

# investor newsletter

October 2008

## from the CEO



Trading conditions are pretty tough but we are very pleased with the progress we have made over the last three months. The iPhone 3G has been a big plus and we have gained significant market share as a result, as our strong growth in subscriptions connections demonstrates. We have a number of other exciting exclusives in the run-up to Christmas so I am confident that we have done all that we can to maximise our competitive advantage over the coming months. The roll-out of laptops across most of our European portfolio has been a success, and our sales consultants have really embraced our move into this new growth area. The response from customers has been positive too. At the end of this month we open the first of a new, larger format in the Westfield Centre in White

City - offering a full mobile range, plus laptops, gaming and Geek Squad services, as we look to expand our "connected world" proposition.

On the telecoms side, we have completed the AOL integration work and now have a single residential business operating under two brands. While market growth has slowed, churn within TalkTalk continues to fall, with customer service improving all the time, as recent surveys have demonstrated. We are entering the next phase of the broadband market, where all the players are focused on deepening their relationships with customers, developing new services and revenue streams, and maximising network efficiency. I strongly believe that home broadband will be one of the most valuable, important and exciting consumer services of the next 20 years and we have built an excellent position in the marketplace.

A handwritten signature in black ink that reads "Charles Dunstone". The signature is written in a cursive, slightly slanted style.

Charles Dunstone, CEO

BestBuy  Europe

TalkTalk  
Group



THE Carphone Warehouse

## investor newsletter



Welcome to the first edition of our new investor newsletter. Our intention is to produce something that highlights some of the areas not touched on in financial releases, such as operational developments, customer service performance, new store formats and product launches; while also recapping on our strategy and market positioning. We'll also touch on some of the main questions investors have been asking us recently.

Over the last few months, the focus has inevitably been on our plans for Best Buy big box stores. As announced with our Q2 trading update, our plans are making good progress and we are on target to open our first UK stores next year. We intend to revolutionise consumer electronics retailing in the UK and other European markets with a relentless focus on customer service. We are also confident that the stores can generate similar financial returns to those already achieved by The Carphone Warehouse Group and Best Buy. On the telecoms side, we await a regulatory announcement on LLU pricing and this has obviously created some short term uncertainty, as have the potential impact of fibre deployment in the UK, and continued M&A speculation.

Peregrine Riviere, Director of Corporate Affairs

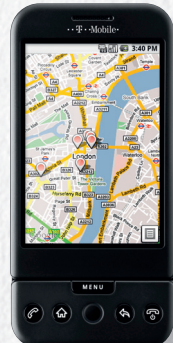
# new wireless concept store opening at White City

We're in the final stages of formatting a new concept store in the brand new Westfield development in White City and the doors are set to open on 30<sup>th</sup> October. Westfield is the largest urban shopping centre in Europe and will drive footfall through our visionary new store which brings the wireless world to life for our customers. The new store will be larger than our standard store formats and is designed to encourage customers to be more interactive with the new devices and products on sale. Techno-phobic customers will leave the store feeling confident knowing The Geek Squad will see them through their after sales experience.



## Christmas line-up

Despite the consumer environment, we have been working hard on product and believe we have our strongest line-up ever this Christmas. Leading the way is Nokia's 5310 Comes With Music, which allows customers unlimited access to millions of tracks which they can download and keep forever. Nokia's N96 is a step up from the popular N95 which was hailed as the ultimate smart phone. Nokia's N96 has a massive built-in memory, a versatile multimedia player and an impressive 2.8inch screen allowing you enough scope to enjoy watching downloads from the BBC iplayer. In addition, we're introducing gaming as a new product range in selected stores from October.

