requested**

Fixed line market

- **Entering a crucial period of regulatory change**
 - Telecoms market review - equivalence
 - Local access pricing – impact on WLR and LLU
- **BT still the dominant player**
- **Broadband becoming a key growth market**
- **Inevitable move towards broadband and bundled services**

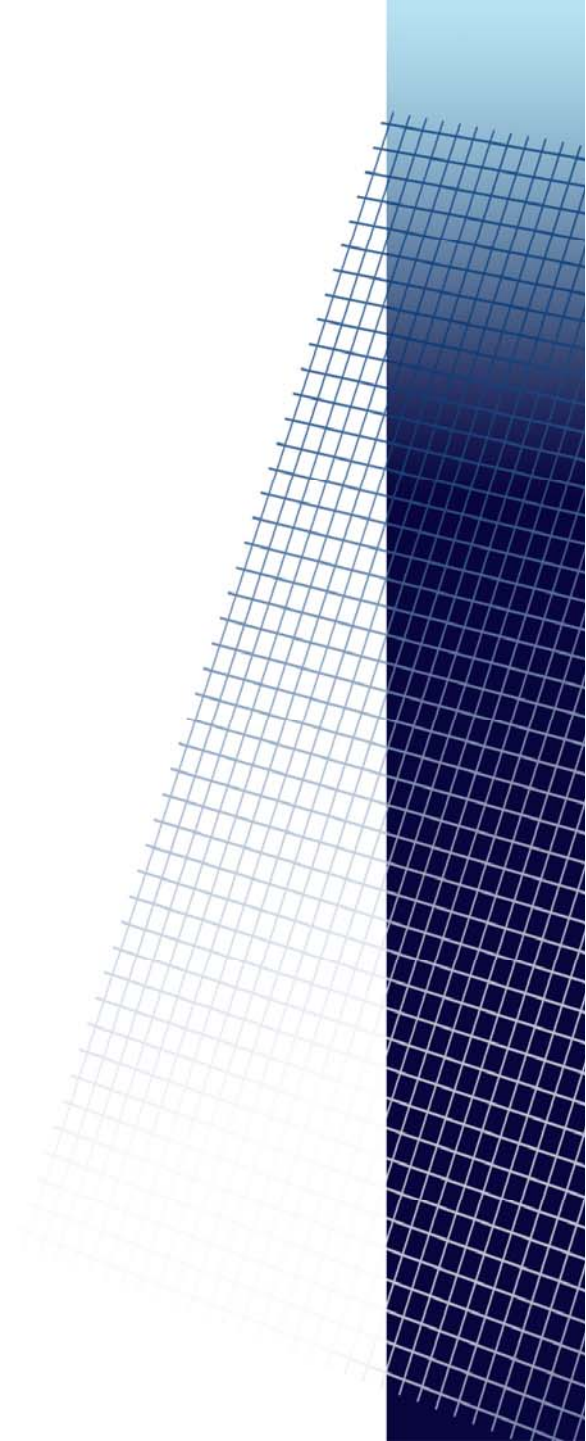
How these fixed line market conditions suit CPW

- **We own a network and therefore retain all of the margin**
- **We have the cheapest customer recruitment channel**
- **We have a strong and trusted telecoms brand**
- **We have experience in billing and managing millions of customers**
- **We remain small, nimble and entrepreneurial...**
- **...but we will soon be the largest CPS provider in the UK**

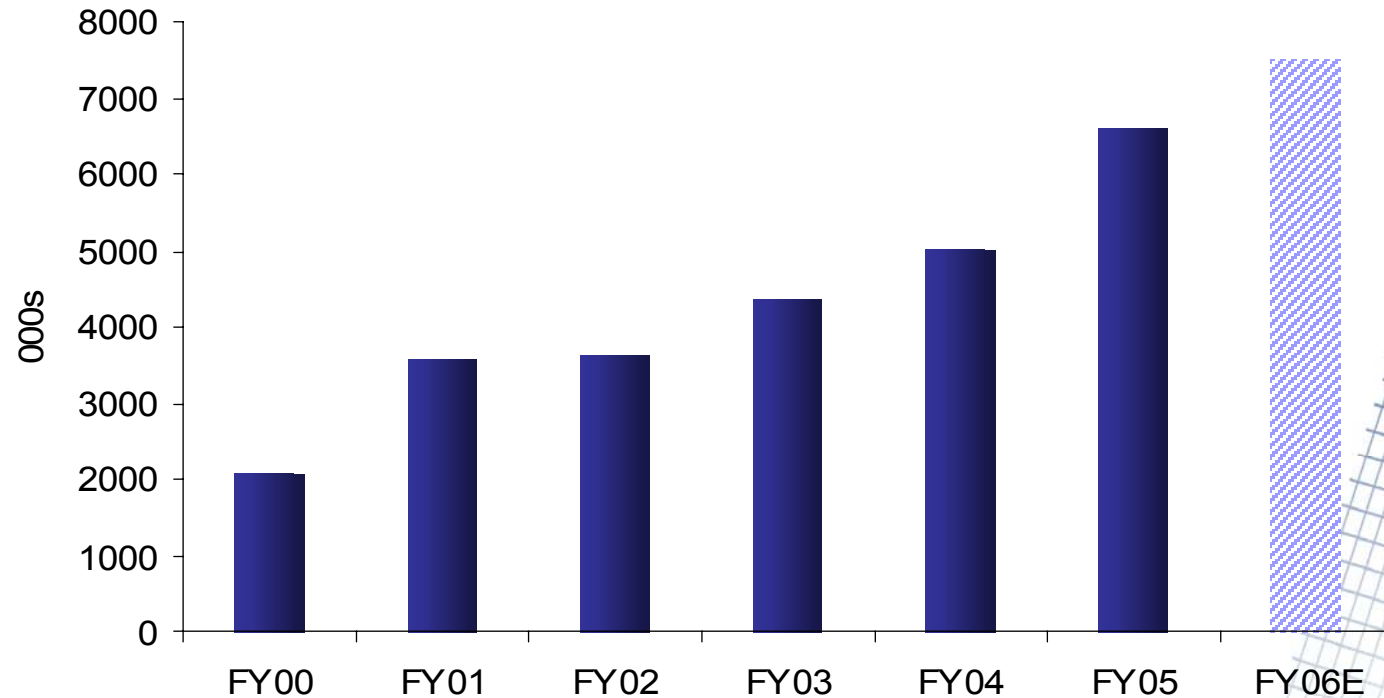
Our strengths

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Scale: becoming a major buyer of handsets



- **Connections have grown at a compound rate of 26% over five years**
- **This has a significant impact on our purchasing power and ranks us very highly as a buyer of handsets in Europe**

Proposition



Business Excellence Award

Innovative Employer Award



Best Large Retailer for 11th year running:

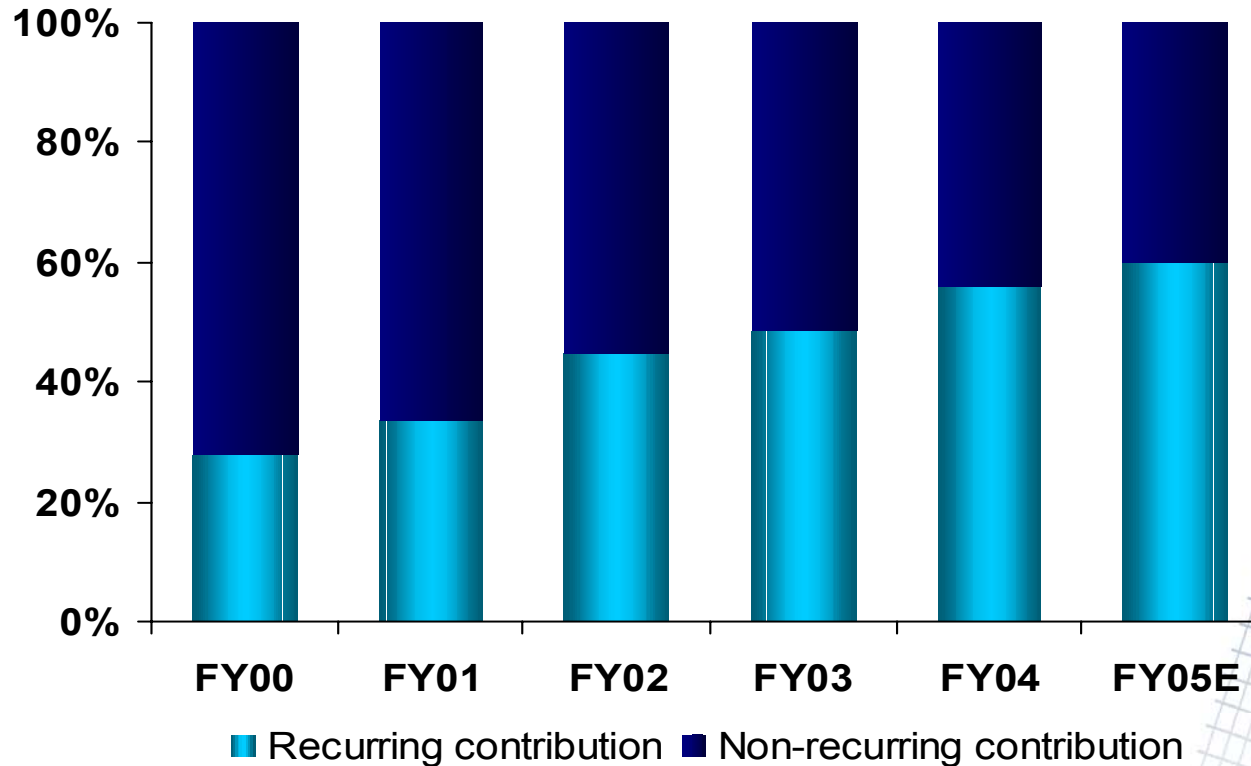
“Carphone continually moves the goalposts for the other large retailers”



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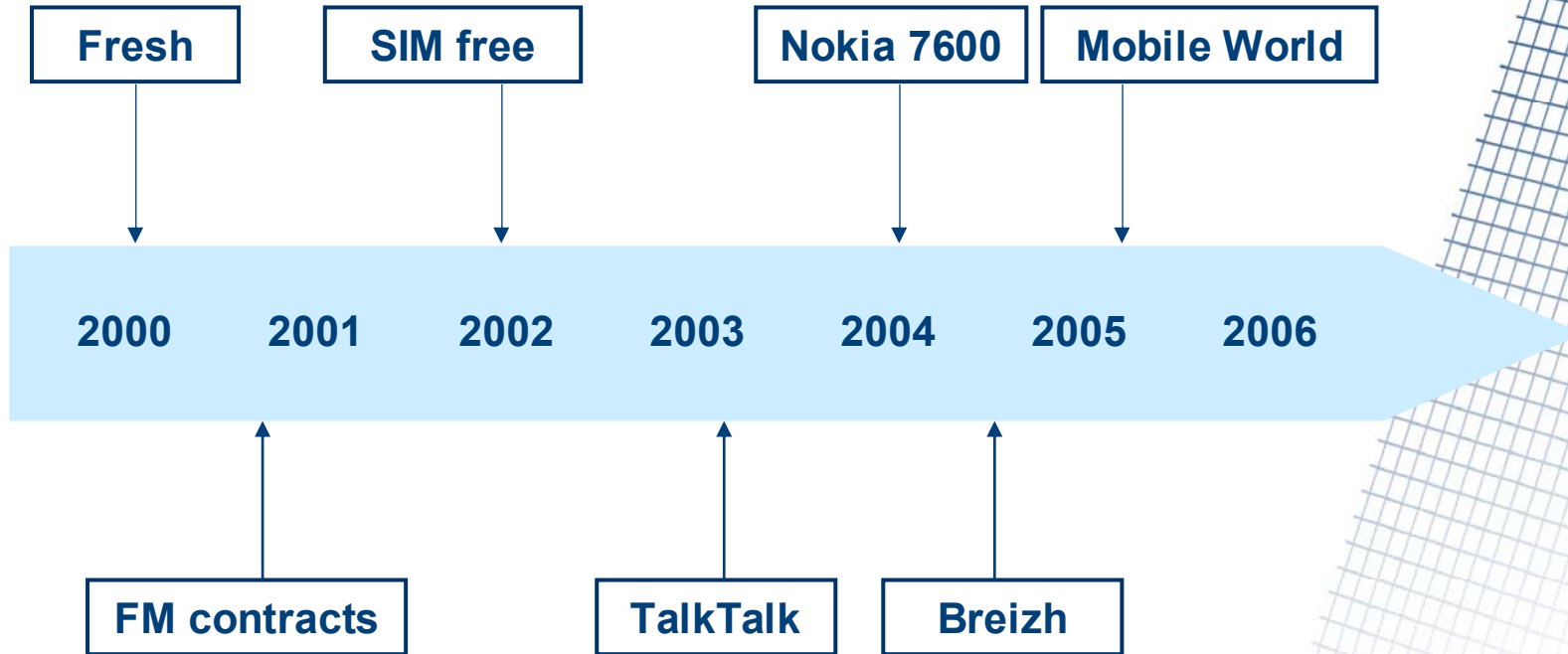
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Broadly based financial model



- **Strong underlying earnings visibility and recurring customer contact give us confidence to invest in new services**

Entrepreneurial approach



Physical presence



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Our agenda

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Increase scale

- **Into second year of major expansion programme**
- **New stores and new channels**
 - **Online**
 - **Franchise**
- **Extend distance between us and our competitors**
 - **Continue to set the benchmark in pricing and proposition**

Leverage customer contact



- We are focused on becoming *the* route to customers for networks and manufacturers AND *the* route to the market for mobile customers

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Leverage network relationships

- **'Smart' MVNOs**
 - Fresh, Breizh, Mobile World
- **FM deals/customer management**
- **Better terms than our competitors**
- **Exclusives**

Leverage buying scale

- **Direct sourcing**
 - **Broader range than networks**
 - **Better visibility or our own economics**
- **Pricing**
 - **Now the number 3 buyer of handsets across Europe**
- **Exclusives**
 - **Nokia 1100, 7600, 6630**

TalkTalk: taking it to the next level

- **Our next customer target is longer term**
 - 2m customers by March 2008
 - 10% market share
- **How do we get there?**
 - Investing in the brand: marketing, innovation, customer service
 - Offering new or improved services: broadband, line rental, mobile convergence
 - Consolidation opportunities will arise

Broadband

- **A key growth market**
- **Initial success in selling despite no promotional support**
- **Important in the future as we move towards bundled services**
 - **Strengthens profitable voice relationship**
 - **Need to make IP Stream work for us**
 - **Returns should improve with scale and investment (LLU)**
- **European DSL strategy**

Line rental

- **Wholesale line rental (WLR) still more expensive than retail price**
- **Major OFCOM investigation**
 - **Cost of copper**
 - **BT's cost of capital**
- **Expect wholesale rate to fall 10-20% by June/July**
- **Single billing increases sign-up rates and brings down churn**

