



# The Carphone Warehouse

## Annual Strategy Day

24<sup>th</sup> April 2007

# Agenda



10.00am	The Vision for Retail
10.30am	Broadband update
10.50am	CPW Networks
11.15am	Q&A
11.30am	Coffee
11.45am	New divisional presentation
12.00pm	Financial guidance
12.30pm	Q&A

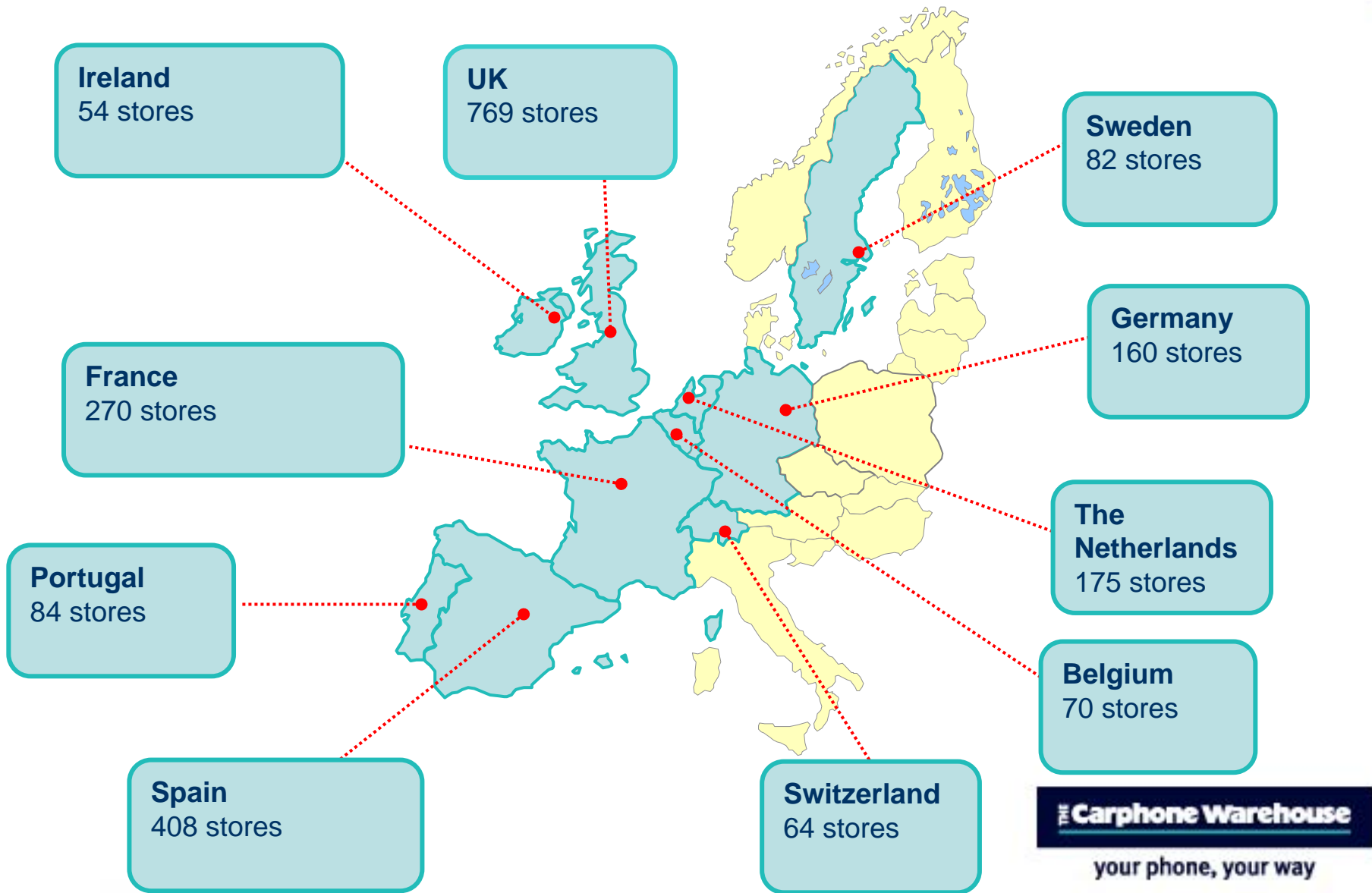


## The Vision for Retail

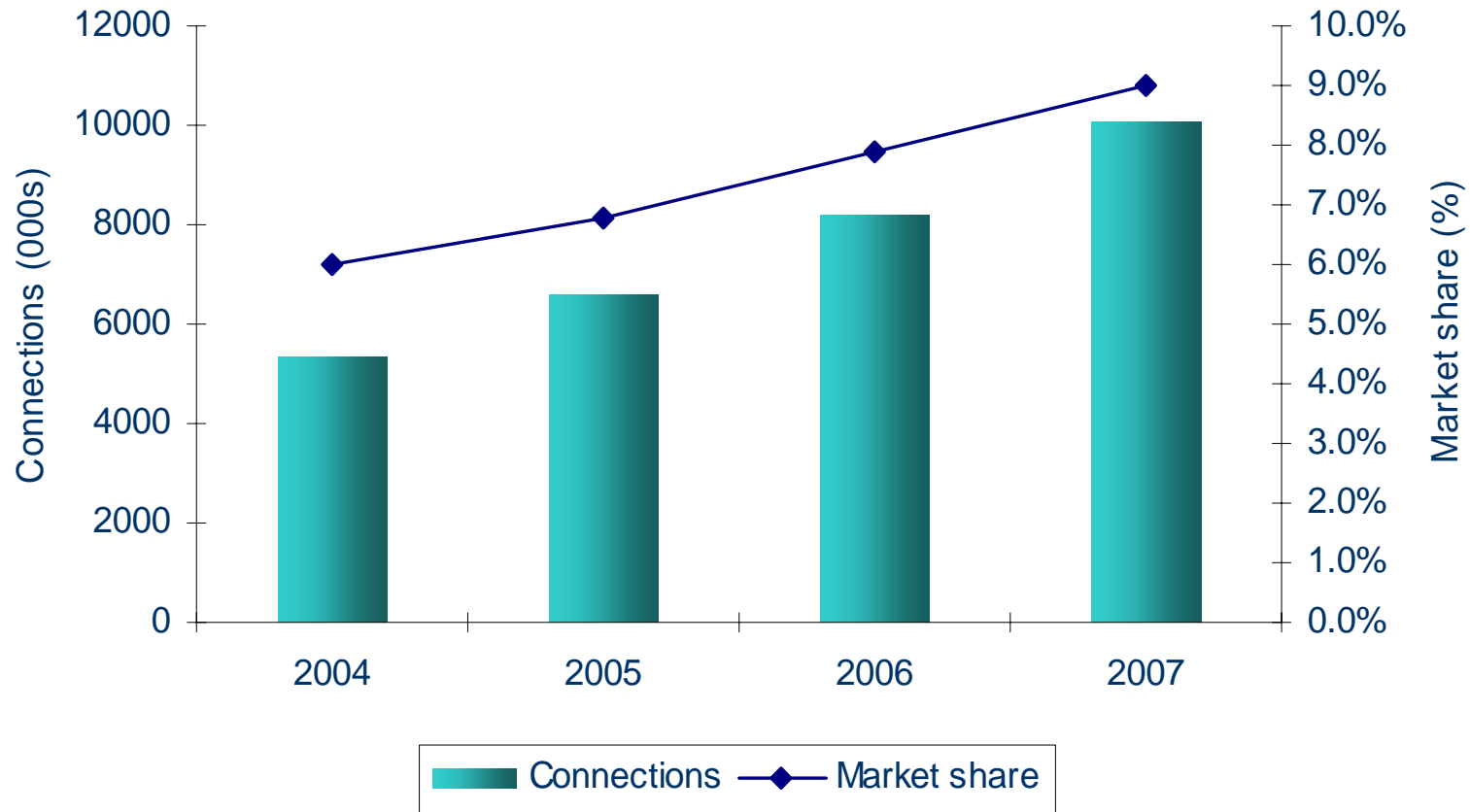
**THE Carphone Warehouse**

your phone, your way

# A massive distribution network



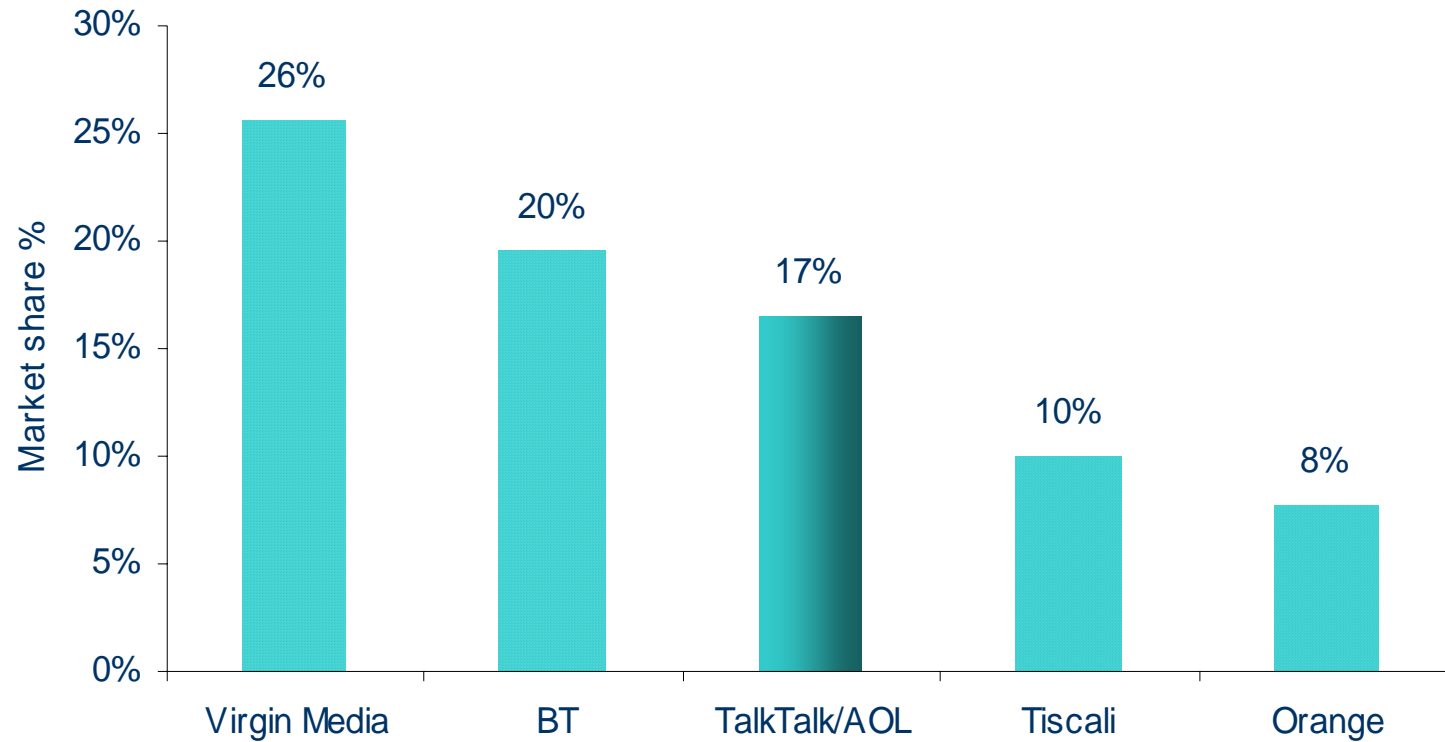