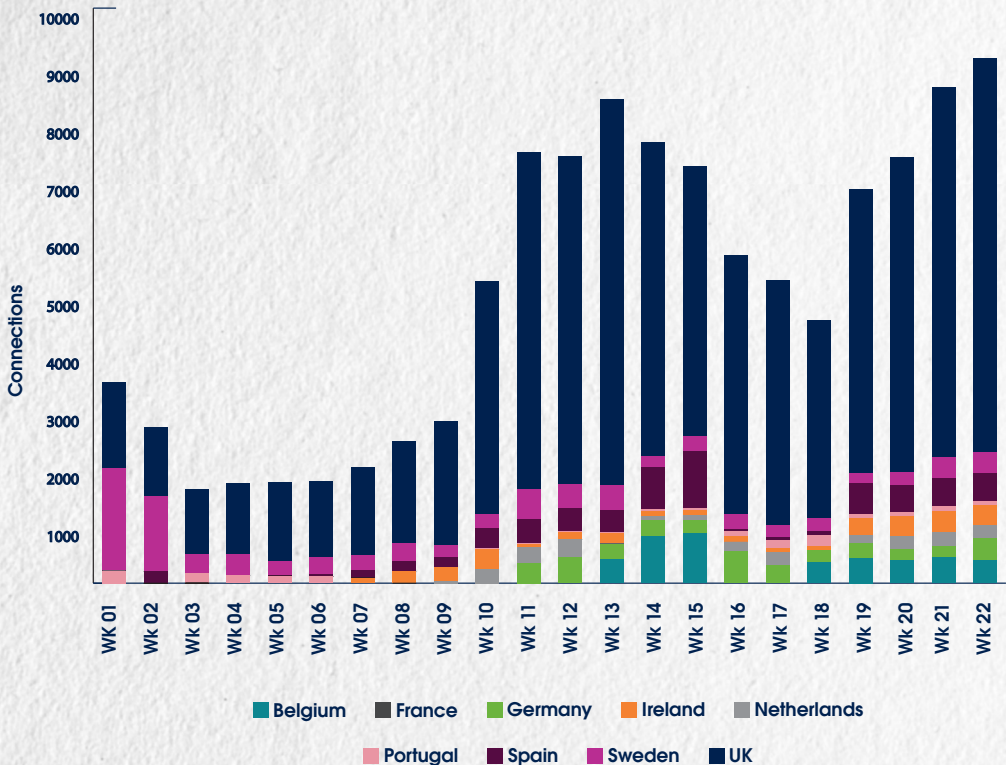


# Carphone's success in laptops and mobile broadband

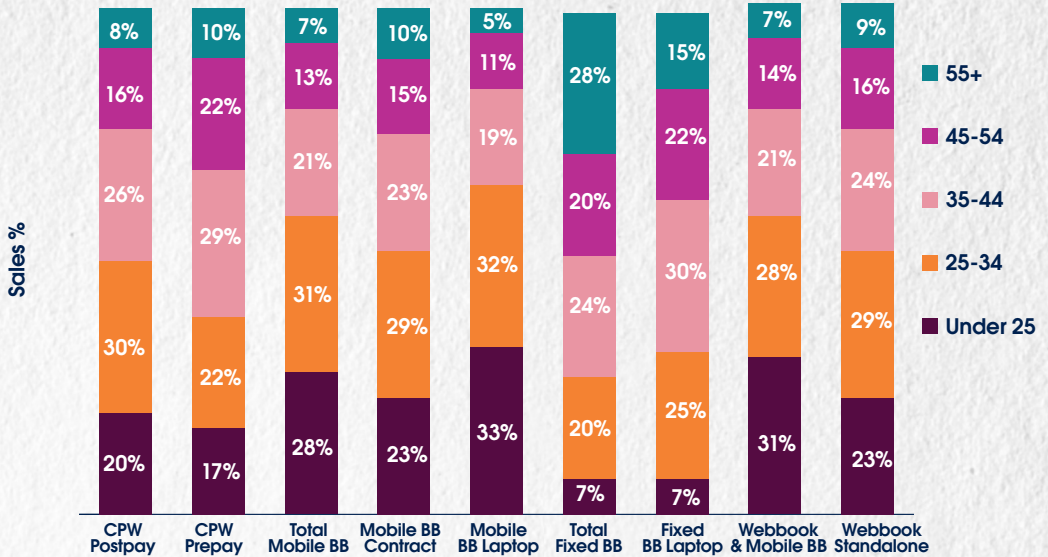
When we announced a year ago that we would take the laptop and package it in the same way as mobile phones, we never expected to sell almost 10,000 a week across the Group as we do today. It's shown us that our customers still get attracted by the 'free' concept and in today's economic environment, we couldn't be in a better position with our free laptop bundles.