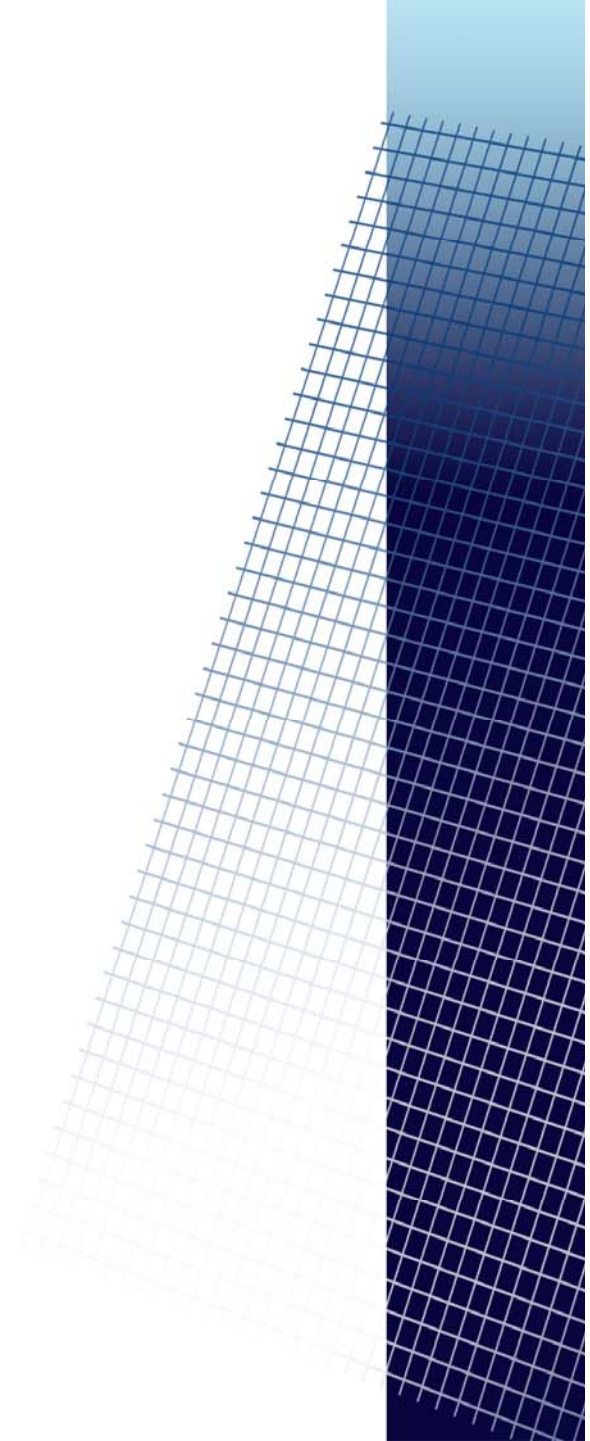
Distribution

Geoffroy Roux de Bezieux

COO, Distribution

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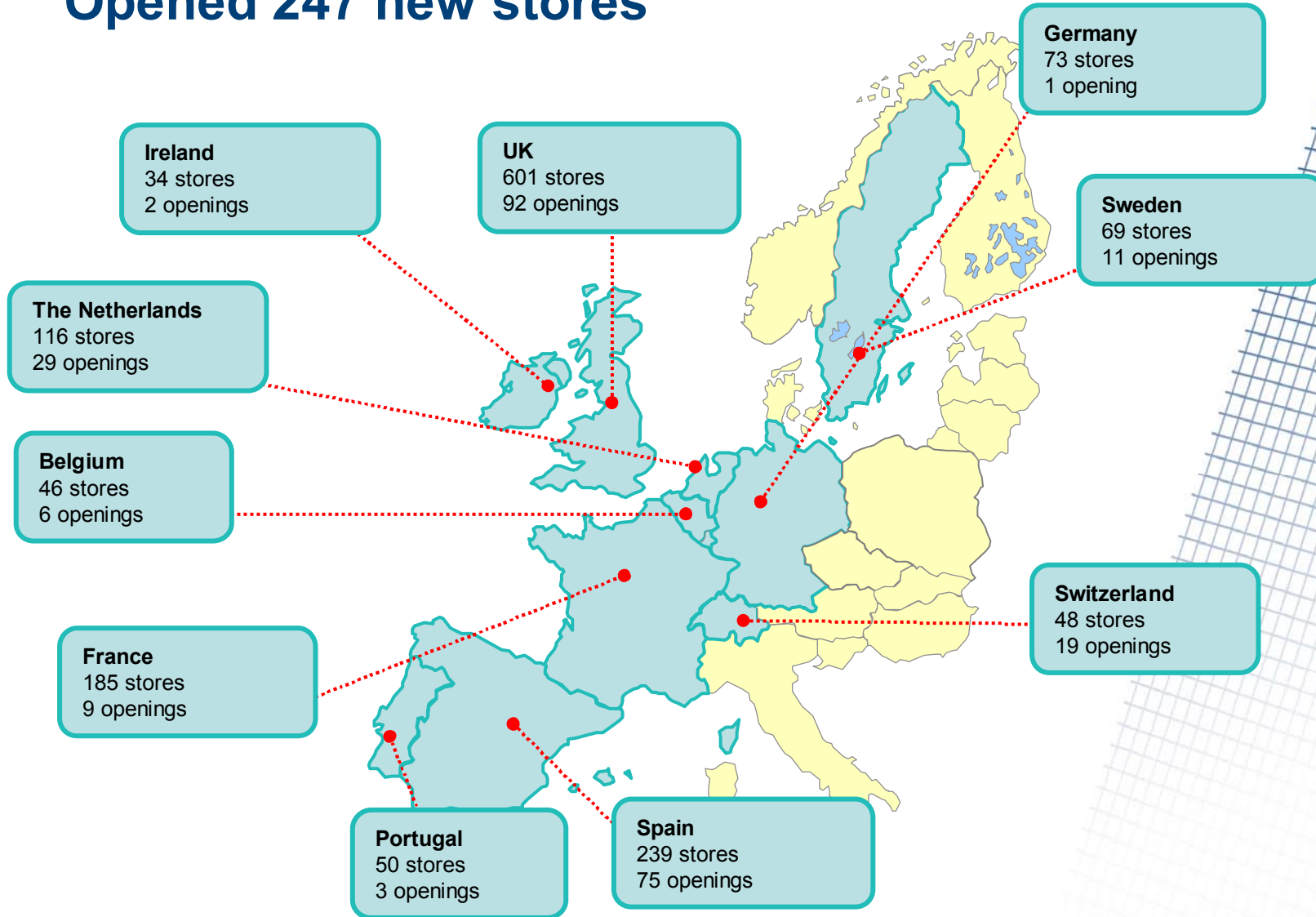
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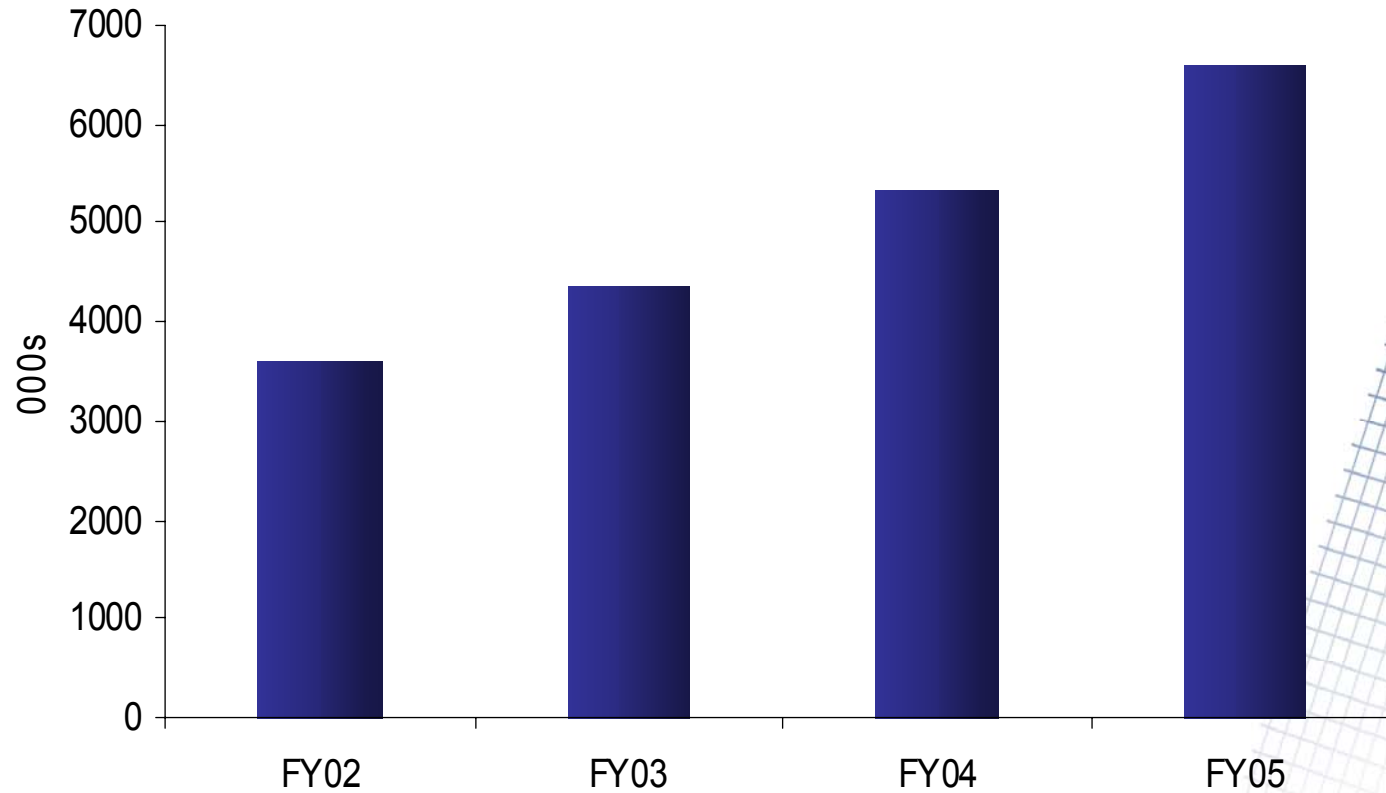
Structure

- **Achievements of last 12 months**
- **Increasing our distribution scale**
- **Becoming the handset champion**
- **Germany**