# Significant and growing handset market share



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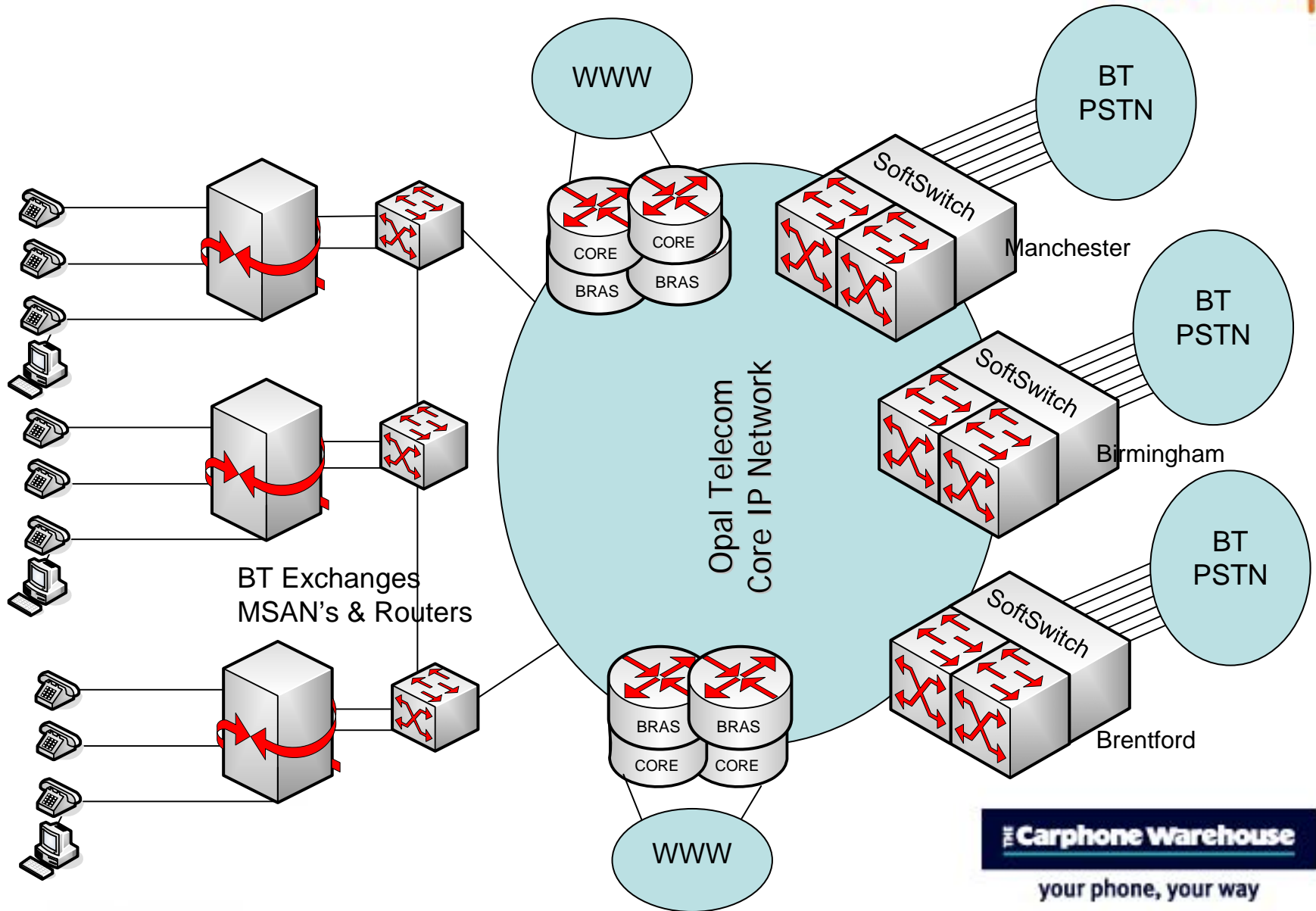
# Major player in broadband



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# The first mass market NGN





**How do we leverage these assets?**

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# Our Retail Model: The Customers' Champion

Network  
Operators



CPW provides  
the customers  
with something  
they need:  
*independent  
advice!*