Carphone has always attracted younger customers with the latest mobile phone technology and our success in selling mobile broadband has had a clear skew towards younger customers as we tap into the student and young professional market .

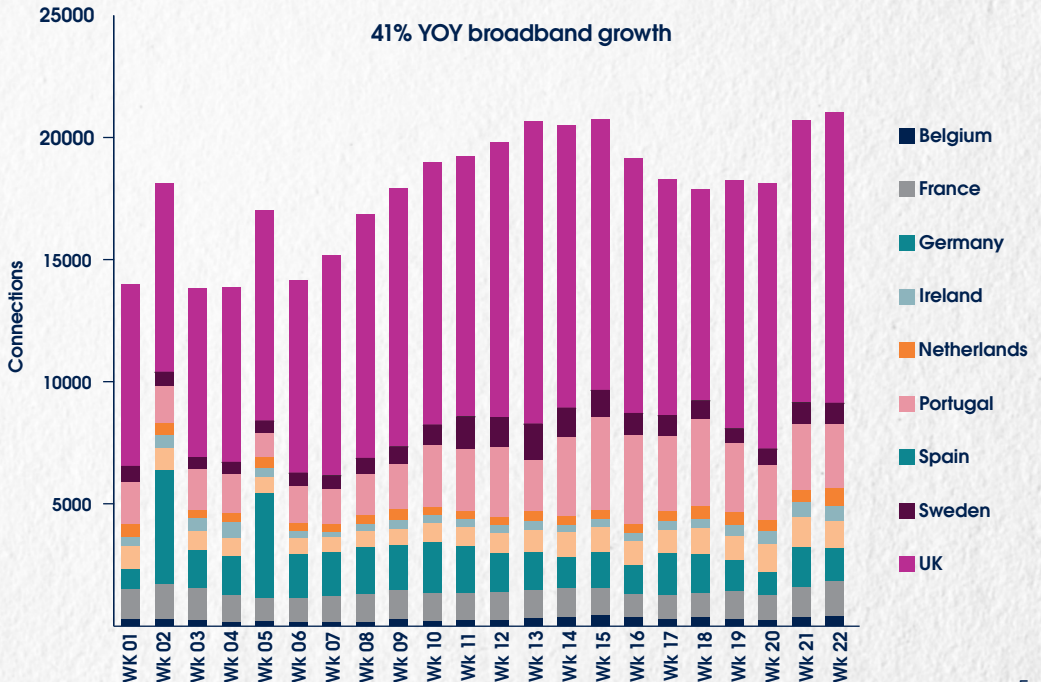
Laptop growth



### Webbook and mobile broadband attracting the youth



Our customer survey above, proves that young students and working professionals would rather use a laptop and mobile broadband than commit to a landline contract. Broadband connections growth is 41% YoY, and we continue to work with the networks to diversify the product ranges giving customers a broader choice.



# The Carphone Warehouse

retail and distribution  
50%



Best Buy  Europe



**The Phone House**

The Carphone Warehouse Group PLC  
CEO Charles Dunstone

Best Buy Europe  
CEO Roger Taylor

Best Buy Europe Operating Board

The Carphone  
Warehouse, The  
Phone House  
CEO  
**Andrew Harrison**  
(TPH effective 1 Jan 09)

Alternate  
Channels  
CEO  
**Andrew Pinnington**  
(Effective 1 Jan 09)

Best Buy Branded  
Operations Europe  
CEO  
**Paul Antoniadis**

Service and Support Functions  
CFO Ian Kenyon  
CMO Tristia Clarke  
CTO Simon Post  
Group HR Director Lynne Weedall  
Group Property Director Richard Collier  
Group Legal Counsel and Corporate Affairs Tim Morris

# Warehouse Group PLC

telecoms  
100%

**TalkTalk**  
Group



The Carphone Warehouse Group PLC  
CEO Charles Dunstone

TalkTalk Group  
CEO David Goldie

TalkTalk Group Executive Board

MD for  
Residential  
Wendy Becker

Chief Operating  
Officer  
Mark Hollister

Chief Networks  
Operator  
Clive Dorsman

MD for Opal  
Paul Lawton

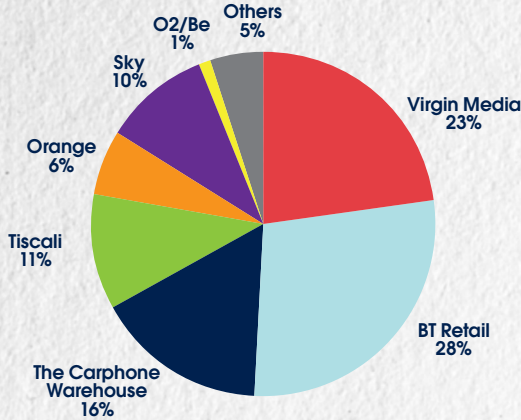
Chief Financial  
Officer  
Amy Stirling