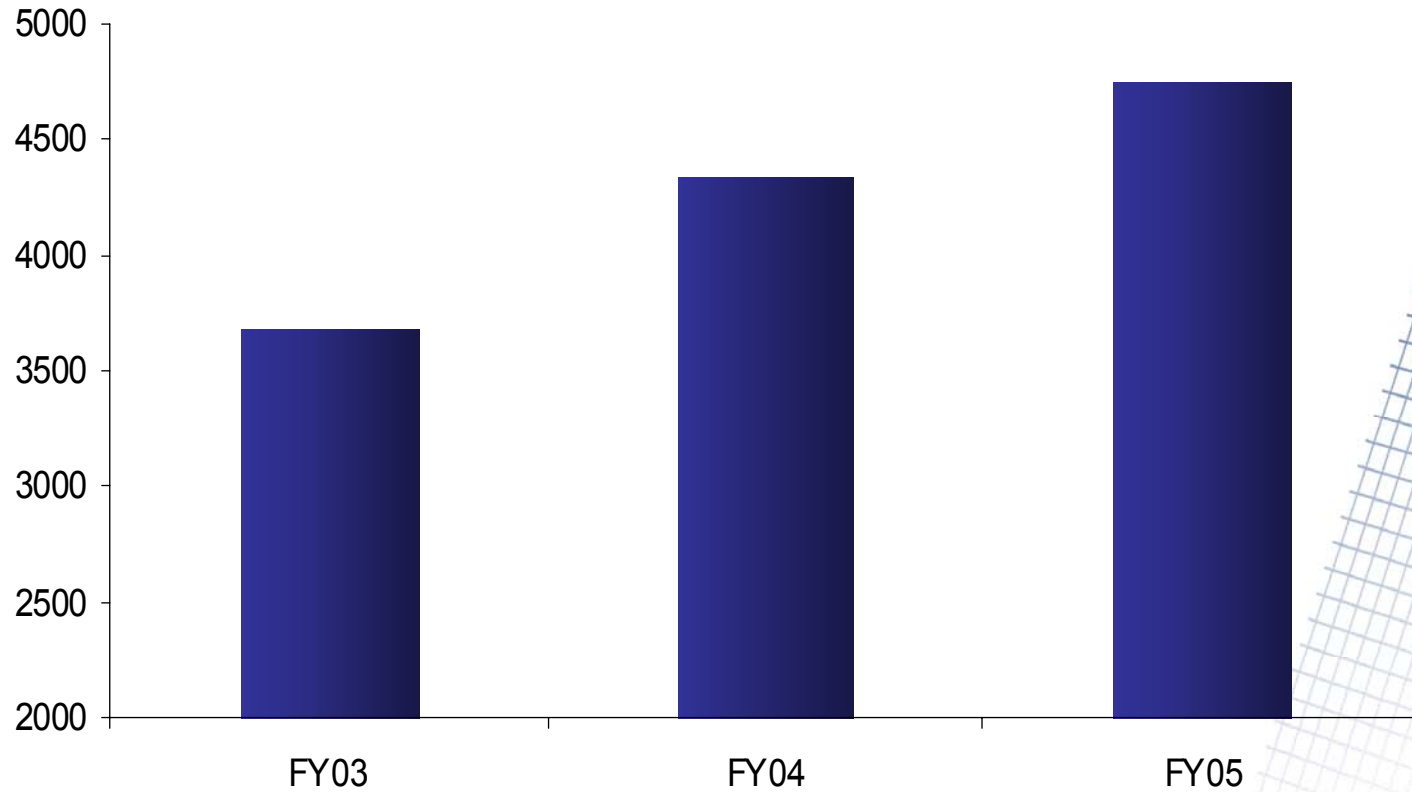
Opened 247 new stores



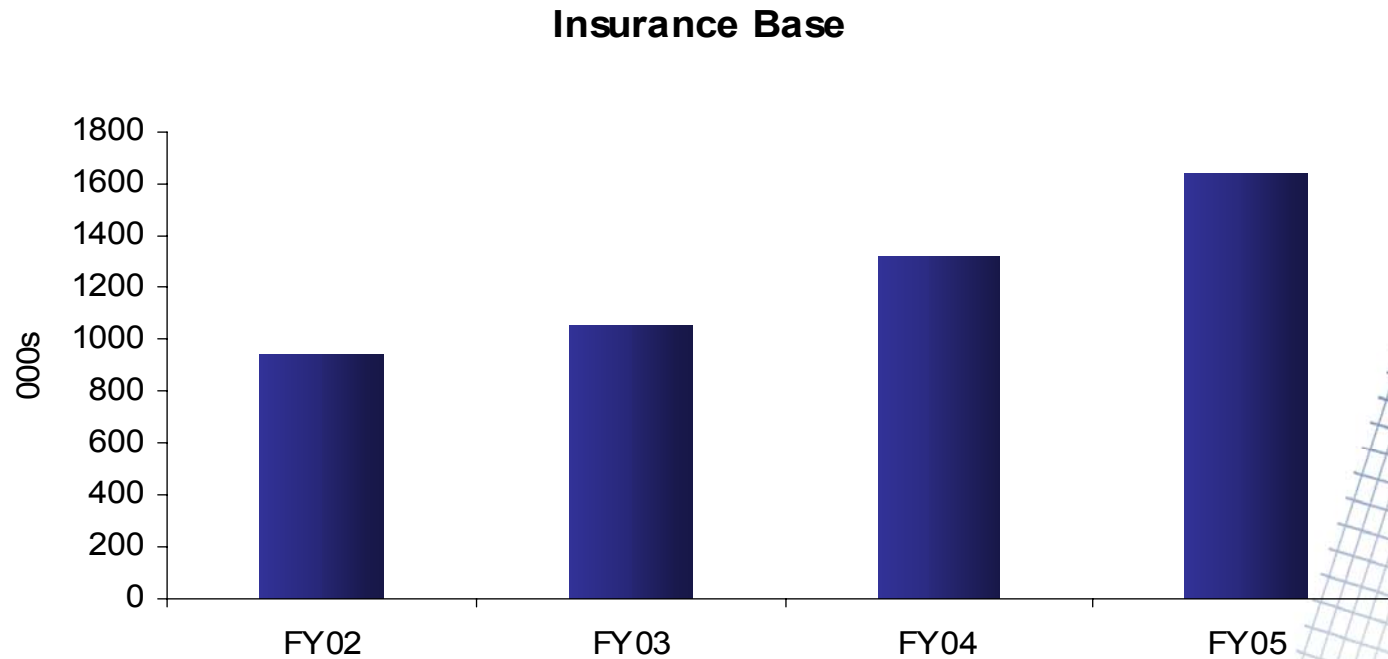
Grown connections by 21.6%



Continued to grow connections per store

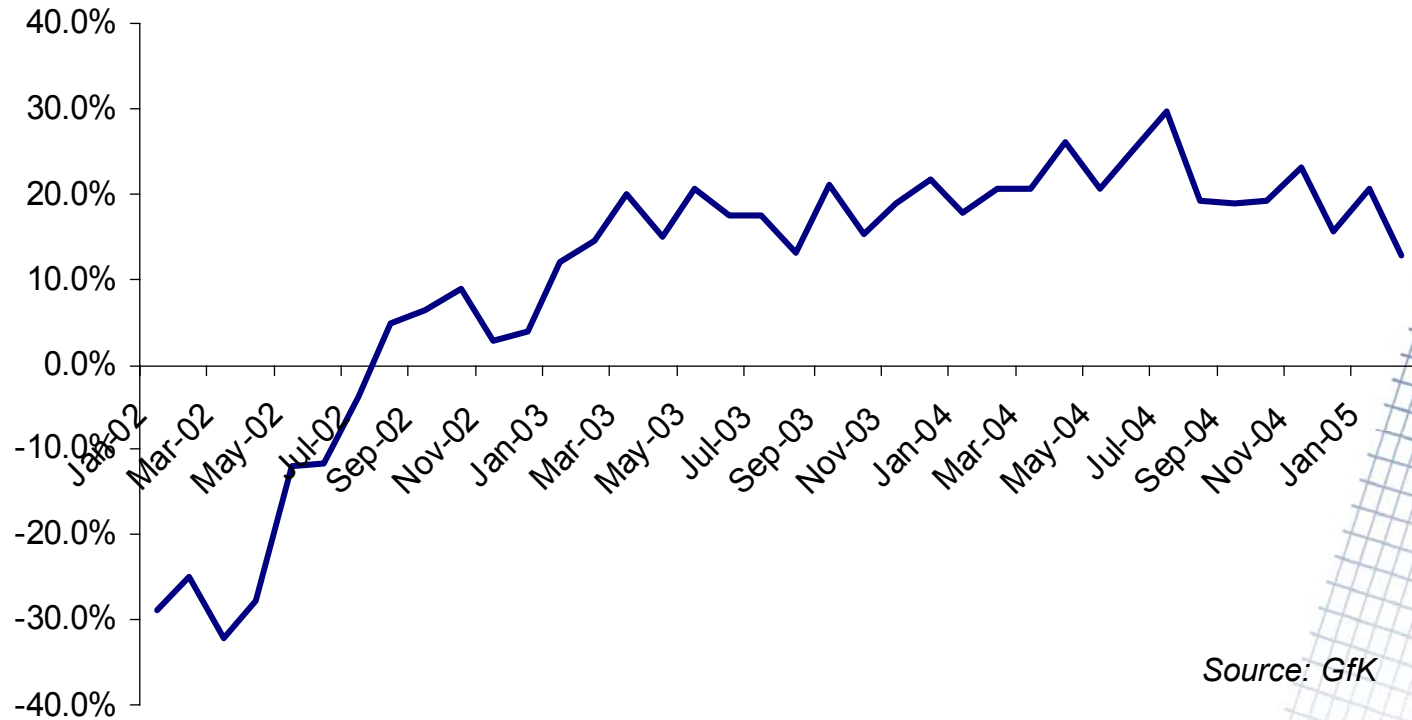


Made significant contribution to recurring revenue streams



- Plus Ongoing, TalkTalk, FM customer bases, Fresh

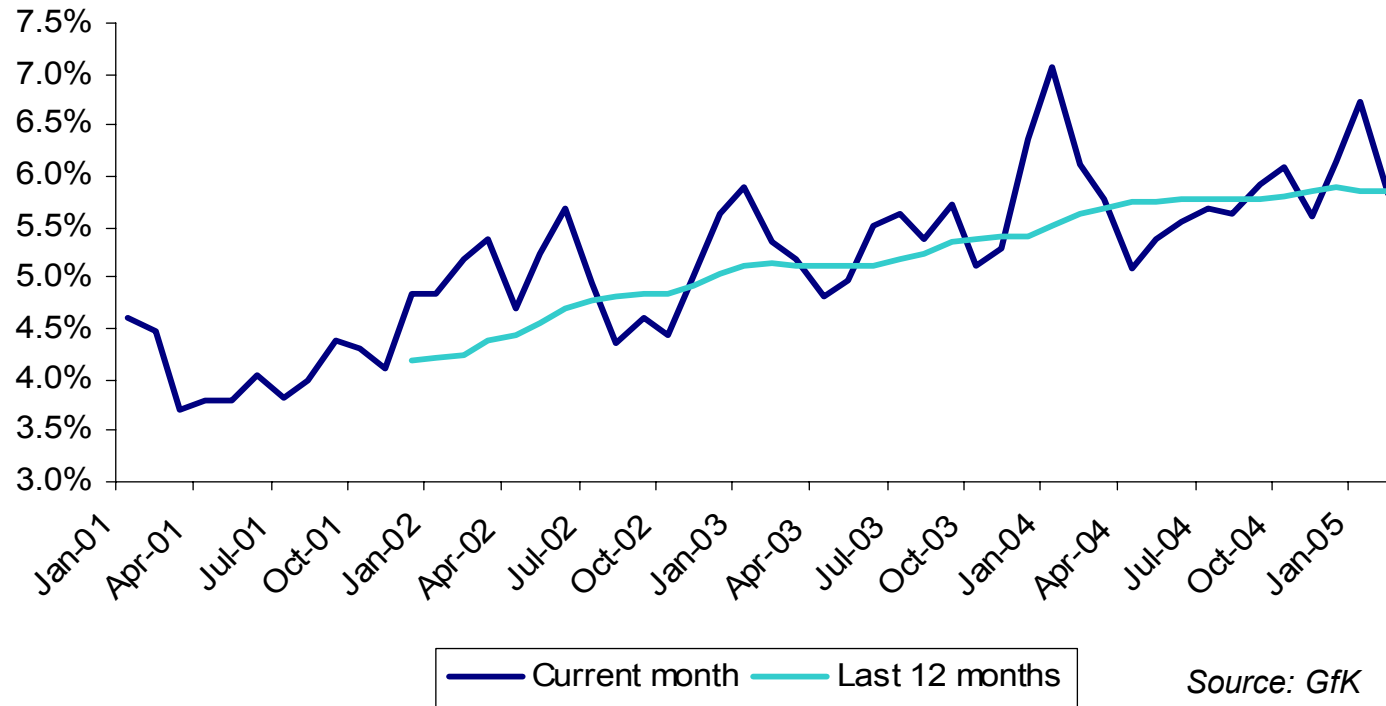
The market has continued to grow strongly



Source: GfK

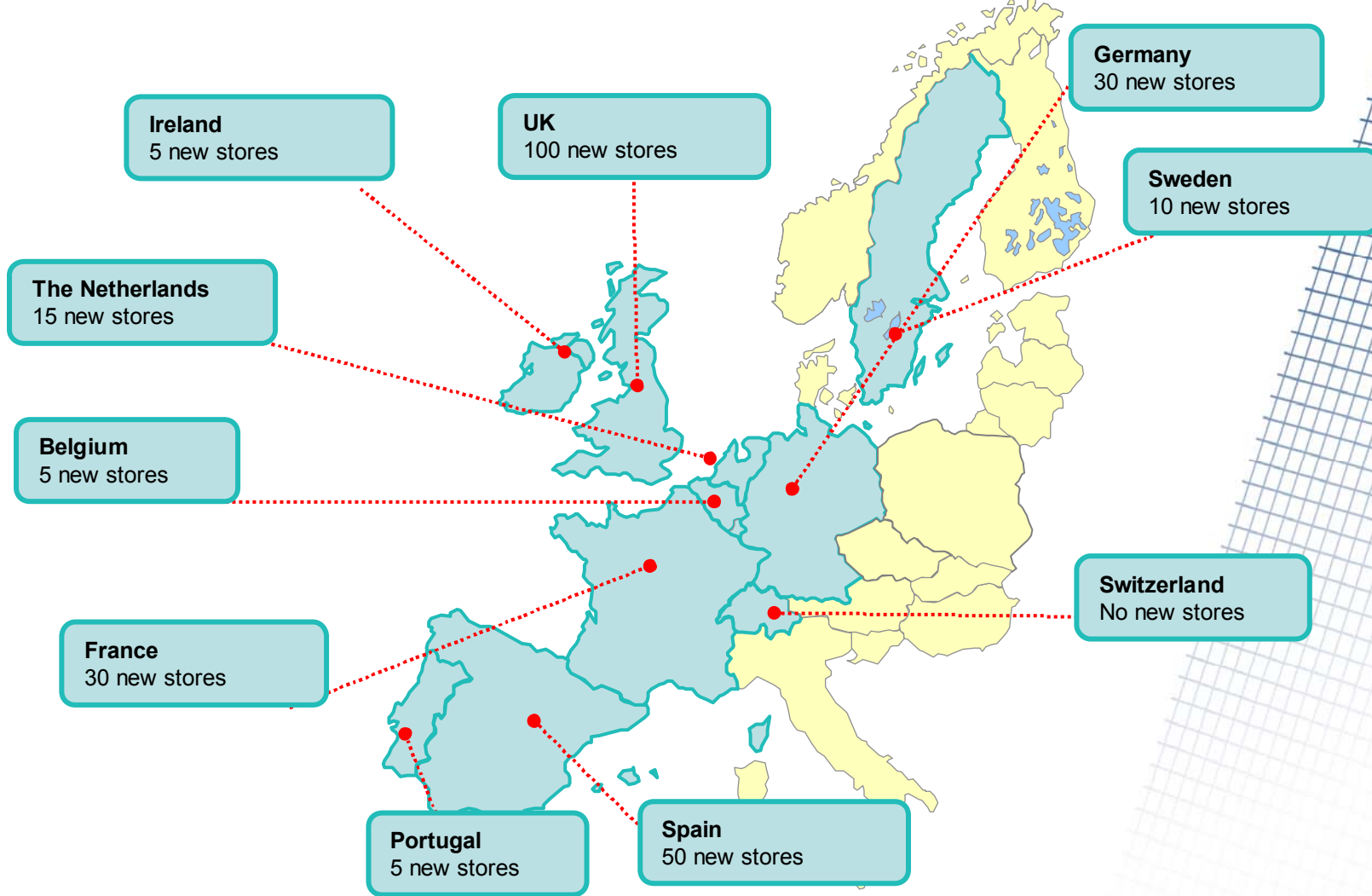
- Pre-pay the main driver
- Rates of growth vary significantly across our markets

Our market share has continued to make progress despite return of non-specialists to pre-pay market

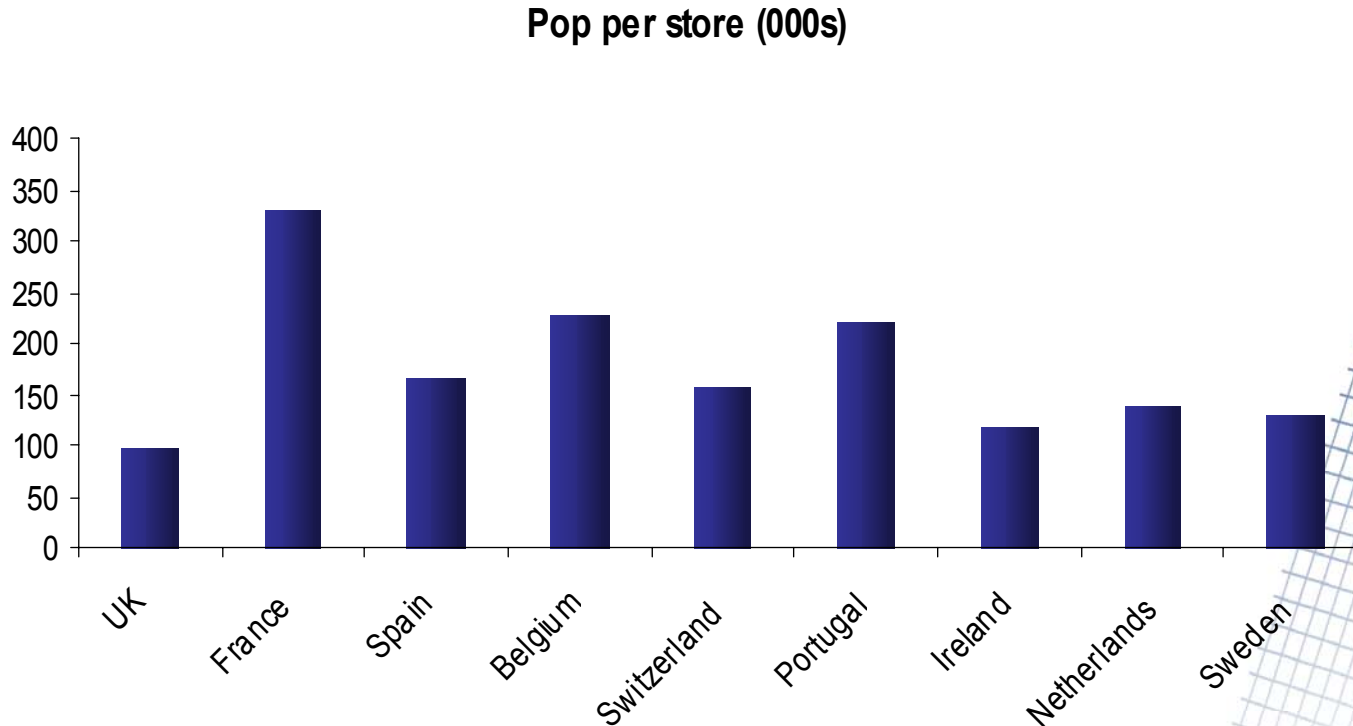


- Importance of pan-European scale (manufacturers), and individual country scale (networks)

A further 250 stores planned for this year



Store growth opportunity



- **On the continent, the roadmap is much easier – still targeting major towns and cities**
- **In the UK, we are progressively targeting smaller towns – and the economics continue to be very good**

New store appraisal

- **Demographic data: shopper and catchment population, census info, correlation with existing stores**
- **Competition: independents, networks, locals**
- **Specific site data: footfall, vehicular counts, other retail tenants**
- **Cannibalisation: assess existing customers from neighbouring stores on mapping system**
 - **Huge customer database is a key differentiator – age, address, purchasing history etc**

Example: Marlborough, Wiltshire

- Total fit-out costs £120k (shop fit, computers, fees)
- On-going costs £44k (rent, rates, service charge)
- Population: urban 7.7k, shopper 11.2k, catchment (20 min drive time) 54k
- Demographics: good (high proportion of “Wealthy Achievers”)
- Competition: none



Example: Marlborough, Wiltshire

- **Target 45 weekly connections (29 breakeven)**
- **Performance since opening (November 2004)**
 - 52 connections/week
 - EBITDA £41,500 to February
 - Annualised ROI (adjusting for Christmas uplift) c. 70%
- **150 more small towns identified**
 - 56 definite development opportunities
 - 94 areas to monitor
- **Significant implications for potential scale of our portfolio across Europe**

Store payback is very good on a 'pure' retail basis...