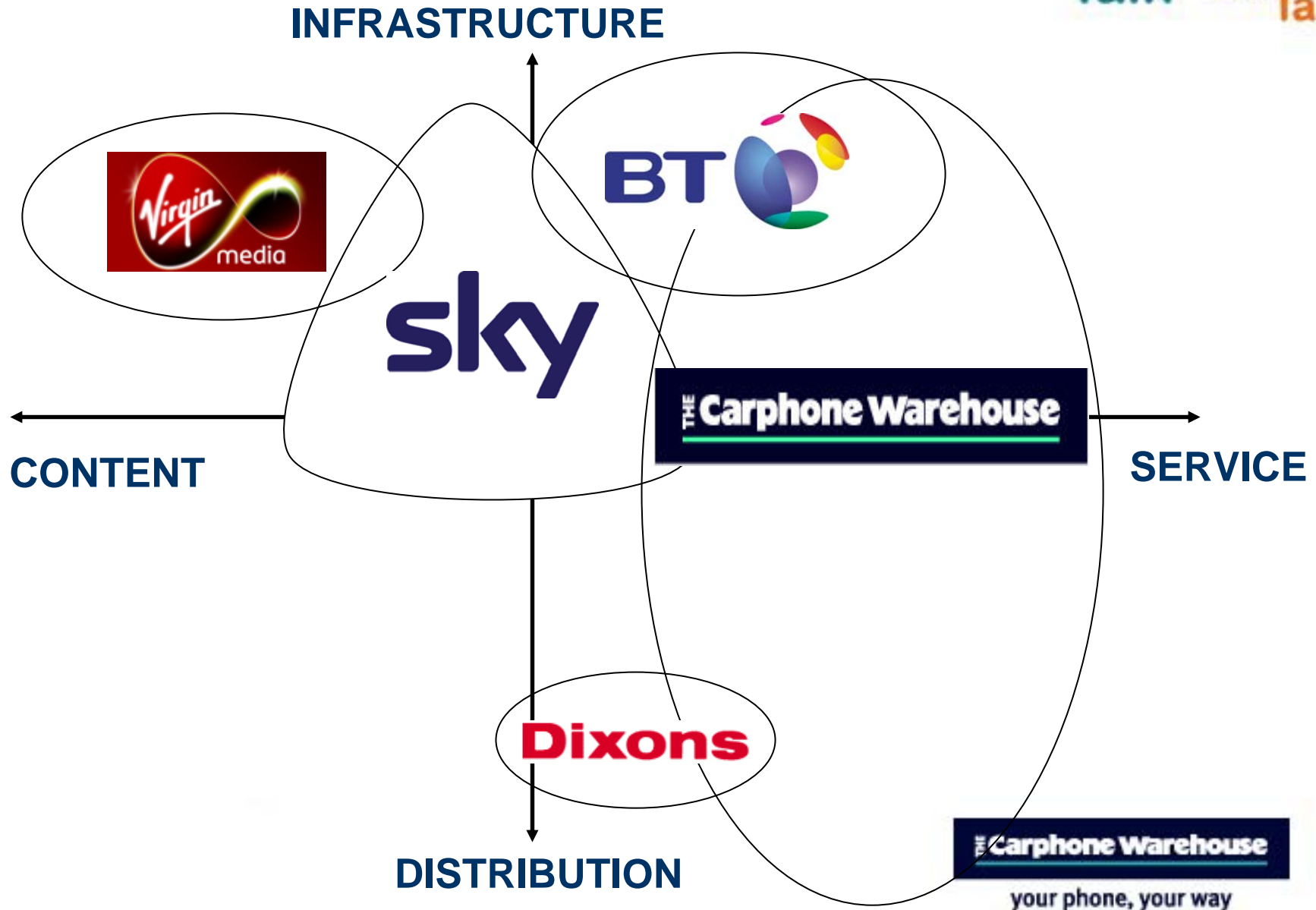
Equipment  
Manufacturers



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# Our unique opportunity



# Mobility changes everything



**Fixed**



**Portable**



**Mobile**



# We are on the cusp of a new wave



Wireless**Office**

Wireless**Home**

Wireless**Entertainment**

Wireless**Auto**

Wireless**Money**

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# Wireless Office



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**your phone, your way**



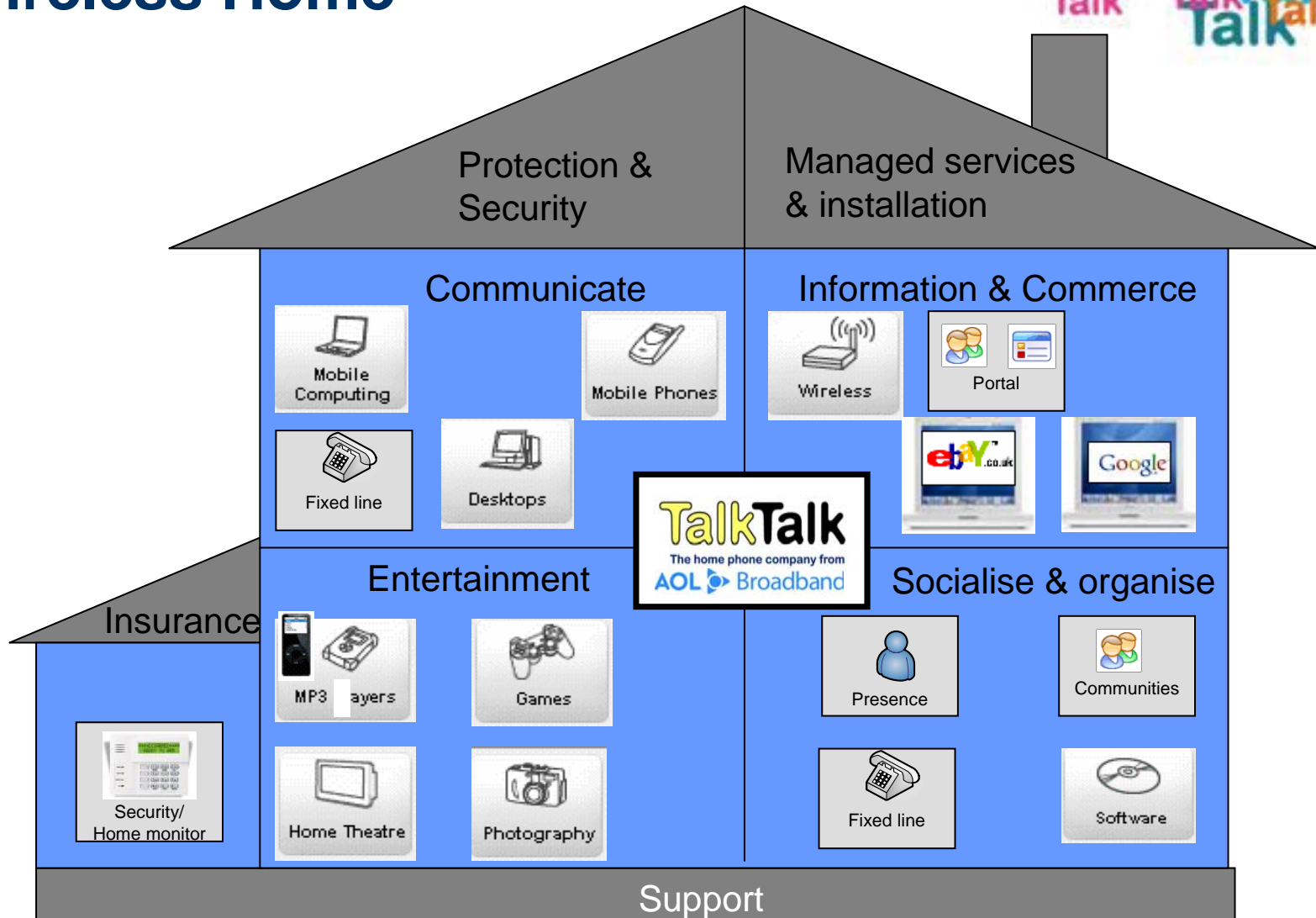
**your phone, your way**

## A word cloud consisting of the word "Talk" repeated multiple times in various colors (green, blue, yellow, red, purple, orange) and sizes, arranged in a horizontal, slightly overlapping manner.