Human Resource  
Director  
Rob Barnard

Strategy and  
Regulation  
Director  
Andrew Heaney

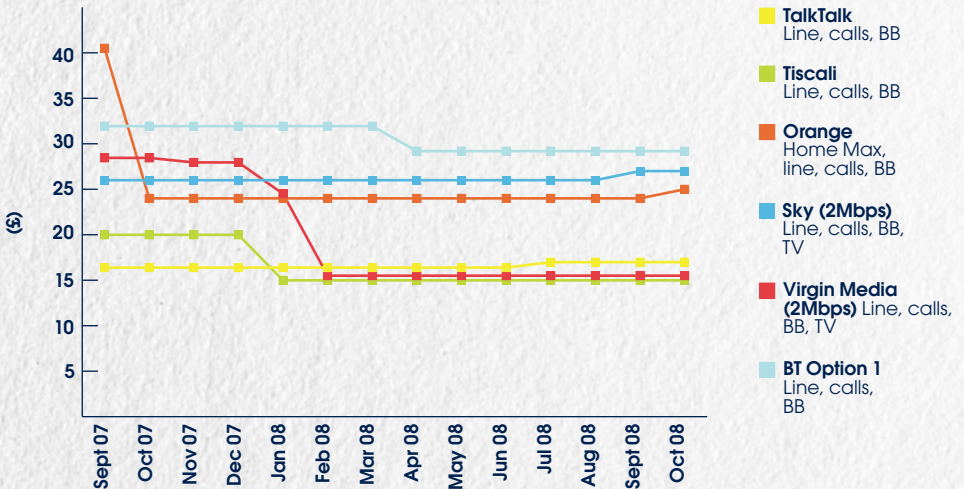
# UK broadband market share

Our combined market share is a little over 16%, making us the clear number three in the market and the second biggest user of BT's copper network after BT Retail. As market growth slows and churn declines, it is becoming increasingly tough for new entrants to grow market share organically.



# UK telecoms pricing

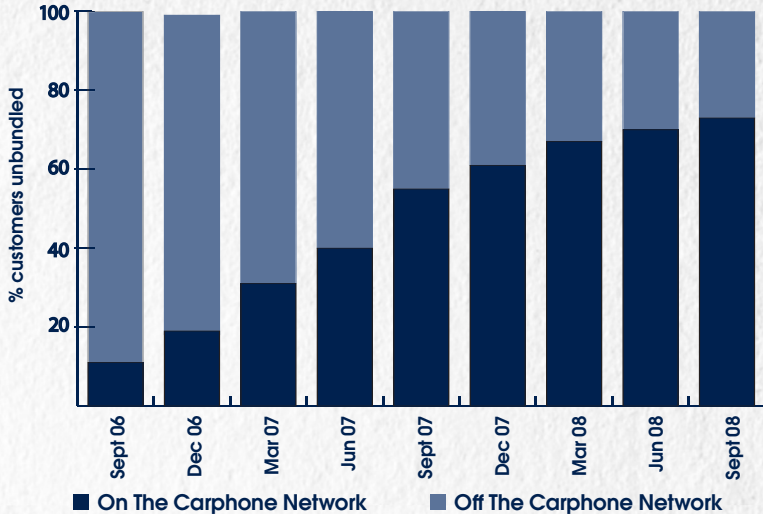
We think this chart illustrates clearly that pricing in the UK has stabilised over the course of 2008, with even one or two indications that prices have started to edge up. Although there are six major players in the market, their response to slowing penetration growth has been generally rational, with a focus on product differentiation and improving the quality of service rather than driving prices down.