Cohort	ROI (pure Retail)	ROI (lifetime value)
Opened between 10/02 and 3/03	62%	
Opened between 4/03 and 9/03	67%	
Opened between 10/03 and 2/04	64%	

- **Pure Retail ROI calculated as last 12 months' Retail EBITDA (to Feb 2005) as % of total store investment (fit-out, IT hardware and fees)**

...and really excellent on customer lifetime value

Cohort	ROI (pure Retail)	ROI (lifetime value)
Opened between 10/02 and 3/03	62%	123%
Opened between 4/03 and 9/03	67%	143%
Opened between 10/03 and 2/04	64%	141%

- Adjusted ROI includes lifetime value of Insurance, Ongoing and TalkTalk (UK only)

Other distribution channels

- **Online**
 - **As with other Retail segments, Online market for mobile is growing rapidly**
 - **We are a leader, not a follower**
 - **Multi-channel and multi-brand strategy**
 - **Our scale and physical presence gives significant advantages over ‘virtual’ retailers**

Other distribution channels

- **Franchises**
 - **Grow scale in certain countries (NL, France, Spain, Germany)**
 - **Low capital commitment**
 - **Same design, same offer**
 - **Mystery-shopped every month with strong results**
 - **Buying and volume bonus benefits**

Our customers are not penguins...



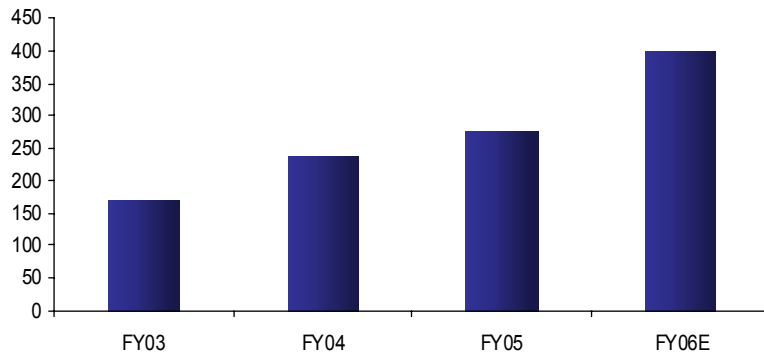
...They do not all want to own the same mobile!

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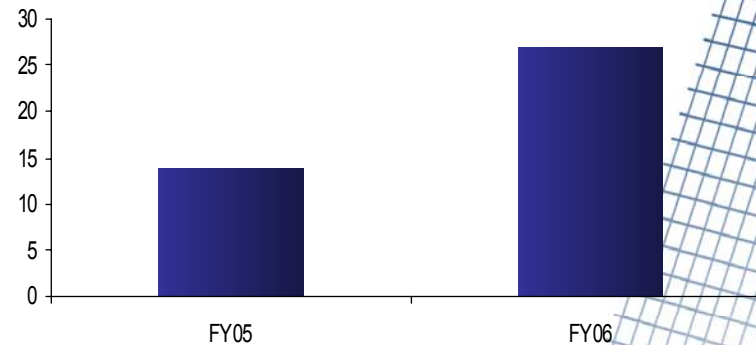
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Our annual range continues to grow

Total range



Manufacturers in Europe



- 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

Purchasing: the way it was

- All markets making their own ranging decisions
- All markets negotiating locally
- No inter-country communication
- Inevitably led to disparate pricing and Ts & Cs, and overstocks
- Markets had varying levels of negotiating power, depending on scale and market share

Purchasing: the way it is now

- **Leveraging total buying power from all markets to:**
 - **Harmonise pricing on all handsets in all markets**
 - **Harmonise Ts & Cs in all markets**
 - **Combine volumes across all markets to negotiate better volume pricing – eg Nokia 1100, Sony Ericsson T610**
 - **Secure launch partner status on handsets – eg Siemens SF65**
 - **Deal with centralised manufacturer account managers**
- **Savings to date in excess of £4m**

Landmark deals in FY05

- **Nokia 1100**
 - Tender to manufacturers in mid-2004 to 'win' our entry level handset contract
 - Purchased >500k at very attractive price and created the market for this product
- **Bluetooth headsets**
 - 4 exclusives in FY05, 8% share of bluetooth headsets for ALL Europe
 - Key launch partner going into FY06 for a number of new products

Purchasing: the way it could be

- **Absolute harmonisation of all Ts & Cs both pre- and post-sale**
- **Menu of handsets and prices negotiated centrally that the markets will buy from**
- **Utilising scale to be first to market on a number of key handsets**
- **Creating our own variant of key handsets to tailor them to our customers' needs and reflect our own product set**
- **Driving a higher proportion of direct sourced handsets**
- **Becoming a purchasing partner for smaller networks and retailers**

A few words on Germany

- A retailer's graveyard where we experienced our own 'near-death experience'
- Hutchison Telecoms acquisition has transformed the business by adding a distribution network
- Now ready to commit further investment in acquiring customers and building our physical presence

The SP model is just a variation on a theme

- **Service providers account for >30% of the German mobile market**
- **Closely regulated with clear protections for SP licence holders**
- **To CPW/TPH, it is just an evolution of the Ongoing model – like MVNOs, FM agreements and ARPU share**
 - **We are leveraging our distribution platform to obtain good terms from networks**

Financial turnaround

£m	FY03	FY04	FY05 (provisional)
Germany Retail EBITA	(7.4)	(3.9)	(1.5)
Germany SP EBITA	-	9.1	14.5
Germany EBITA	(7.4)	5.2	13.0

- £30m investment is paying back handsomely

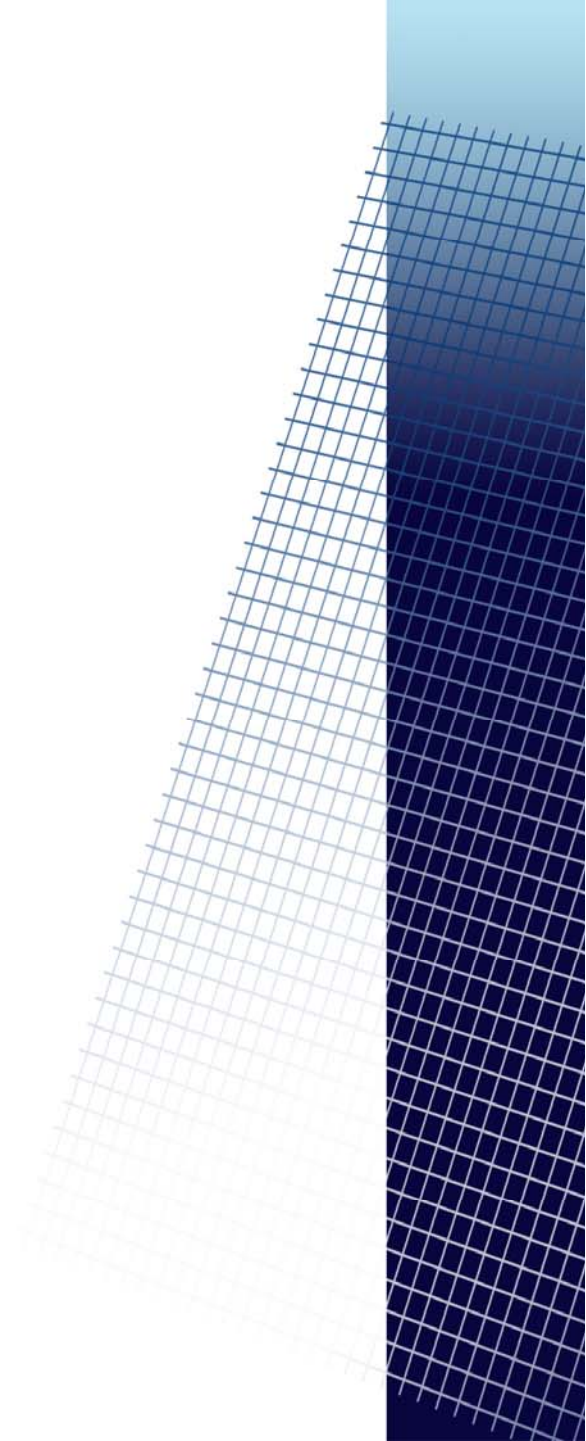
Expansion plans

- **Opening new stores for the first time for several years**
- **Growing our dealer channels aggressively**
- **Taking advantage of uncertainty among major SP competitors**
- **Focusing on improving the quality of sale – eg insurance**

Fixed Line Network

Neil McArthur

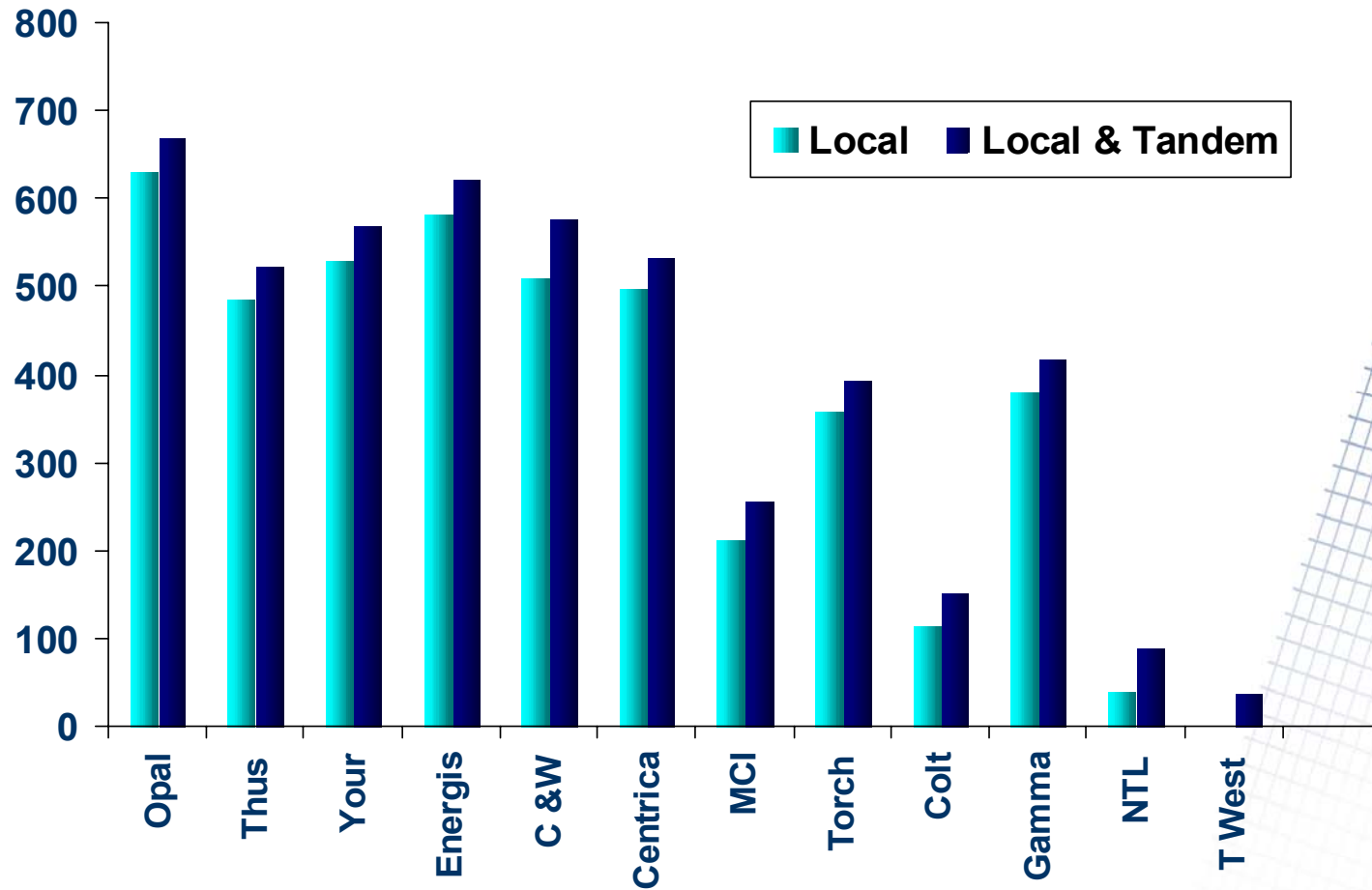
MD, Networks



UK network

- **Opal switches over 1bn minutes of traffic a month**
- **Opal operates 3 main Hubs at Manchester, Birmingham, and Brentford**
- **14 switches, 11 operational, 3 in commissioning/on order**
- **Network designed for 2bn minutes of traffic a month by the end of 2006**
- **673 Interconnects to BT**
- **The most interconnected OLO in the UK**
- **Network supply agreements with BT, C&W, Colt, Fibernet, NTL, Telewest, THUS, SSE & Your Comms**

CPS operators' local exchange connections



Source: BT CPS EBC43 Report

Network rescaling

- Major works in 2004 to prepare for network rescaling from 1bn, through 1.5bn, to 2bn billable minutes of switching capacity per month
- Phase 1 in 2004/5 included building works, ancillary equipment, 3 new switches and major upgrades to transmission & trunk network
- Phase 2 in 2005/6 includes a further 3 switches, completion of new facilities at Manchester and Brentford, softswitch introduction, new IP core network, relocation of London City switch
- Capex for 2005/6 £15m

Network efficiency

- **631 connections to BT local exchanges, up from 437 in 2004**
- **Over 90% of our traffic originates/terminates at local exchanges**
- **Switching costs have fallen in 2004/5 despite phase 1 of network re-scaling from 1 to 2bn minutes capacity**
- **Switching costs will fall below 0.2p/minute this year as we add volume on the network**
- **Network availability has been at an all time high despite major engineering works; helped by our use of multiple network suppliers**
- **Retention of local calls in the local loop will recover network capacity**

Spain (Xtra)