# Wireless Home



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**your phone, your way**



**Keys**



**Wallet**



**Phone**

**Carphone Warehouse**

your phone, your way



**Keys**



**Wallet**



**Phone**

**Carphone Warehouse**

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# Our Retail Model: The Customers' Champion

Suppliers

Distribution

Configure /  
Install

Customer



## A word cloud consisting of the word "Talk" repeated multiple times in various colors (green, blue, yellow, red, purple, orange) and sizes, arranged in a horizontal, slightly overlapping manner.



## IN CAHOOTS WITH THE CARPHONE WAREHOUSE



# Customer Proposition



**Crisis or  
Set Up**

**Peace  
of Mind**

**Phase 1 - March**

**Phase 2/3 - April/May**

**Phase 3 - May**

**Phase 4 - July**

**Home Visits  
London  
£99.99**

**Remote Support  
National  
£49.99**

**Talk Talk  
Wireless  
£19.99**

**Geek Squad Club  
Peace of Mind  
£12.99 monthly**



# Key elements of our strategy



- Emphasis on remote
- B2B significant profit opportunity
- Build the brand from the “Home”
- Local marketing
- Digital home - not just break/fix model
- Partnerships
- Flexible transportation for agents – Vespas!

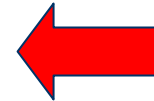
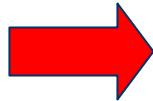




Adding value for network operators

# TalkTalk

From The Carphone Warehouse



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# Best Buy Mobile

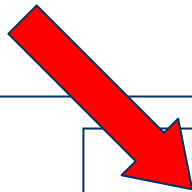


## **THE Carphone Warehouse**

- Leading European Independent
- Small box expertise / systems
- Manufacturer relationships
- Training and merchandising

## **BEST BUY mobile**

- Existing US market share
- Big box footfall
- Existing distribution and back office
- Strong brand



## **US MARKET**

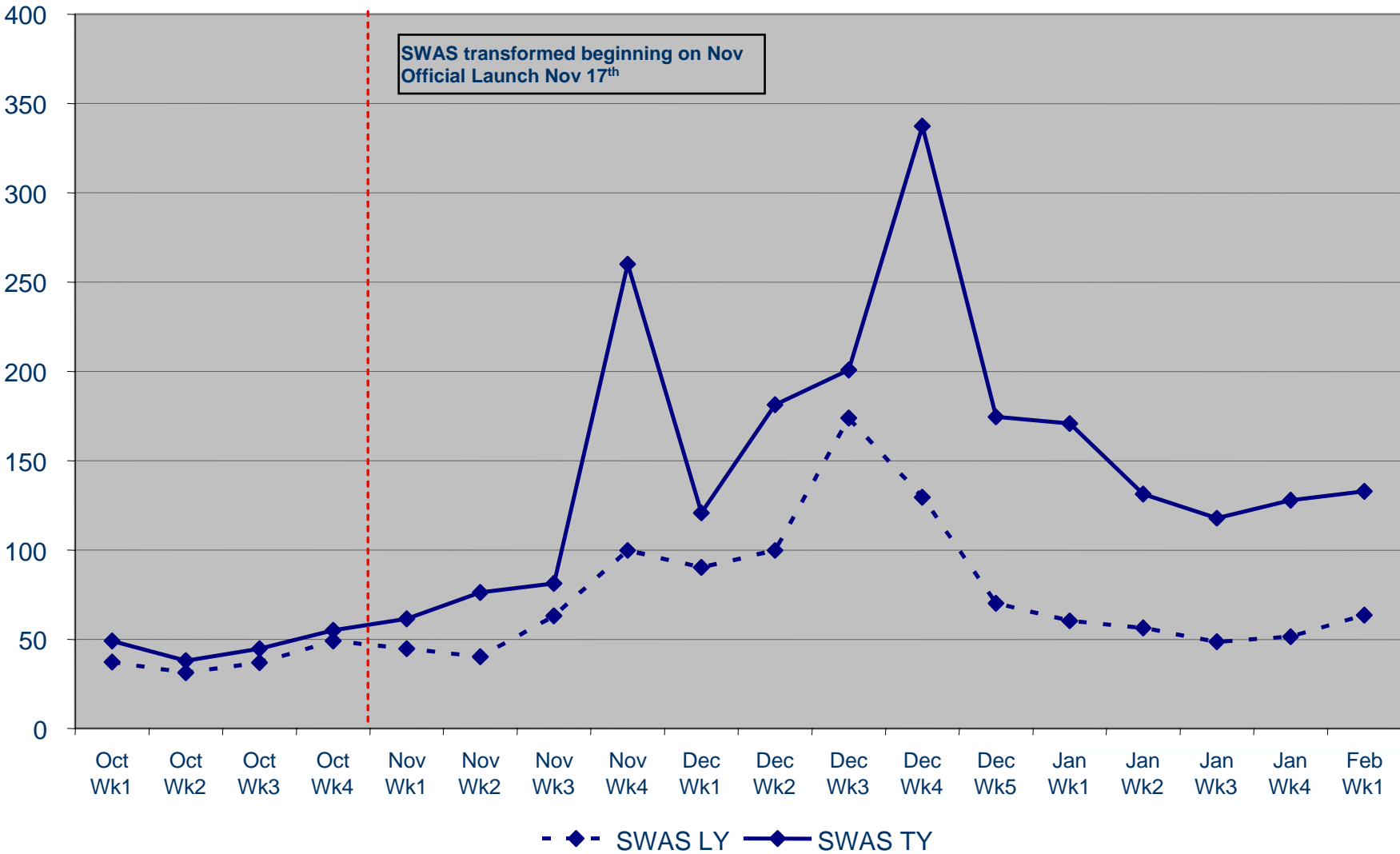
- Multiple networks and MVNOs
- 225m subscribers
- 140m handsets
- Poor customer service
- No mass market independent

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# SWaS Performance – Total Units

Average Total Handsets Sold per Door



# Roll out plans



- 150 – 200 stores over next 18 months
  - weighted to SwaS format
- Standalone stores clustered to leverage marketing impact
- Eastern seaboard (NY, Boston), Texas
- Further commitment beyond 2008, subject to performance



## Broadband update

**the Carphone Warehouse**

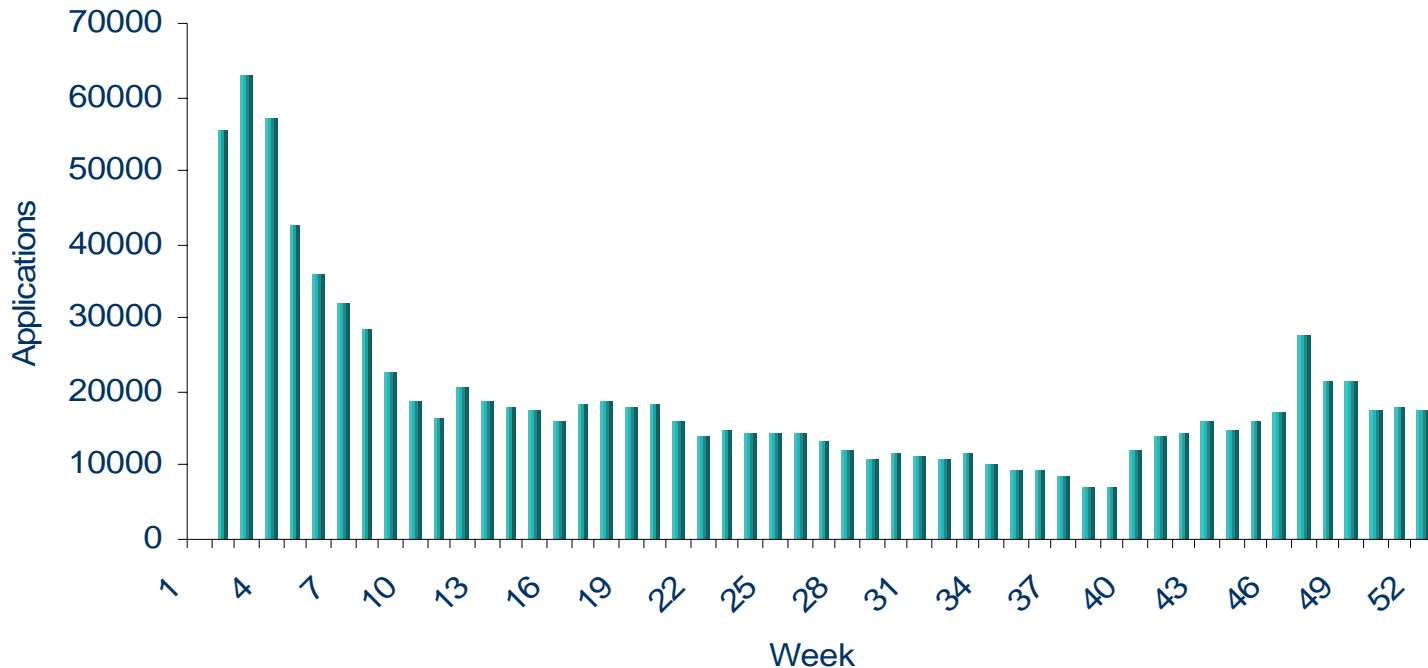
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# One year on – report card