# customer migration

We have continued to make good progress in the migration of customers onto our own network, with now well over 70% of our broadband customers on-net. This reduces costs and increases customer margins. In the long run we anticipate having 85% or more of our customers on our unbundled infrastructure.



## TalkTalkmembers.com

TalkTalk Members, [www.talktalkmembers.com](http://www.talktalkmembers.com) is a platform created to help our customers get the best from their TalkTalk broadband and landline. The Web site and forums administrators are "geeks" from The Carphone Warehouse with many years of programming and technical experience. This website includes a 'service dashboard' which allows customers to view all our network status details such as exchange capacity and unbundled exchanges in their area, expected call waiting time indicators and a broadband speed test. TalkTalk customers have as much detail as they need available to them to understand how our networks operate and how and why faults occur.

**Members Home**

**Latest Updates**

- How do I use my Calling Features?
- Resolving The Hazardous Event/Noisy
- TalkTalk Members Site Analysis
- Exchange Performance Watch
- Printing Scan
- TalkTalk Overview/Agreement
- Drive sending to various external e-mail addresses
- GetTalk H200 Windows Starter Pack
- TalkTalk Home H200 Converter
- Setting Home Web TalkTalk

TalkTalk Members is here to provide a platform for help you get the best from your TalkTalk broadband and landline. The Web site and forum administrators are "geeks" from The Carphone Warehouse with many years of programming and technical experience.

The success of TalkTalk Members is up to you, please contribute and feedback on anything you find here. We want you a productive and happy surfing experience.

**Forum Latest...**

**The TalkTalk Members Website and Forums**

Good Afternoon and welcome to the TalkTalk Members Website and Forums. You find news and reviews on all things broadband as well as useful information like our support forum and our network status. We've compiled a list of the most popular questions we've been asked in the last section. Our handy broadband help will help you setup and start surfing. With your help we'll keep this list fresh and relevant to all TalkTalk members. For more in-depth discussions and help on a wide range of topics please visit and contribute to the Members Forums.

**Word of the Week**

**Synchronisation Speed (Line Rate)**: When your ADSL Modem connects its given a set of parameters by the telephone exchange which it has to adhere to. These include a target Signal to Noise Ratio and a maximum Synchronisation (Sync) Speed (aka a Sync Rate or Line Rate). The speed at which your ADSL Router communicates with the exchange. The sync speed of your router is the absolute limiting factor in your maximum speed, you cannot download or upload any faster than your sync speed. In fact we find that maximum download speeds are generally around 80% of sync speed. A number of factors affect your sync speed, sync speed is greatly affected by the length of the cable between you and the telephone exchange and the quality of cable and extension leads inside your house. Electrical noise also reduces the efficiency of your cable and means your router has to sync at a slower speed to maintain a stable connection.

**Demystify "geek-speak" with our Jargon Buster.**

**Exchange Capacity**

Sometimes exchanges suffer from congestion when the link to the internet is not large enough for the traffic the people using that exchange are generating. TalkTalk aims to make sure that exchanges are upgraded well before they get congested but in some cases it is not possible to complete this in time. Any exchanges that are congested are listed along with the expected upgrade date in the new Exchange Capacity section of the Service Dashboard.

**Reviews**

Check out a guest review of the **Transpeed JiffyLab/CD Rom** Ethernet USB Drive with a built in Biometric Finger Print Scanner which allows you to securely protect files stored on the drive and your computer & use auto Web site login.

**More gadgets and reviews from the fast paced world of IT.**

**Network Status**

**Exchange Status**

Customers who experience problems connecting to the internet are advised to try the following steps to resolve any intermittent issues caused by this issue. If this does not resolve the issue, our technicians engineers investigate.

2 areas with known issues. See network status for more details.

Map showing network status across the UK.

# TalkTalk Group awards

The BroadbandChoices.co.uk survey is conducted every six months, in conjunction with PointTopic Ltd. In September's Broadband customer satisfaction awards, TalkTalk was awarded 2nd place in the All categories division and received Gold in the 'Most Improved' category. To find out more about the survey and awards visit [www.broadbandchoices.co.uk](http://www.broadbandchoices.co.uk)

TalkTalk Group won many awards during 2008 (as featured on this page) which demonstrate that the significant efforts and resources we have dedicated to improving the customer experience are beginning to bear fruit. Even though we have made major improvements to our customer service, we are still working hard to become the number one in the market.