- **Expansion of Xtra's network in 2005**
- **Major switch & trunk network upgrades**
- **Monthly traffic up from 45m to 74m minutes**
- **Interconnects to Telefonica doubled to 500E1s**
- **Network built to Opal in London**
- **Opal carrying Xtra's UK and international traffic**
- **First advanced IN services launched**

International network

Interconnects & trunk network into:

- **Austria**
- **Belgium**
- **France**
- **Germany**
- **Ireland**
- **Netherlands**
- **Spain**
- **Switzerland**

21CN

- **Opal's plans to integrate with BT's 21CN well advanced**
- **BT interconnects expected to fall to 120 over 5 years from 2006**
- **All BT 21CN interconnect locations in plan**
- **Opal will have no stranded network. All Opals trunk network on 5 year agreements, most with 3 years to run**
- **Tenders out for the supply of softswitches**

Broadband

- **Broadband services launched using BT IP Stream**
- **50,000 subscribers**
- **Valuable operational experience**
- **Rescaling of support platforms**
- **Development of Broadband Support team**
- **New core IP network in build to support broadband expansion**
- **LLU in trial stages, some regulatory issues outstanding**

Mobile World

- **Opal/CPW first company to originate traffic on a UK Mobile network**
- **Mobile prepay platform developed and operated by Opal**
- **Back office systems developed to support Mobile services**
- **All international calls delivered by Opal**
- **Phase 2 enhancements underway**
- **Further developments planned with T Mobile**
- **Mobile World is helping drive scale in our international traffic**

Major opportunities

- **Further improvements in costs of basic service delivery**
- **International trade and termination in the UK**
- **Mobile service creation**
- **WLR**
- **Broadband**
- **LLU**

Summary

- **We are the most interconnected OLO in the UK**
- **We operate the most efficient network in the UK**
- **Our switching costs per minute will continue to fall**
- **Migration plan to 21CN**
- **Strong development team (Mobile World)**
- **We are prepared for LLU if it becomes economically sensible**
- **Core IP network in place**
- **The network division is a business in its own right and has many opportunities to develop**

Fixed Line Trading Review

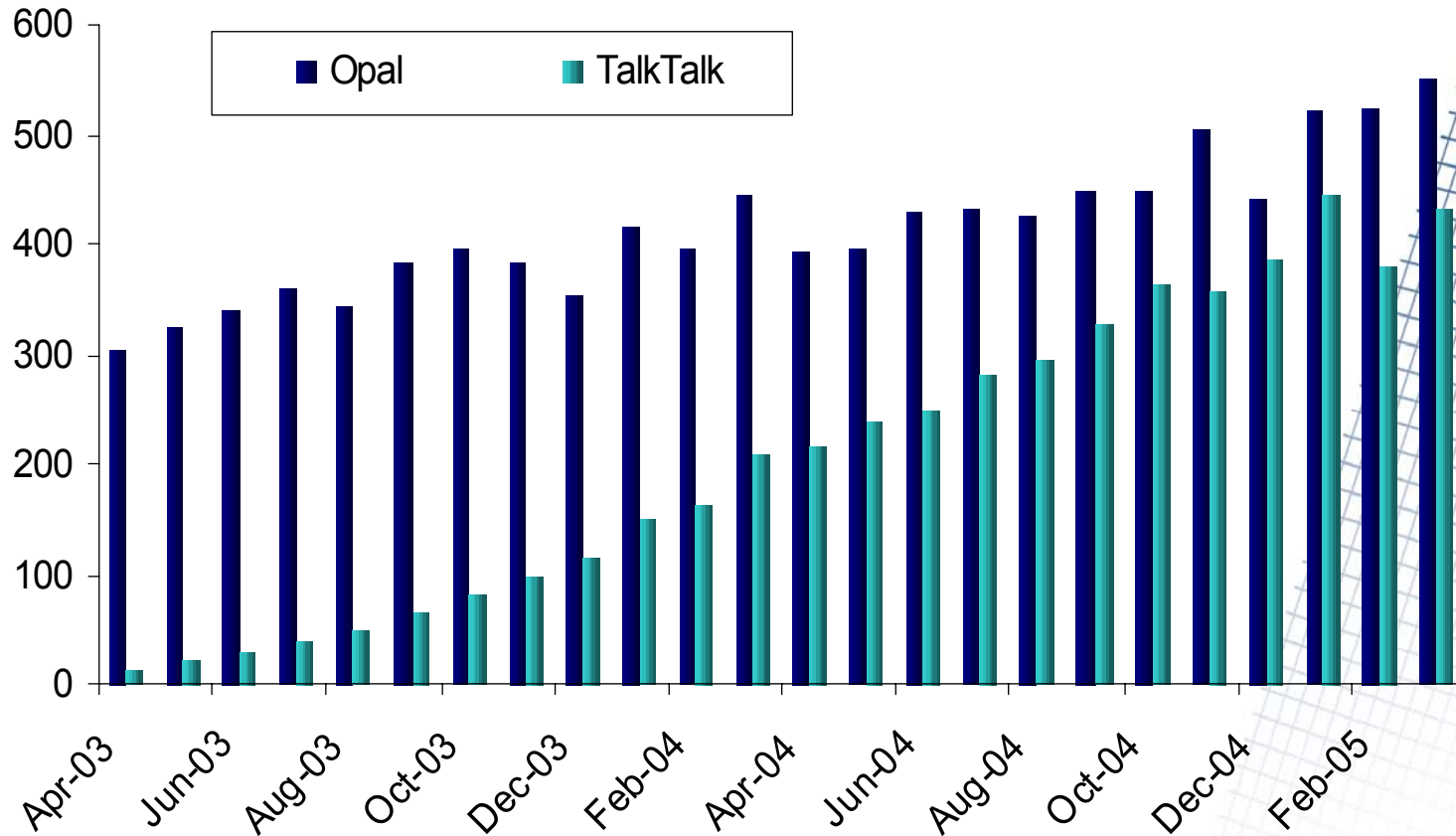
David Goldie

COO, Telecoms

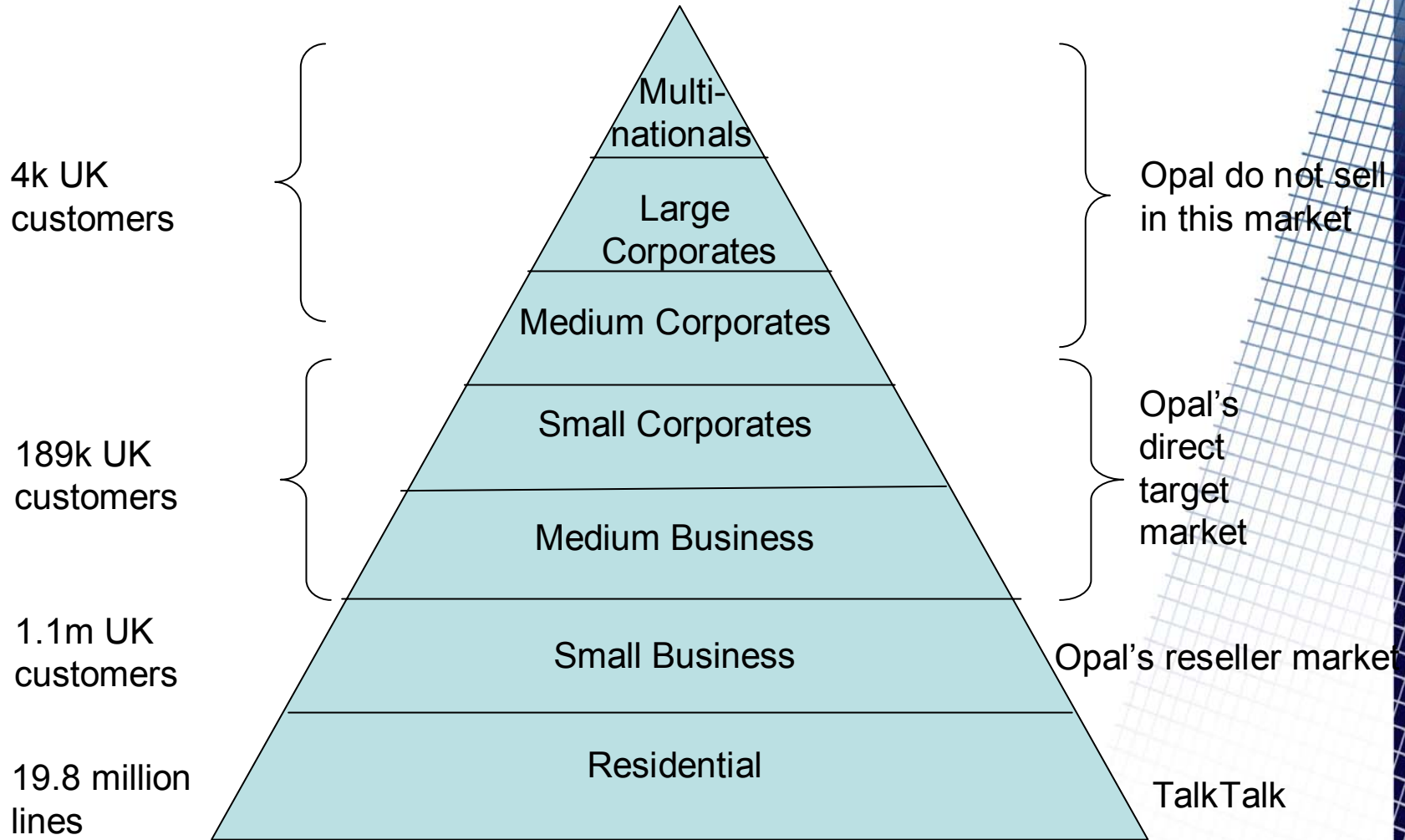
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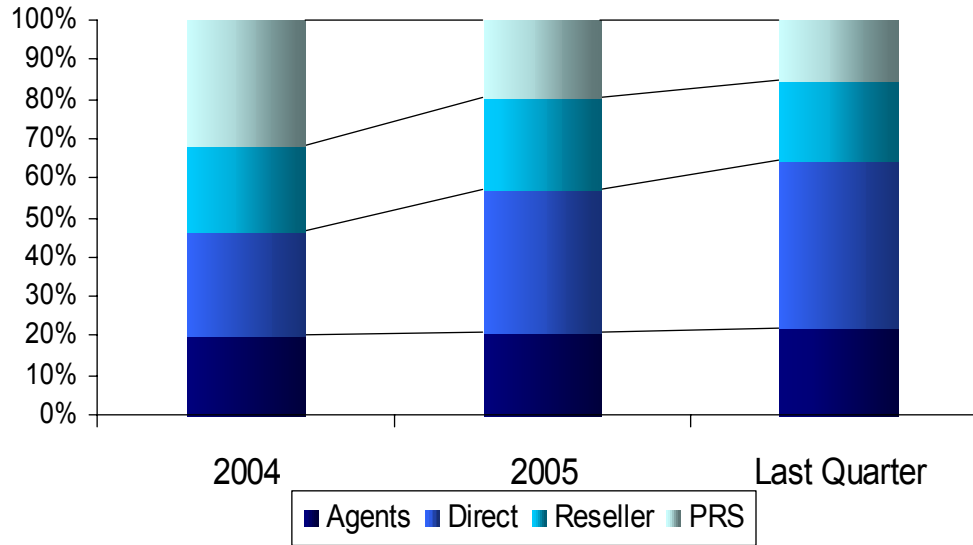
Opal traffic growth 04/05



Opal's market segmentation

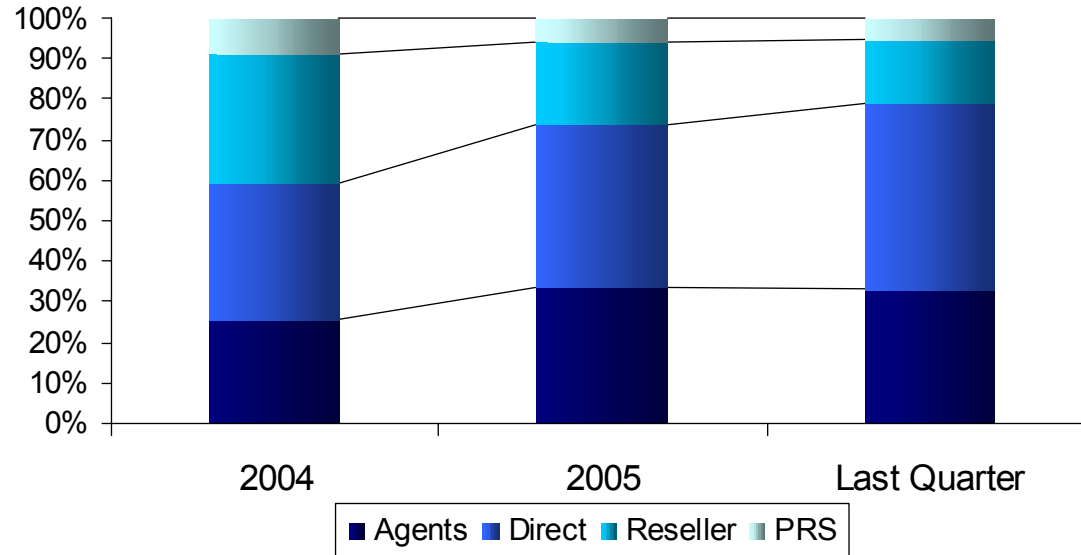


Opal's revenue mix



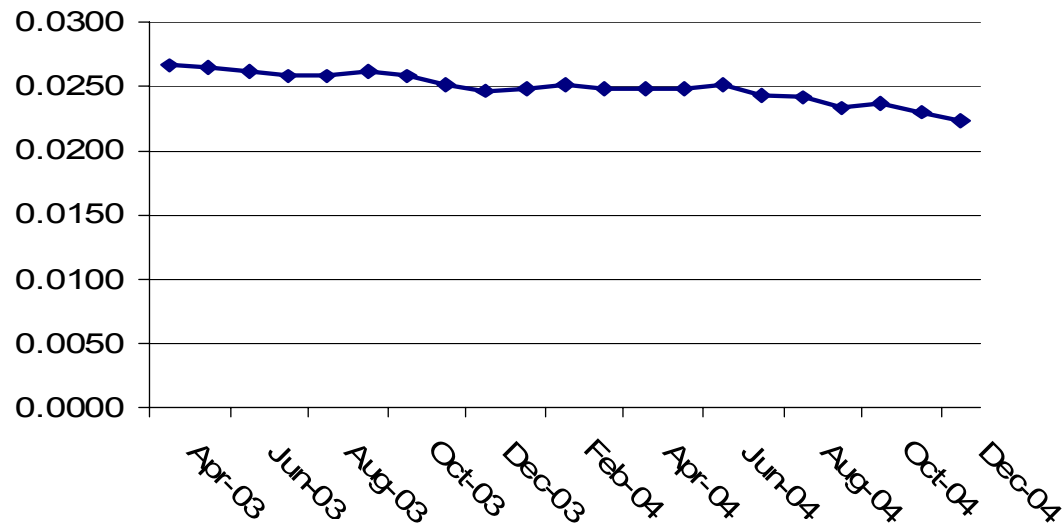
- **Continuing de-emphasis on low margin premium rate**
- **Strong growth in directly served customers**
 - **Better customer tenure**
 - **Wider concentration**
 - **Improved opportunity for value-added**
- **Balanced distribution a core strategy**