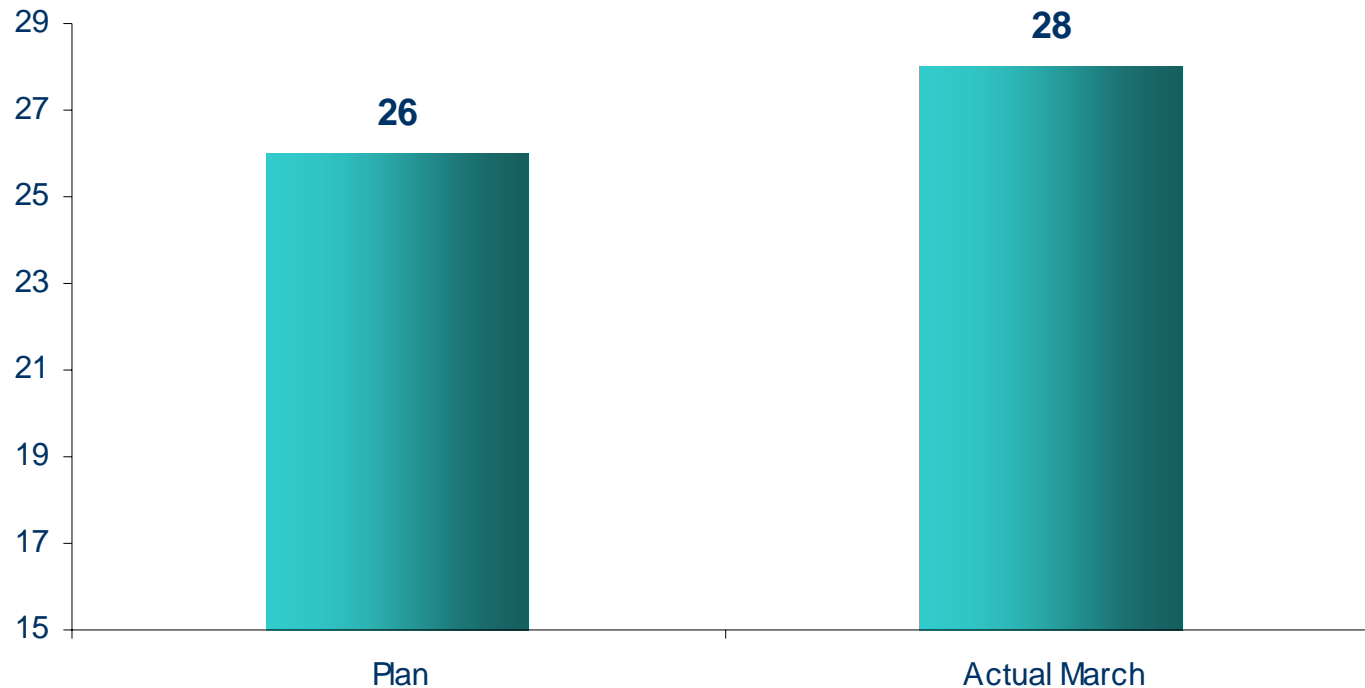
- Customer recruitment ✓ ✓
- ARPU ✓ ✓ ✓
- Cost structure – network/interconnect ✓ ✓ ✓
- Cost structure – customer service ✓
- Exchange roll-out ✓ ✓ ✓
- Migration ✓
- Customer service X

# Customer recruitment



- Huge impact on launch
- Subsequent negative publicity
- Confidence in service returning by year end

# ARPU



- **ARPU ahead of budget**
- **Out-of-bundle the main driver**
- **Termination just beginning to kick in**



# ARPU drivers

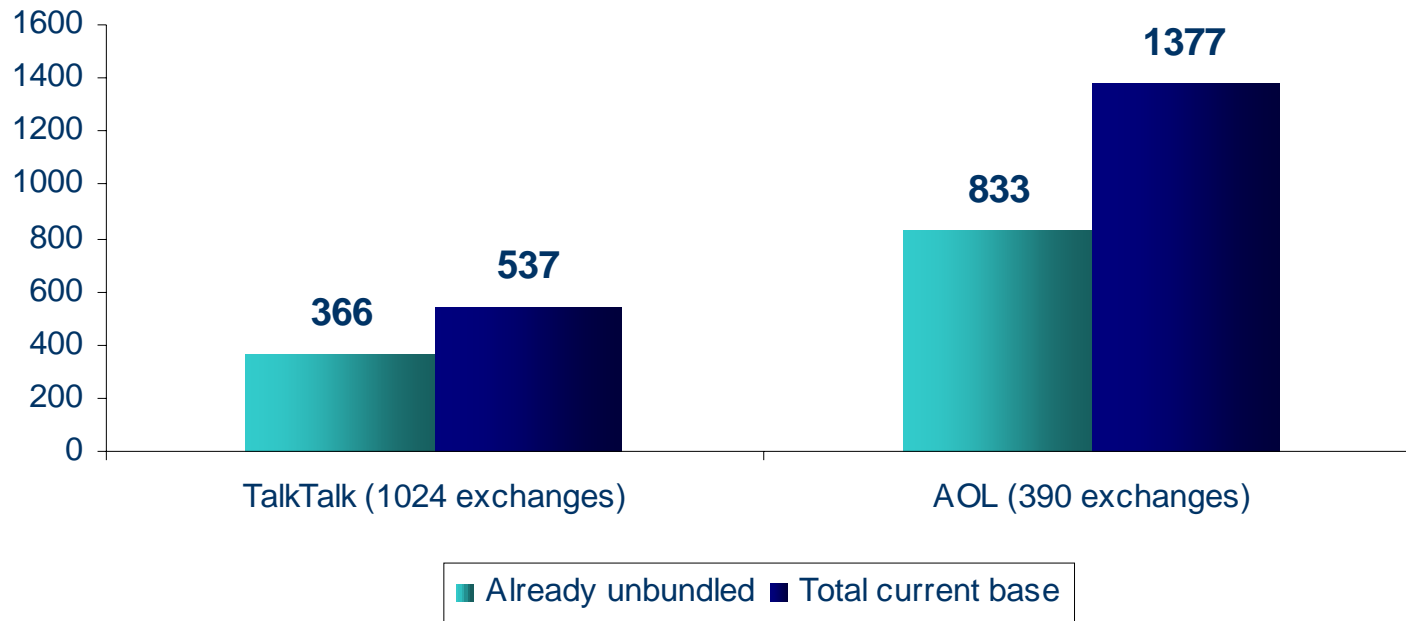


- Termination
- Select services
- Protection products
- “TalkTalk Anywhere”