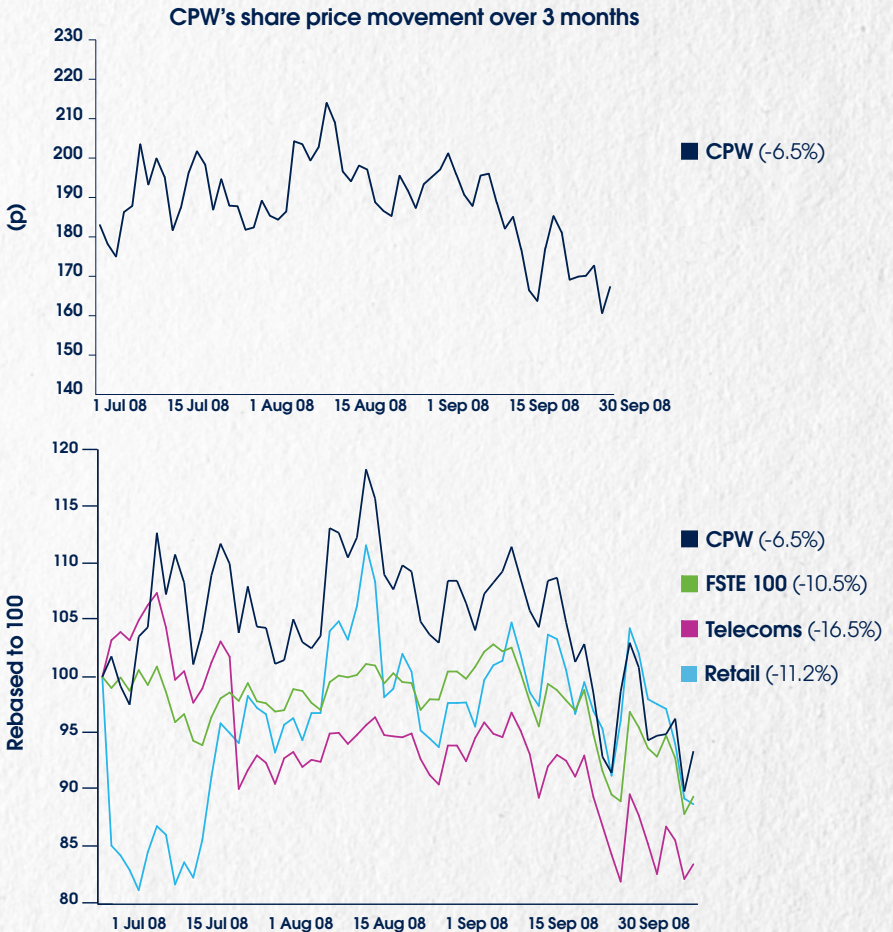


all category overall	
	Fairly/very satisfied
Sky Broadband	1st
TalkTalk	2nd
Virgin Media	3rd
Tiscali UK	4th
BT Broadband	5th
Orange	6th
AOL Broadband	7th

# CPW's share price movement

CPW shares fell 6.5% during the last quarter, reflecting the continued weakness in equity markets, lack of clarity on our strategy for retail in Europe, and nervousness after BT's announcement on fibre. However, CPW outperformed the FTSE 100 and its telecoms and retail peers over the period. Trading volumes were generally low, reflecting the subdued activity in the wider market. Since the quarter end, the shares have fallen sharply, in line with global capital markets as governments grapple with liquidity and refinancing strategies for financial institutions. At this stage in the cycle we believe that the quality of our assets and our strong balance sheet give us a lasting franchise.

The percentage of stock on loan has fallen over the past few months from around 15% (where it has been for the last two years) to around 12%. A number of our major shareholders continue to loan significant quantities of stock, thus facilitating short-selling. While 12% is an unremarkable proportion in these markets, it remains a very high proportion (25%) of the free float.



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For Retail information please visit [www.carphonewarehouse.com](http://www.carphonewarehouse.com)

For TalkTalk information please visit [www.talktalk.co.uk](http://www.talktalk.co.uk)

**The Phone House**

**BEST BUY** mobile

**OPAL**

**THE Carphone Warehouse  
networks**