Opal's contribution mix



- **PRS contribution now below 5% of total**
- **Improvement in Direct contribution follows growth in revenue**
- **Reseller share falling due to:**
 - **Growth in direct business**
 - **Mobile termination price review**
 - **Intensity of competition in reseller market**

Opal's CPS call price per minute*



* Rolling 3 month average, excludes TalkTalk

- **Feb's average CPS sales price per minute has fallen 9% yoy**
- **Opal passed the benefit of the mobile termination review onto all customers during the Autumn – Effectively a reduction of 12%**
- **Compensating improvement in revenue per min. due to improving business mix**
- **Margin softening as planned, cushioned by network roll-out and regulated BT Wholesale price reductions**

Opal's Directly Served Customers

- National team of >110 field sales people
- 2005 - focus on deepening customer relationship through:
 - Line rental (30,000 WLR lines in service)
 - Broadband
 - Mobile
- TalkTalk Business launched for small enterprise clients
 - Selling through a new sales team
 - Customers will enjoy free calls from TalkTalk
 - Range of small business tariffs

Business

TalkTalk

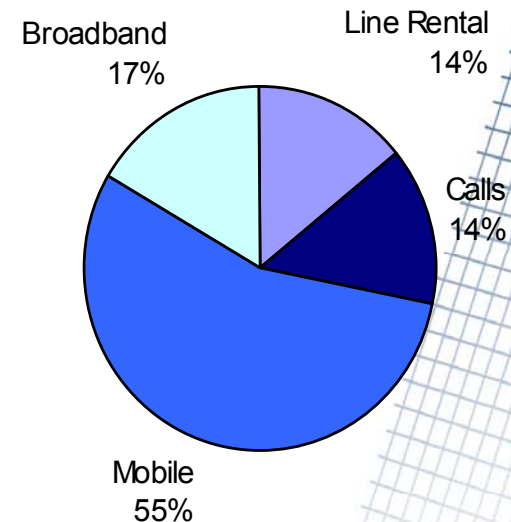
Business Telecoms from **Carphone Warehouse**

Opal's Reseller market

- Intense competition including C&W, Colt, Energis, Gamma Networks
- Impact of mobile termination review
- Opal's automated business processes keep reseller cost to serve below 2% of sales – others cannot compete
- Opal continues to acquire reseller customer bases
 - 5 small acquisitions during the year
 - Minimal contribution in 04/05 as most deals were in H2

Opal's strategic focus

- Opal has only focused on serving 28% of a typical customer's needs
- Opal is now delivering mobile, fixed line and line rental on a single account
- We aim to introduce a growing set of broadband services during 05/06
- Broadband and mobile contribution should be significant from 06/07



Typical proportionate spend on Telecom Services by a 50-man business

Xtra – B2B in Spain

- In March 2004 CPW acquired Xtra
- Xtra is a capex-lite fixed line operator with 4 main business streams:
 - Business to business fixed line customers
 - Wholesale for resellers and carriers
 - International prepay cards sold via retailers
 - Services to international prepay callshops
- Our strategy is to drive earnings quality through growth in B2B – targeting over 50% growth in contribution from this stream
- Other streams are stable

B2B Summary

- **UK Focus is on:**
 - **Driving efficiency to defend margins despite price erosion**
 - **Deepening the customer relationship**
 - **WLR**
 - **Broadband**
 - **Mobile**
 - **Attacking the small business market via TalkTalk Business**
- **Spanish focus is on improving quality of earnings from B2B growth**

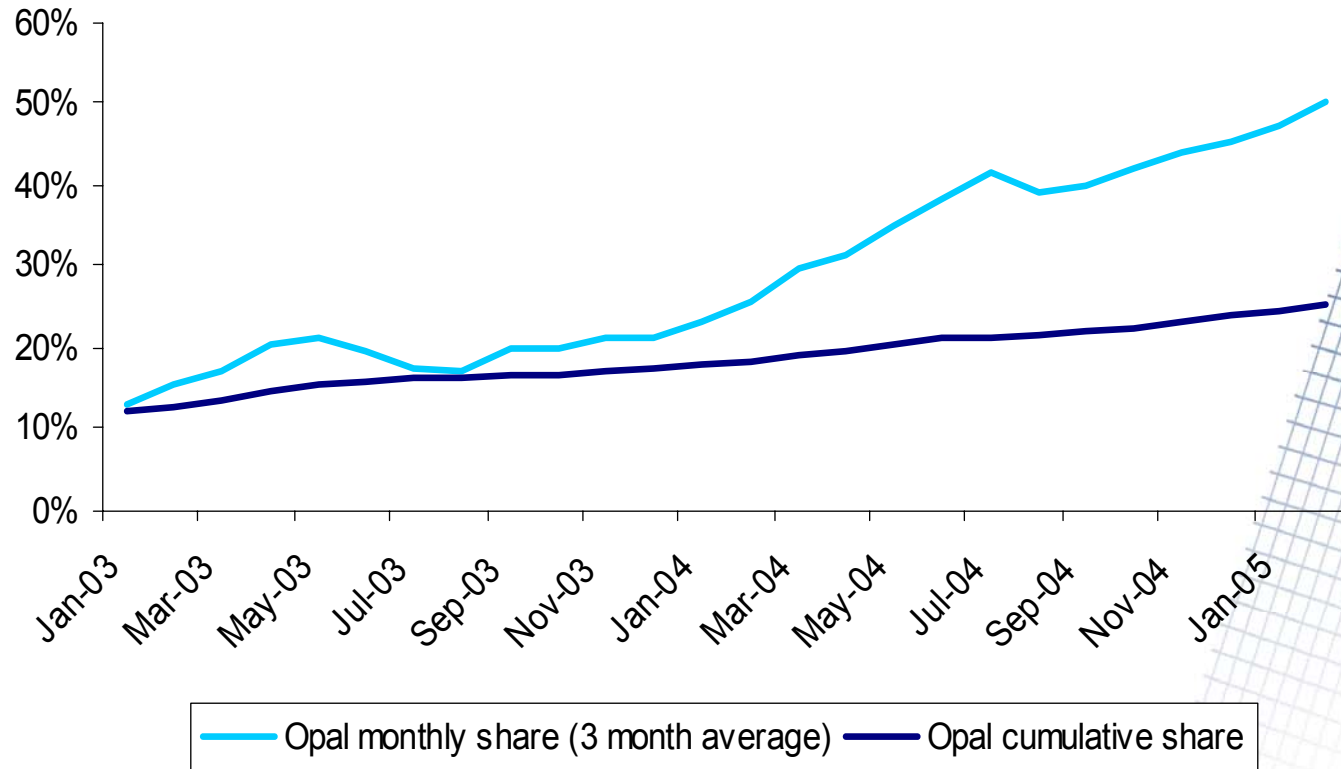
TalkTalk - Milestones

- **TalkTalk pioneers the launch of “Free Calls”**
- **Brand awareness builds with “Big Brother” sponsorship – renewed for 2005**
- **Broadband launch, c.50,000 subscribers join in first 5 months**
- **TalkTalk UK CPS base at 920,000**
- **TalkTalk has dominant CPS market share**
- **Pan-European business**

European Telecoms

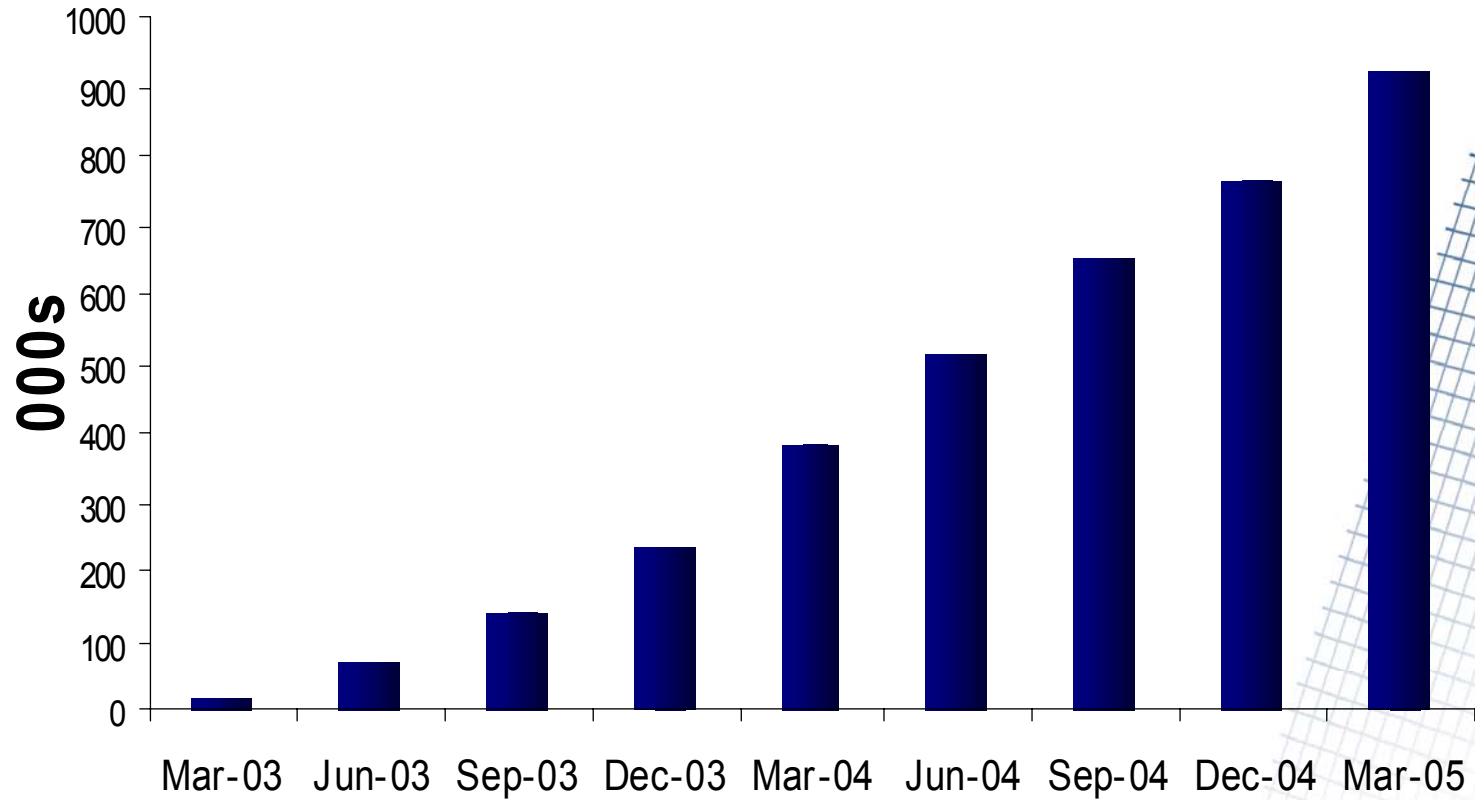
- **TalkTalk is available in France, Spain, Germany and Switzerland**
- **Non-UK residential CPS customer base stands at 170k**
- **Launches are planned in Republic of Ireland and Belgium during H1**
- **Almost all sales come from Phone House retail stores – SAC is therefore very low**
- **Sales are growing in every market**
- **Market conditions vary so customer NPV also varies**
- **We aim to minimise cost to serve through the use of a common European billing and CRM platform**

TalkTalk Dominates UK CPS



Source: BT

TalkTalk UK – base growth



TalkTalk Broadband

- **“Soft launch” in November 04**
- **Broadband offer is competitive if taken with CPS**
- **No third party channels**
- **A learning experience - Our objective was to:**
 - **Test market appetite and retail sales capability**
 - **Understand price elasticity and customer usage dynamics**
 - **Refine customer service processes**
- **Sales have outperformed expectations – c.50,000 customers**

UK Broadband experiences

- **Strong sales performance given lack of promotional support - web sales in particular being impressive**
- **Customers need a lot of handholding in set-up and costs to serve have been high but are now declining**
- **Difficult to make money from Broadband using BT Wholesale services, but benefits felt in CPS loyalty**
- **LLU changes the structure of supply in the market – opportunities may lie there, Ofcom regulation and BT process efficiency is key**
- **March 06 customer base may be between 100k and 150k but not material to profitability**

WLR update

- **Today WLR is uneconomic**
- **Ongoing Ofcom consultation on pricing of copper and equivalence of processes**
- **Small margin may be created between wholesale and retail products**
- **CPW's launch depends on the timing of Ofcom**
- **Key to long term meaningful competition in UK residential telecoms**
- **WLR likely to have substantial customer loyalty benefits**

Growth areas

- Continue to drive strong base growth with target of 2m UK customers within three years
- WLR
- Fixed/mobile convergence
- Broadband

Summary

- **TalkTalk dominates the UK and is growing strongly in Europe**
- **The opportunity to enhance TalkTalk's profitability and customer loyalty through WLR and broadband is significant**
- **TalkTalk has the most effective low-cost customer recruitment channel in the market**