# Exchange density

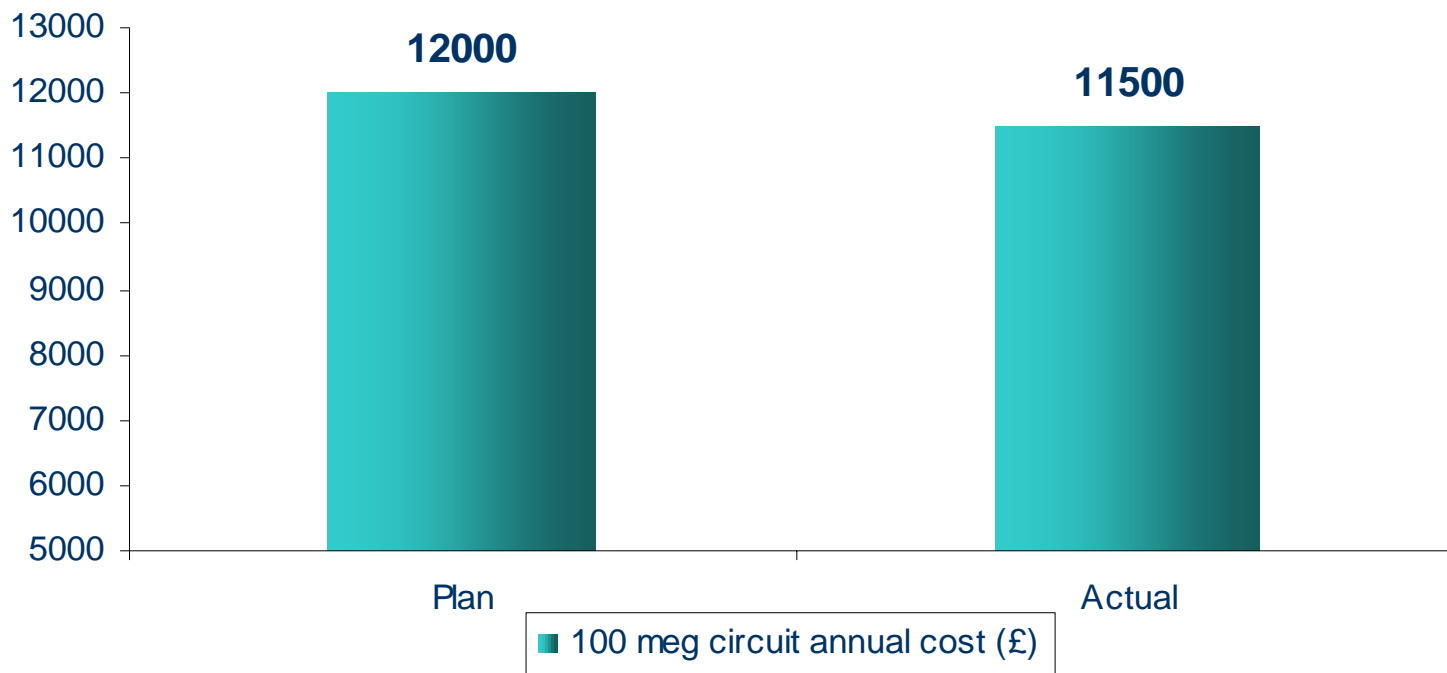


Customers per unbundled exchange



- Critical mass already achieved in current exchange footprint
- Further migration and increased exchange footprint both positive for margin

# Backhaul costs

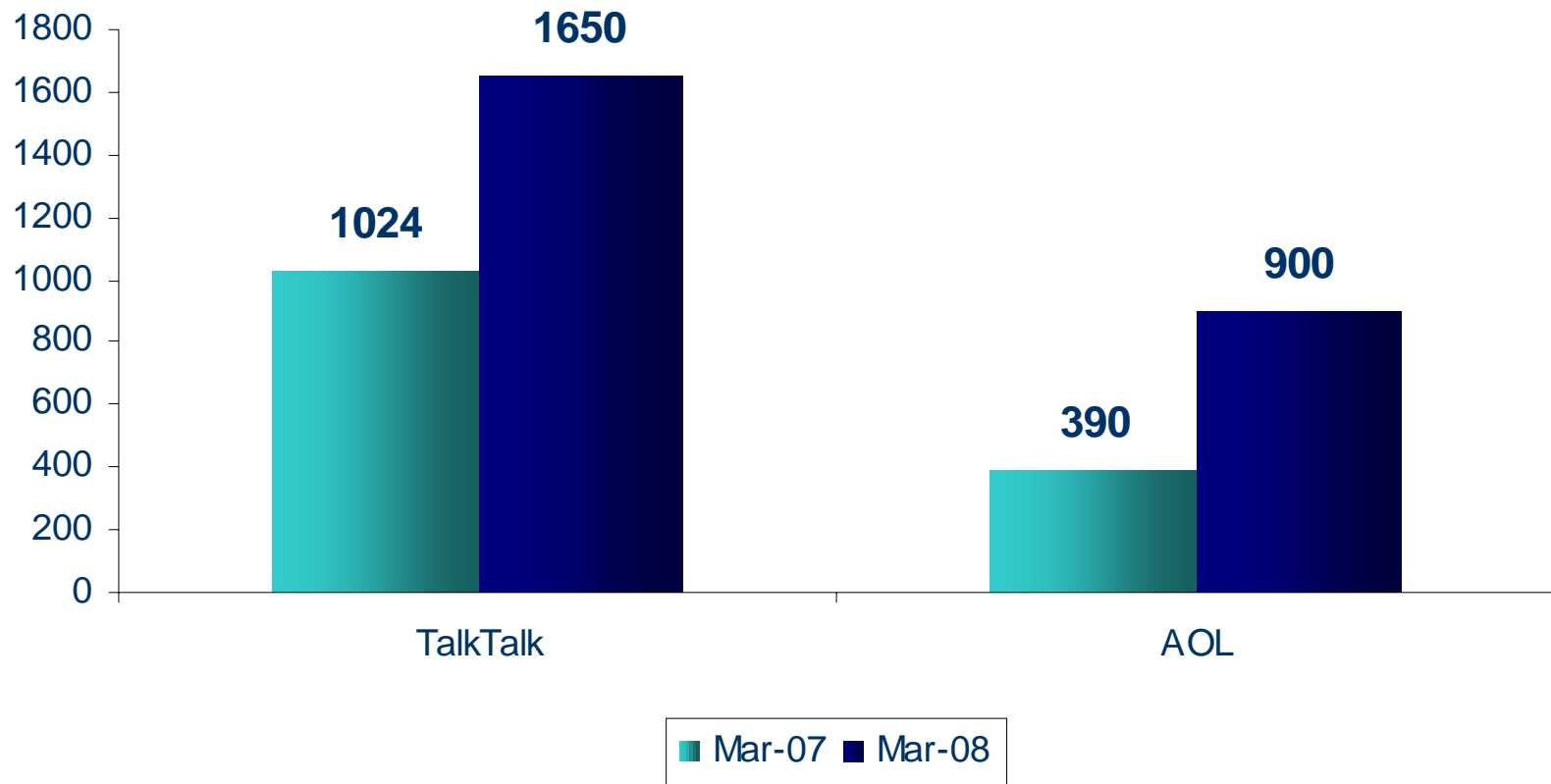


- Shared TalkTalk/AOL backhaul is a key efficiency
- Usage growth expected to be strong
- Current usage suggests 4,000 subs per 100 meg circuit
- “Daisy chain” network structure shares circuits efficiently between exchanges

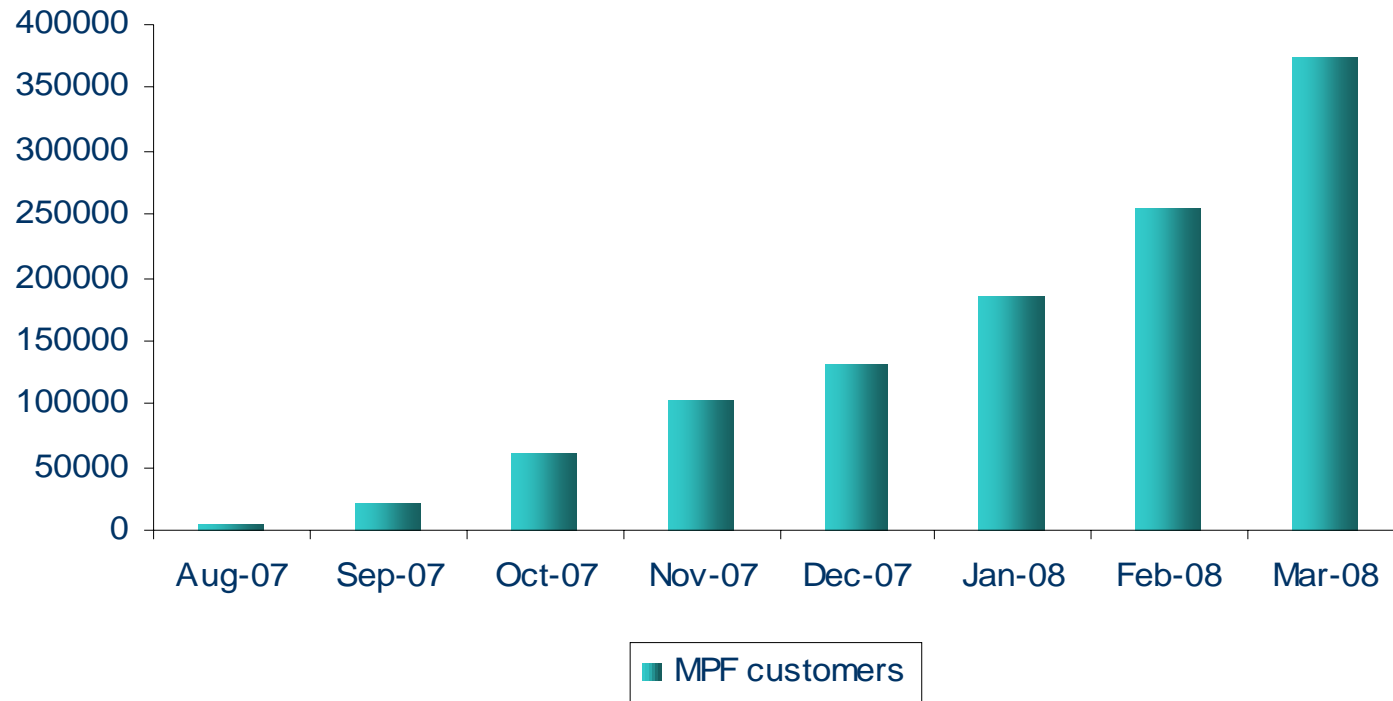
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# Exchange roll-out

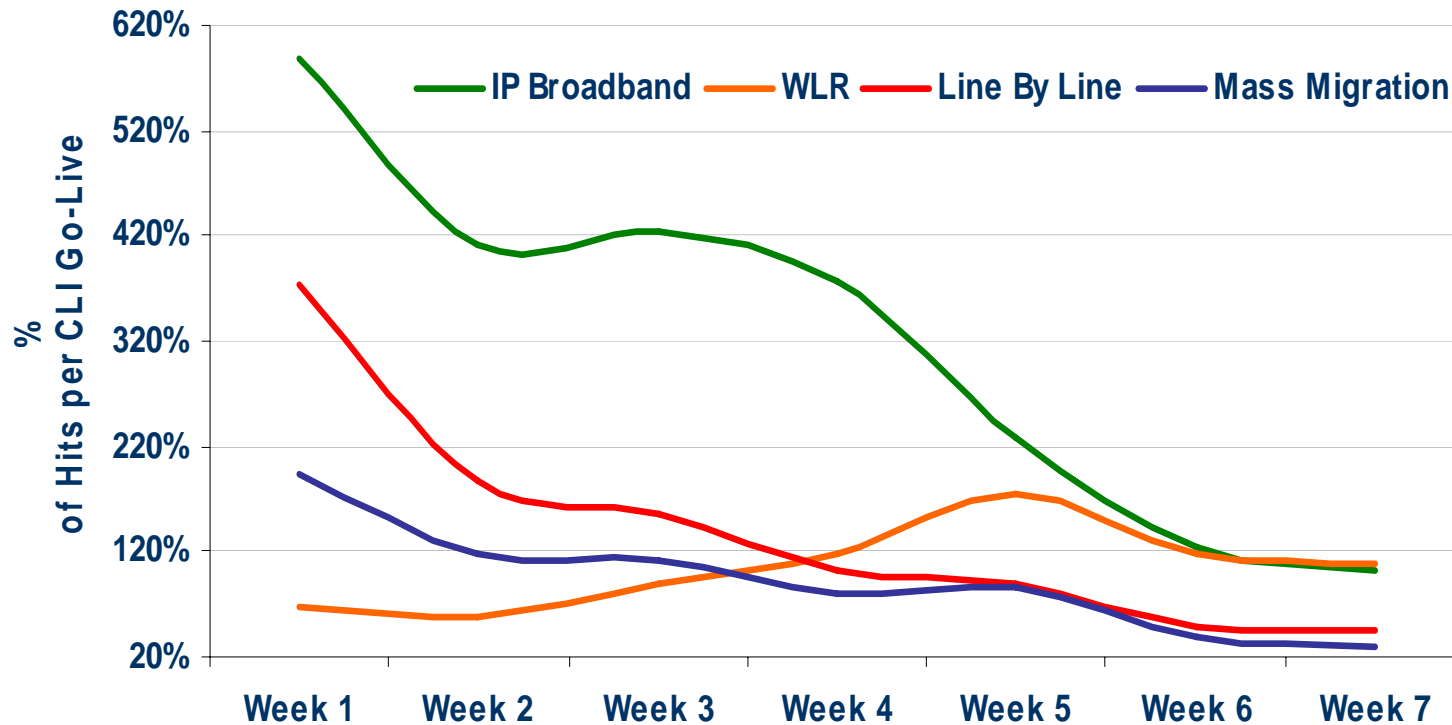


# Migration



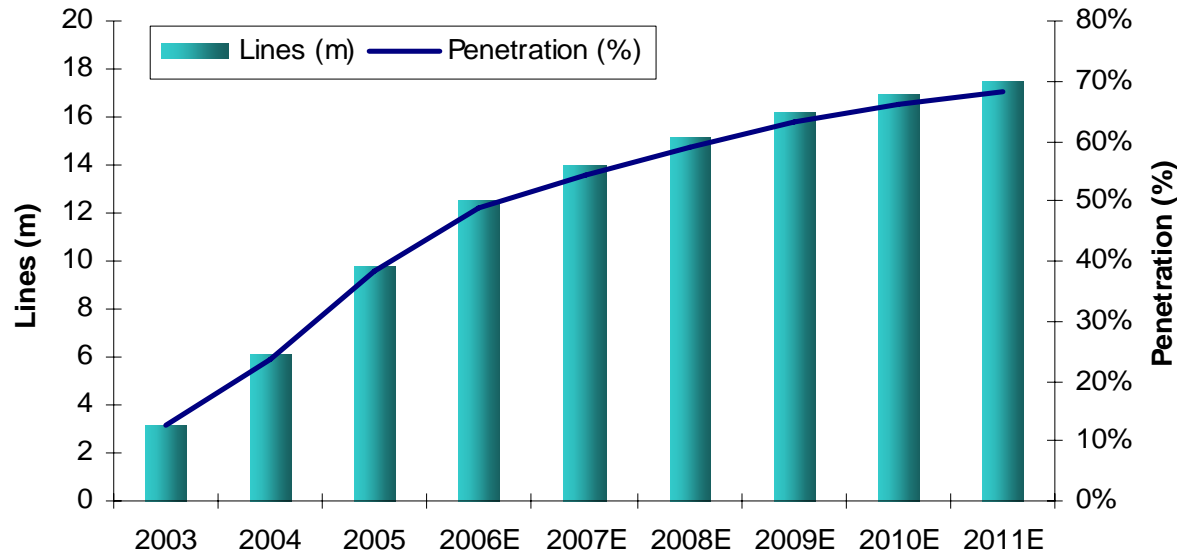
- **Start delayed but good momentum subsequently**
- **Process significantly improved**

# Customer service



- Contact rates are high with any go-live process, but tail off quickly
- LLU actually better than the wait for IP Stream

# Broadband market continues to offer growth



- 4-5m new connections up for grabs in the next 5 years
- Gross adds market significantly greater
- Aiming to grow market share
- Free broadband increases size of addressable market
- Targeting 3.5m customers by March 2010