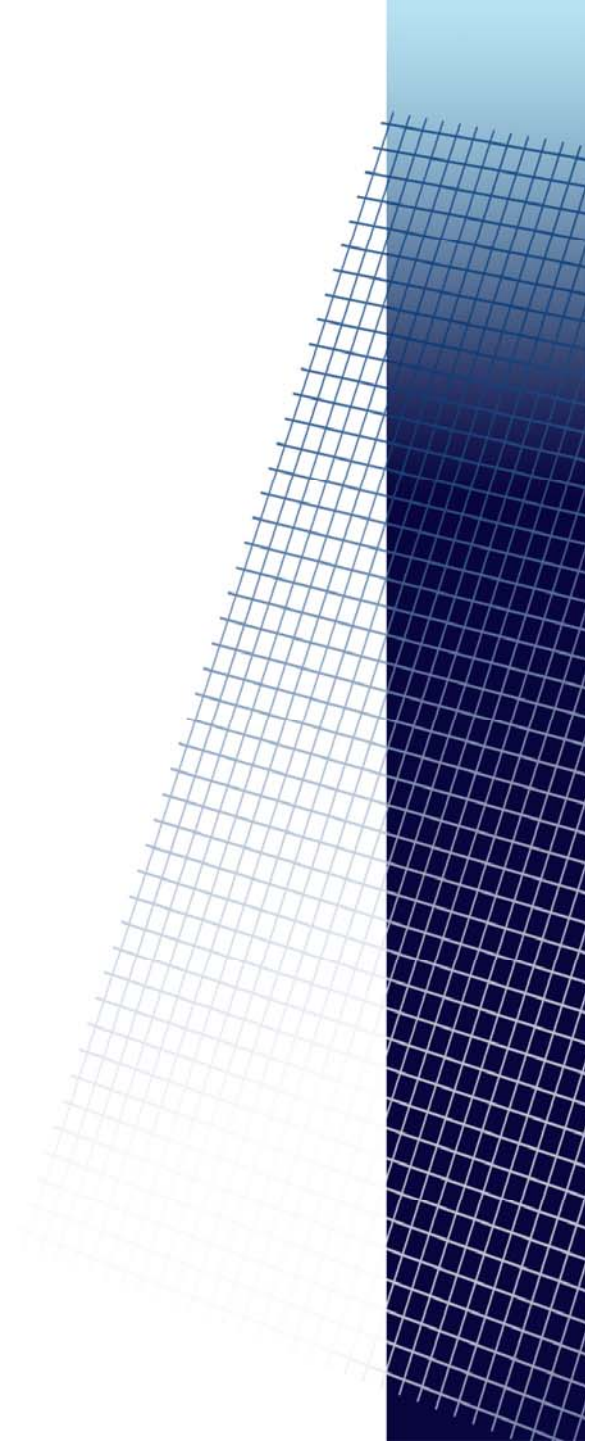
FY06 guidance

Roger Taylor

CFO

THE Carphone Warehouse

...for a better mobile life



Contribution trends for FY06

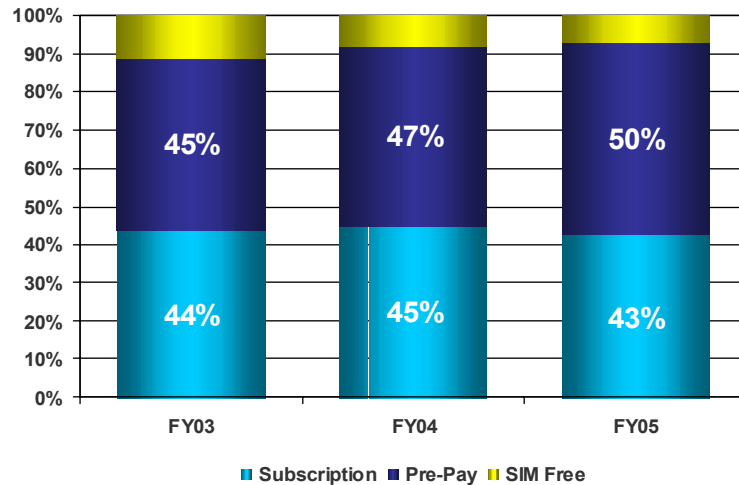
<u>Business Unit</u>	<u>Trend</u>	<u>Remarks</u>
Retail/Online	+	250 store openings, UK Online channels
Ongoing	++	Continued base growth, focus on terms
Insurance	++	Continued base growth
Telecoms - Mobile	+	German SP broadening distribution; more MVNO opportunities
Opal	+	Strong top line growth, some margin erosion; investment in new products
TalkTalk	++	Becomes meaningful profit contributor; further investment in broadband and European TalkTalk
Support costs	-	Further investment in growth platform

Retail/Online

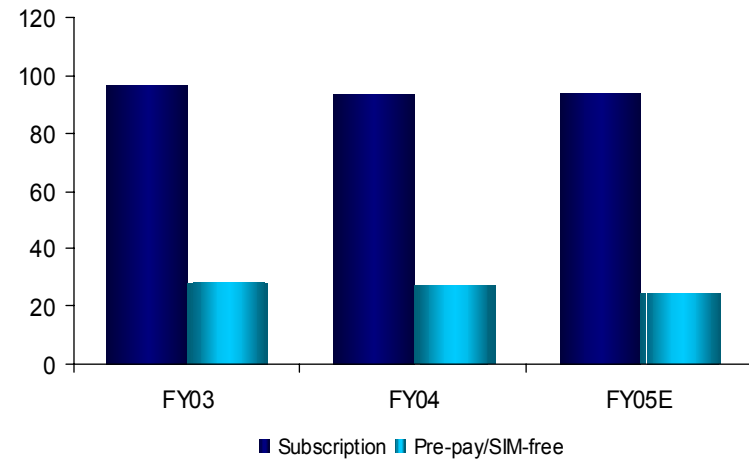
- **Broadly flat LFL gross profit**
 - **UK consumer outlook and no assumption on aggressive 3G migration**
- **Low teens % growth in connections: driven by new space (average new space growth 14%)**
- **Similar rates of growth in subscription and pre-pay**
- **Average revenue per connection to rise again in FY06**
- **Average gross profit constant in both subscription and pre-pay**

Mix and Margin

Mix Progression

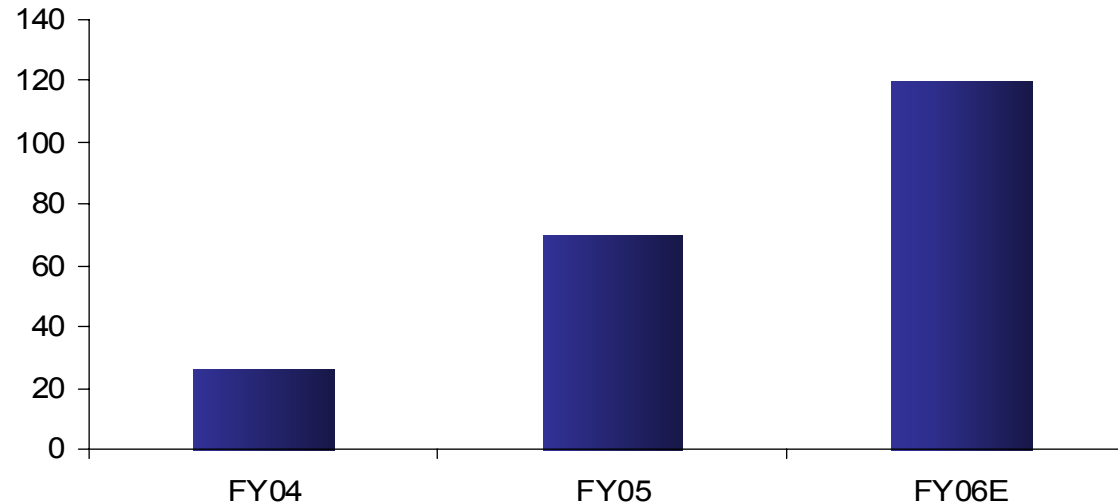


Margin Progression



- **Subscription mix to remain broadly flat year-on-year**
- **Subscription gross profit is robust and pre-pay has stabilised**

Impact of franchise stores

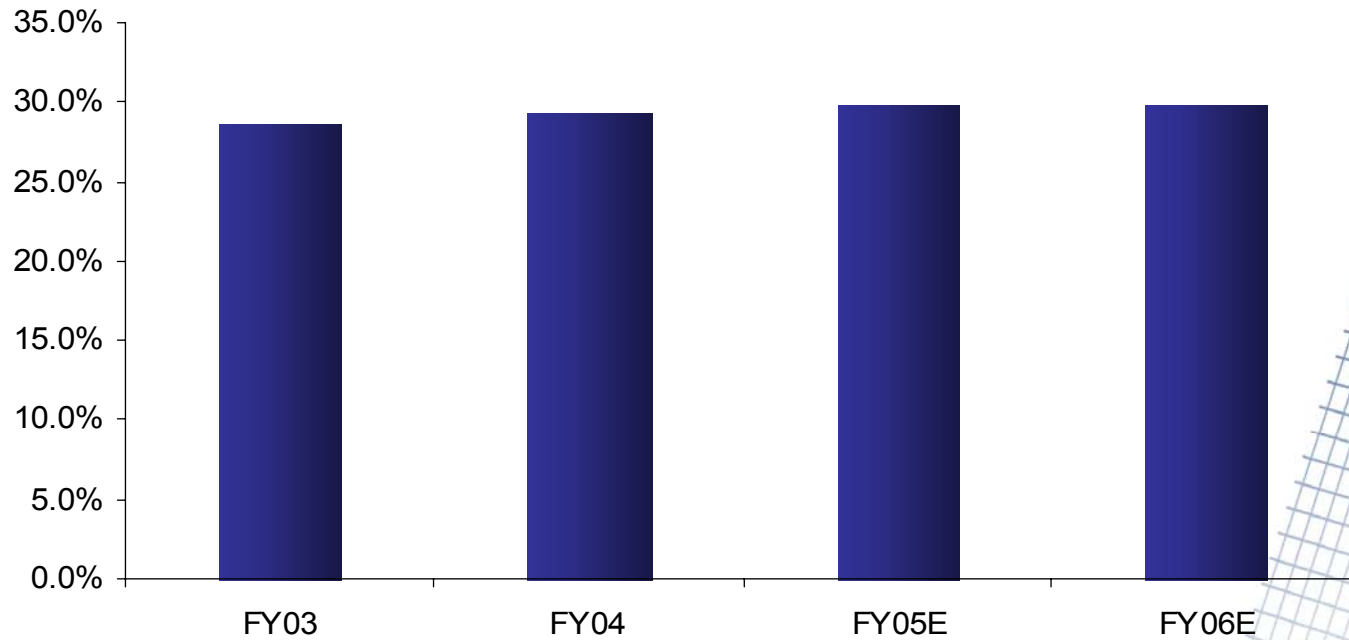


- **Connections and revenue not included in Retail figures; profits are included in Retail gross profit and contribution**
- **Typical contribution £30k per franchise but other benefits accrue eg buying, volume bonuses, brand awareness**
- **Relevant markets: Spain, Netherlands, France, Germany**

Retail costs and contribution margin

- **Net direct costs expected to rise in line with gross profit**
 - Impact of extent of new store openings
 - Variable elements (commissions)
 - Rents
 - Pre-opening costs
- **Contribution margin expected to fall by 50 bps year-on-year to 7.5-8.0%**
- **53rd week added about £2m to Retail contribution**

Retail contribution as % of gross profit



- **Contribution as a proportion of gross profit has been very consistent**

Online

- **Further strong growth in connections, revenue and contribution**
- **Driven by management focus on additional UK channels**
- **Targets separate segment of the market**
- **Operates on lower margins (c. 6% contribution) but benefits overall Group economics**
 - **Volume**
 - **Ongoing**
 - **Insurance**

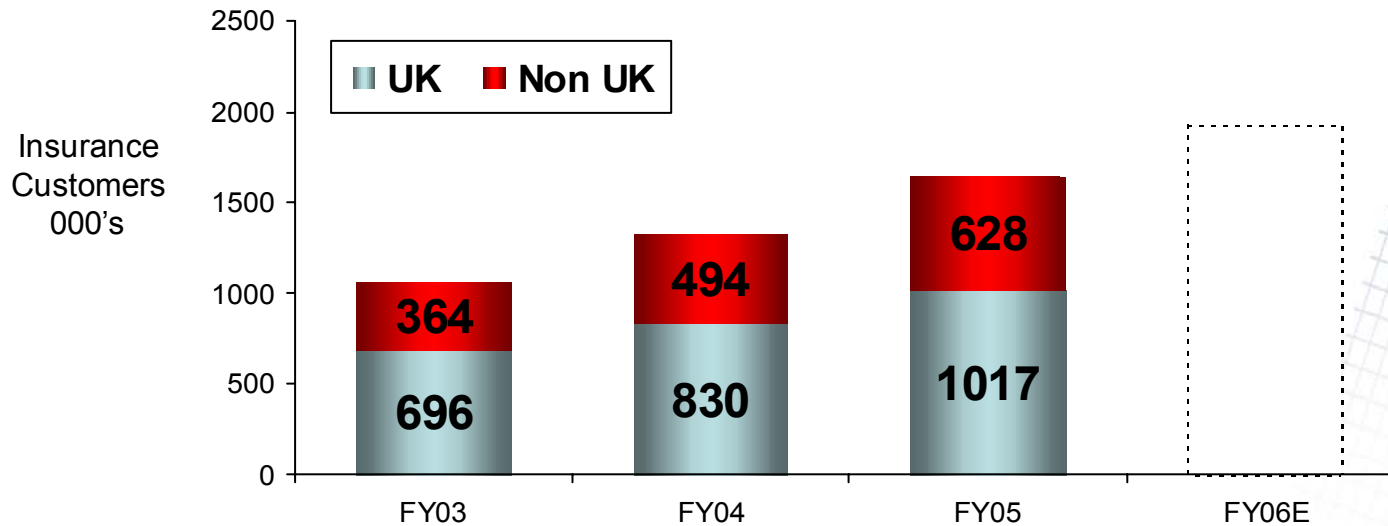
Ongoing revenue

- **Big internal focus on terms**
- **Increased scale has improved negotiating position**
- **Strong link with customer management relationships in UK and France**

 **Expecting growth of 15-20% this year**

Insurance

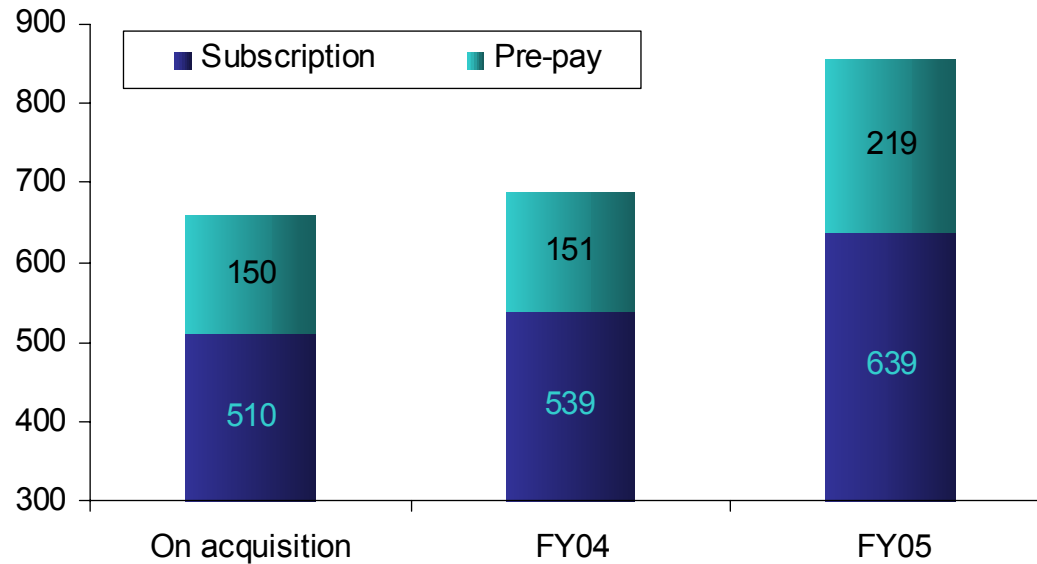
- Very strong base growth in FY05, with UK now c. 1m customers
- Driven by subscription sales – 15-20% growth for FY06
- Online and TPHT channels can deliver additional growth
- Margins maintained
- Third party business still small but growing



Distribution - summary

- Overall revenue growth of c. 20%
- High margin, recurring streams will grow faster than Retail
- Contribution margin down slightly on FY05 due to higher ARPC
- Divisional EBIT margin maintained at around 6%
- 3G uptake potential upside

Telecom Services – The Phone House Telecom



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

Telecom Services – Mobile

- **The Phone House Telecom is the key driver of profitability**
 - c. 80% of business unit revenues and 65% of contribution
 - Unlikely to replicate strong margin performance of FY05 but base growth focus will drive contribution growth
 - **FM business important for network relationships**
 - Benefits felt in Ongoing and upgrade connections
 - Limited year-on-year profits growth
 - **MVNO initiatives could drive upside**
- ➡ **Total Mobile revenue growth of 20% in FY06, contribution margin maintained at 6-7%**

Telecom Services – Opal

- Revenue growth c.15% in FY06 – organic and FY05 acquisitions
- Markets still competitive but business retains defensive characteristics
- Investment in new areas
 - TalkTalk Business
 - Mobile
 - Business broadband/data products



Contribution margin of 12-13%

Telecom Services – TalkTalk

- **TalkTalk UK**

- Continued strong base growth, likely to be weighted towards H2 given regulatory position
- ARPU declining slightly with lower mobile rates
- Total SAC and marketing spend similar to FY05
- Marketing budget weighted towards H1, as for FY05
- Residential broadband to lose another £2-3m
- Strong profit generation in FY06 with contribution on voice revenues of 7-8%

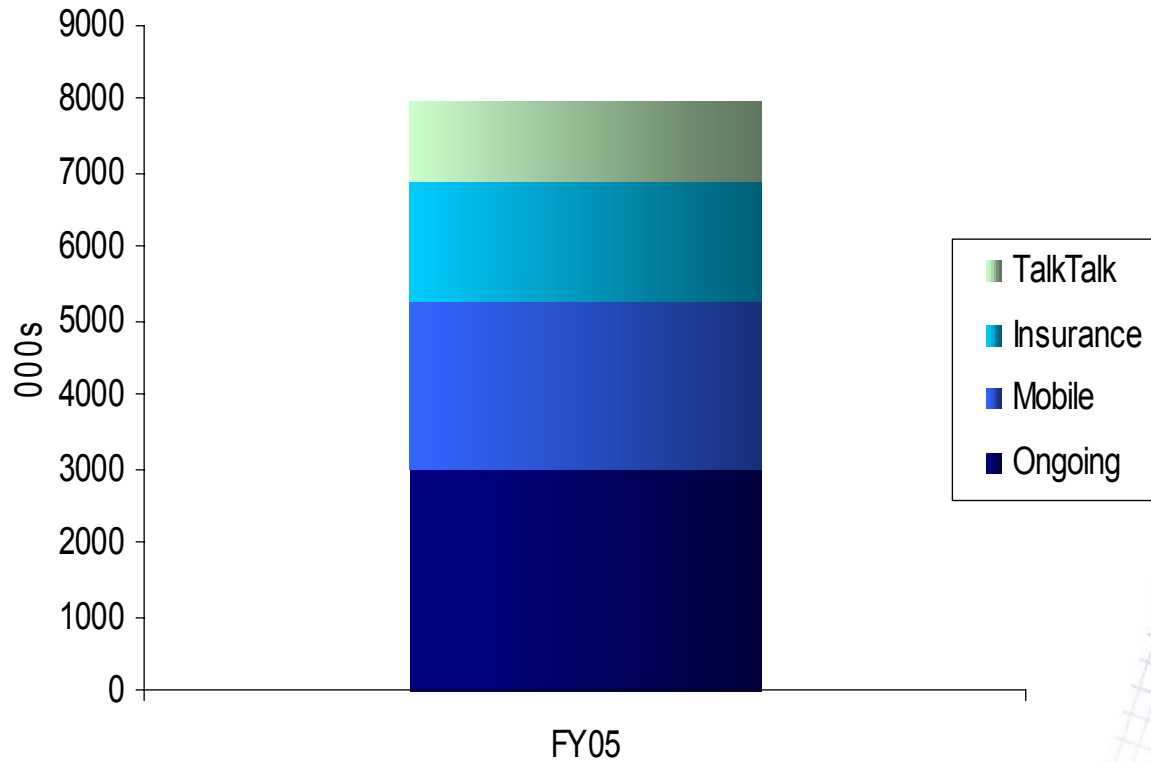
- **Non-UK**

- Further investment in base growth and product refinements
- Overall small positive contribution from non-UK TalkTalk operations

Telecoms Services - summary

- **Divisional revenue growth of c. 25%**
- **Substantial profits growth driven by TPHT and TalkTalk**
- **Investment in broadband and new Opal business streams**
- **Blended contribution margin of c.7.5-8.0%: strong improvement on likely FY05 outcome**
- **EBIT % expanding marginally year-on-year, but within 2.5-3.0% range**

Growth in customer bases drives earnings quality



Plan to re-invest cash generated for future growth

- **Total capex of up to £90m budgeted for FY06**
 - **£20m on new stores**
 - **£15m on refits/relocations/in-store upgrades**
 - **£30m on IT**
 - **£15m on telecoms infrastructure**
 - **£10m on other maintenance projects**
- **Continue to finance future growth from internal cash generation**
- **Working capital investment of c. £40m driven mainly by TPHT working capital terms and underlying growth**

Group IT key projects

- **New group billing platform**
- **Group infrastructure requirements**
- **Software licence costs**
- **New Insurance systems**
- **Implementation of new telephony architecture**
- **Roll-out of new chip and pin solution**
- **Retail store efficiency projects**
- **CRM project**

Support costs, depreciation, interest and tax

- **Support costs growth in line with profits growth**
 - Productivity focus
 - BUT investment required in getting the right management and infrastructure in place to support sustainable long term growth
- **Depreciation growth of c. 20%**
 - Continues to be driven by our heavy investment programme
- **Interest**
 - Year-on-year funding position broadly unchanged
- **Tax**
 - Medium term effective rate of 25-26% continues to be achievable

Movement in support costs

Category	Y-o-Y increase £m
Distribution growth	5
Business development	3
IT	4
Central management	2
Local management	3

Share options

- **IFRS 2 requires that options are valued at their fair value at the date of grant**
- **Companies are required to estimate the total number of options that are likely to vest where internal performance conditions are attached**
- **Where performance measures are 'external' (eg TSR), no annual reassessment is required**
 - ➔ **£3m charge in FY05 under IFRS**
 - ➔ **£4m charge for FY06 assumed in consensus forecasts**

Goodwill

- **IFRS prohibits amortisation of goodwill and introduces annual impairment testing**
- **Customer bases will be classified separately to goodwill and classified as intangible assets on all business acquisitions from March 2004 - £12m in total**
- **We will amortise these over a 12 month period with a c. £6m charge in FY05 and FY06 under IFRS**



No change to headline normalised PBT or EPS

Opening balance sheet 31 March 2004

- No significant net change in b/f net asset position
- Underlying adjustments include:
 - Redenomination of goodwill
 - IAS 39 liability recognition
 - Dividend liability de-recognition
 - Extension of rent-free periods
 - Deferred tax

Other matters

- Capitalisation of leases
- Presentation of intangibles
- Segmental reporting – markets and business units

➔ Still a degree of uncertainty on some interpretations

FY06 summary

- **Strong growth in revenue and earnings**
- **H1/H2 growth rates similar**
- **Significant investment but attractive ROI**
- **Further development of ROCE**

FY07 and beyond

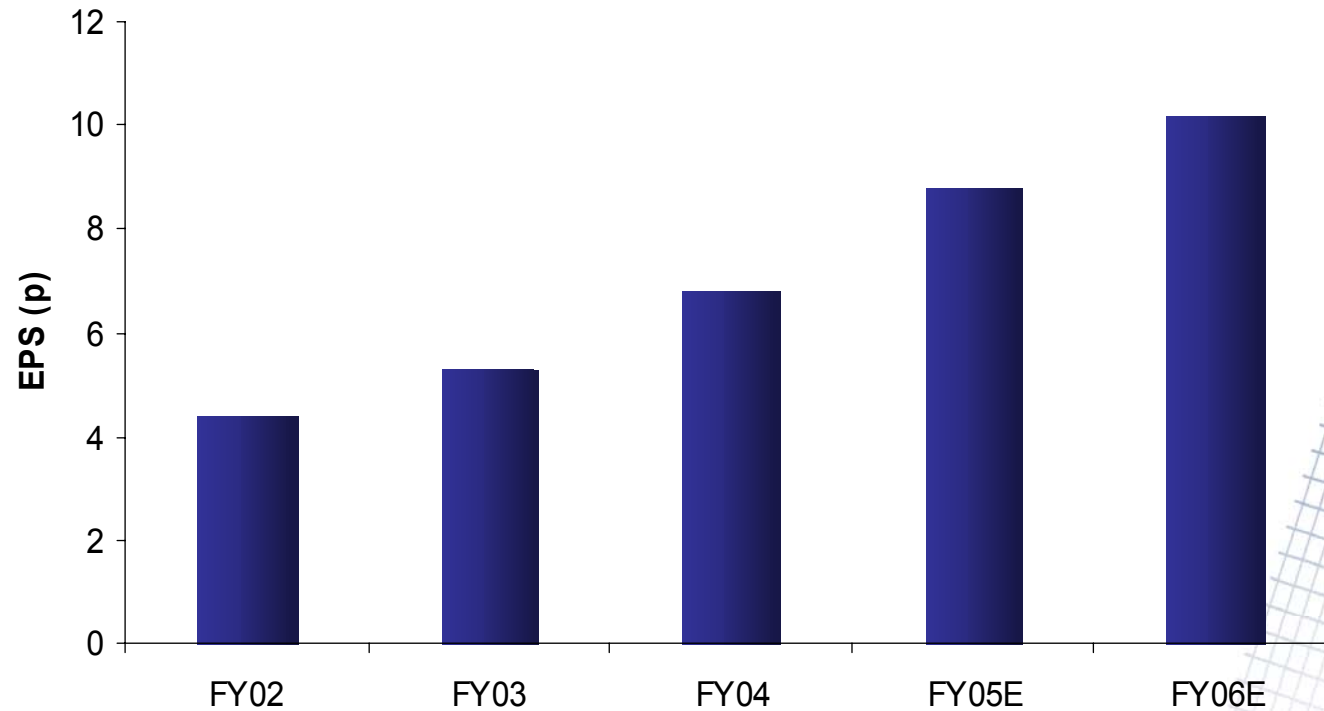
- **Distribution**

- Continue to drive connections growth through new stores, new channels and LFL
- Leverage scale to improve purchasing terms and network commercials
- Focus on recurring profit streams
- Maintain EBIT margins

- **Telecoms Services**

- Continue to invest in customer recruitment for TPHT, TalkTalk and Broadband
- Strong top line growth and EBIT margin progression

EPS growth through organic growth and new business development



E = Reuters consensus market estimates

Closing remarks

Charles Dunstone

Misconception 1: Disintermediation

“Ultimately all the networks will deal direct with their customers and disintermediate the independent adviser”

Misconception 1: Disintermediation

- **Network churn is 30%**
- **That means that every year, networks need to ‘find’ enough new customers to replace this churn just to stand still**
- **If they are not competitive in the leading independent chain, they will lose market share to those that are**
- **Current rising levels of SAC have not dented network margins: their business models are still highly profitable**
- **Customers generally shop for handsets, not networks**
- **CPW/TPH must strive to remain the independent channel of choice because of our greater scale and high service levels (for both networks and customers)**

Misconception 2: Market maturity

“The mobile phone market is maturing. Network competition will subside and customers will upgrade less often”

Misconception 2: Market maturity

- **High penetration \neq market maturity**
- **When penetration begins to plateau, competition increases**
 - **No 'new' customers to find; networks can only grow by poaching each other's customers**
- **Sweden is the template of advanced market dynamics**
 - **Low SAC, high postpay mix market becomes intensely competitive as penetration reaches saturation levels**
- **Replacement cycle continues to contract**
 - **20% growth in European handset market last year was not all new customers!**

Misconception 3: Technology slowdown

“Phones already have a lot of redundant functionality that customers don’t want. The rate of technological innovation will slow from here”

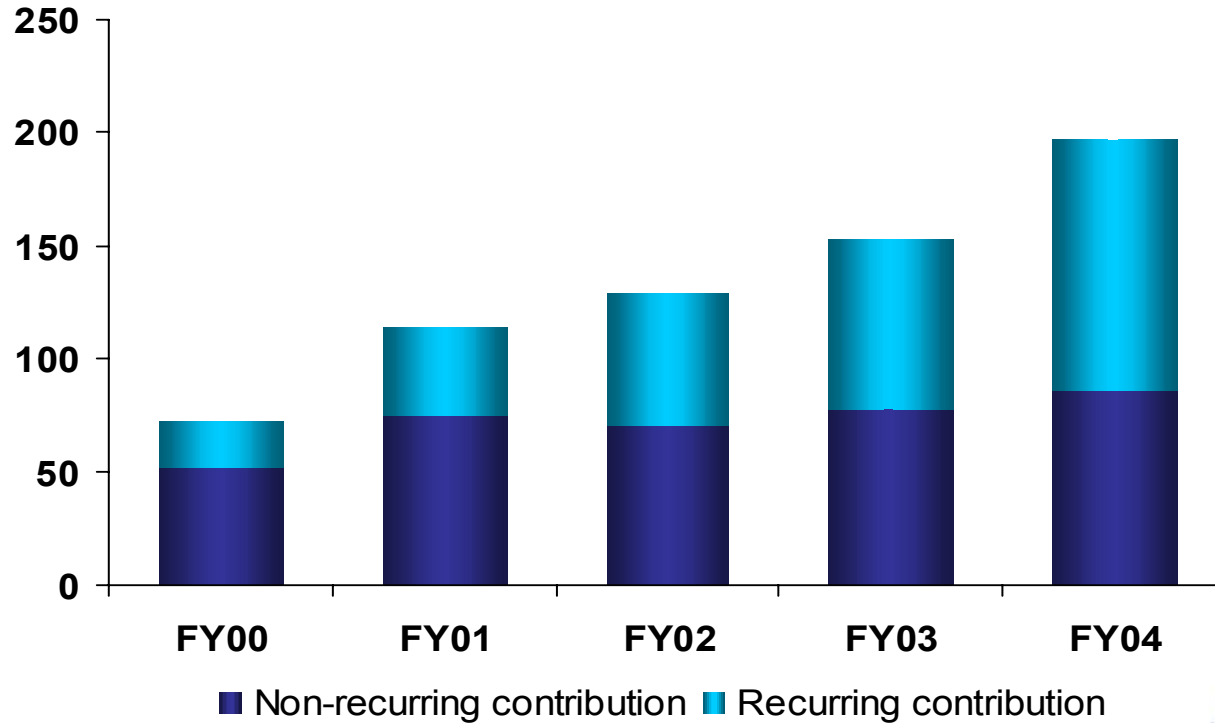
Misconception 3: Technology slowdown



Misconception 4: Cyclical business

“Carphone is heavily reliant on the handset cycle. When growth reverses, earnings will fall”

Misconception 4: Cyclical business



- Profits from recurring revenues were 55% of total last year
- Nearer to 60% this year and continuing to grow
- Fixed line provides a new growth platform and further insulation from handset market

Misconception 5: TalkTalk unsustainable

“TalkTalk is a short term opportunity driven by changes in regulation. Margins will be competed away over time”

Misconception 5: TalkTalk unsustainable

- One company *will* emerge as the clear no. 2 to BT
- We are the only major player with all of the key building blocks:
 - Our own highly efficient network
 - Our own retail distribution
 - Proven marketing and brand-building skills
 - A strong reputation for customer service
 - Engineering know-how
 - A strong balance sheet

The basis of our projections

- **Factored into our assumptions**
 - **Uncertain UK consumer outlook**
- **Not factored into our assumptions**
 - **Significant pick up in 3G migration**
 - **Further acceleration in replacement cycle from technological change in the handset market**
 - **Meaningful regulatory change in the fixed line market**