# Broadband strategy



- Still the best value broadband/telephony product in the market
- Simple and transparent
- Significant market impact
- Very strong ISP brand with good loyalty
- High end offering with free wireless router, parental controls etc
- Opportunity to develop other hardware bundles

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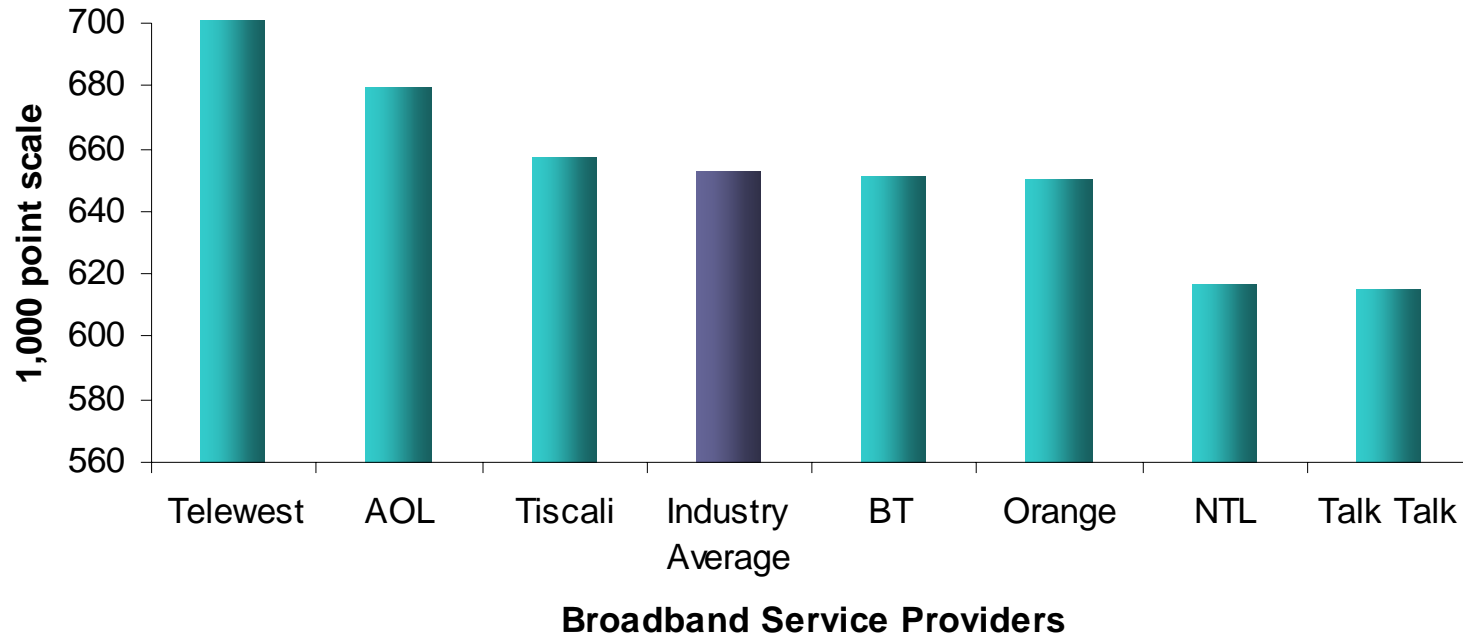
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# AOL ranks highly for customer service



**Customer Satisfaction Index Scores**



*Source: J.D Power and Associates 2006 UK Broadband Internet Service Providers Satisfactory Study*

# How is the market evolving?



Telco

Media /  
Entertainment



**TalkTalk**

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AOL  Broadband



tiscali.



**sky**

- Focus on being a really good ISP



# Content bundling



- **TalkTalk/AOL aim to be facilitators of customers' needs**
  - Entertainment
  - Mobility
  - Networking
- **Adding value through content provision is challenging and expensive**
- **Content becoming as easily available as music...**

# Summary



- Problems of last 12 months mostly resolved
- Customer economics very promising
- Market pricing stable
- Four key objectives:
  - Continued customer growth
  - Improve customer experience
  - Focus on being lowest cost provider – recruitment, network
  - Keep It Simple



# The Carphone Warehouse Networks

# What is an NGN?



- It's an end to end network supporting multiple services across a single transmission and switching infrastructure
- NGNs use IP-based transmission (Ethernet) and switching in the backhaul and core
- Main elements of an NGN
  - Access equipment
  - Backhaul and core
  - Softswitch and voice architecture
  - Broadband infrastructure

# Why build one?



- It substantially lowers the cost of providing end to end voice and data services
- Without it CPW could not have launched Free Broadband
- Any access operator who does not move towards owning an NGN will not be economic
- There is little future for transit operators
- NGN levels the playing field with BT Wholesale
- Currently BTW have to buy WLR and IP Stream off Open Reach. We can buy MPF



# NGN & LLU key suppliers and partners

- Sonus, Class 4 and 5 NGN softswitch
- Huawei: exchange MSANs - NGN, MPF
- Fujitsu: exchange DSLAMs - LLU, SMPF (AOL)
- Redback: authentication BRAS for broadband
- Cisco, Juniper: core routers and switches
- Backhaul suppliers:
  - NTL/Telewest
  - C&W
  - Open Reach (BES)
  - Global Crossing
  - SSE/Neos

# 2006/7 highlights



- It actually works and works as planned
- Built to capex budget
- Class 5 voice service equivalences to BTW
- Rollout ahead of schedule and on budget
- Migration run rate pulled back on schedule by year end
- Class 4 transit operational, large savings in TDM transit costs
- We have by far the deepest built operational NGN in the UK

# 2006/7 challenges



- Difficulties with Open Reach systems (EMP NPIC)
- Manual migration process errors (DOA)
- Stability of backhaul services not yet high enough
- Slow to get migration to required levels
- Integration/automation of customer management systems and processes

# Scale of CPW's NGN



- 1,100 exchanges live, 1,200 with backhaul installed
- Build plan to 1,650 exchanges this year
- Multiple 10 GIG Ethernet UK core rings
- 800,000 ports available for subscribers
- 375,000 live MPF (TT) & 325,000 live SMPF subs (AOL)
- Migration capacity 30,000 a week MPF
- Class 4 NGN transit, 500m minutes a month
- Class 5 NGN Access 200m+ minutes a month

# Integration of AOL



- **Common network operating division CPWN**
  - 1,650 MPF & 900 SMPF exchanges planned
- **Network teams merged**
- **Backhaul sharing: first exchanges in service**
- **Core networked shared**
- **Both SMPF and MPF supplied to Distribution**
- **AOL products in to CPW stores**
- **MPF products to AOL customer base**

# Competitive landscape



- **Competitors with voice and data access networks**
  - BTW, 21CN
  - C&W, Bulldog , Ethernet over SDH
  - SKY, planning MPF but delayed
  - NTL/Telewest, Access operator, no NGN
- **LLU SMPF operators who could migrate to NGN**
  - Tiscali
  - 02 (be unlimited)
  - Orange

# Comparison with BTW 21CN



- **BTW 21CN**

- Roll out 2008-2011
- 5500 exchanges
- 100% of the population
- 1 exchange in trial
- Cost £10Bn
- 30m lines
- Ericsson soft switch
- Huawei/Fujitsu MSAN
- Ethernet backhaul

- **CPW NGN**

- Roll Out 2006-2008
- 1,650 exchanges
- 86% of the population
- 1,100 exchanges in service
- Cost £200m
- 4m lines (potential)
- Sonus soft switch
- Huawei/Fujitsu MSAN
- Ethernet backhaul



# Backhaul



- Control of backhaul costs is essential for profitable operation and expansion
- Future demand is likely to significantly increase
- Getting access to remote areas of the country
- Backhaul costs average £11,500/100Meg
- 100 Meg supports 4000 voice/data subs, today
- External opex costs £3 per sub per year, fully scaled
- We plan to build a new network to both substantially increase available capacity and cap our opex costs

# Network Unification Project



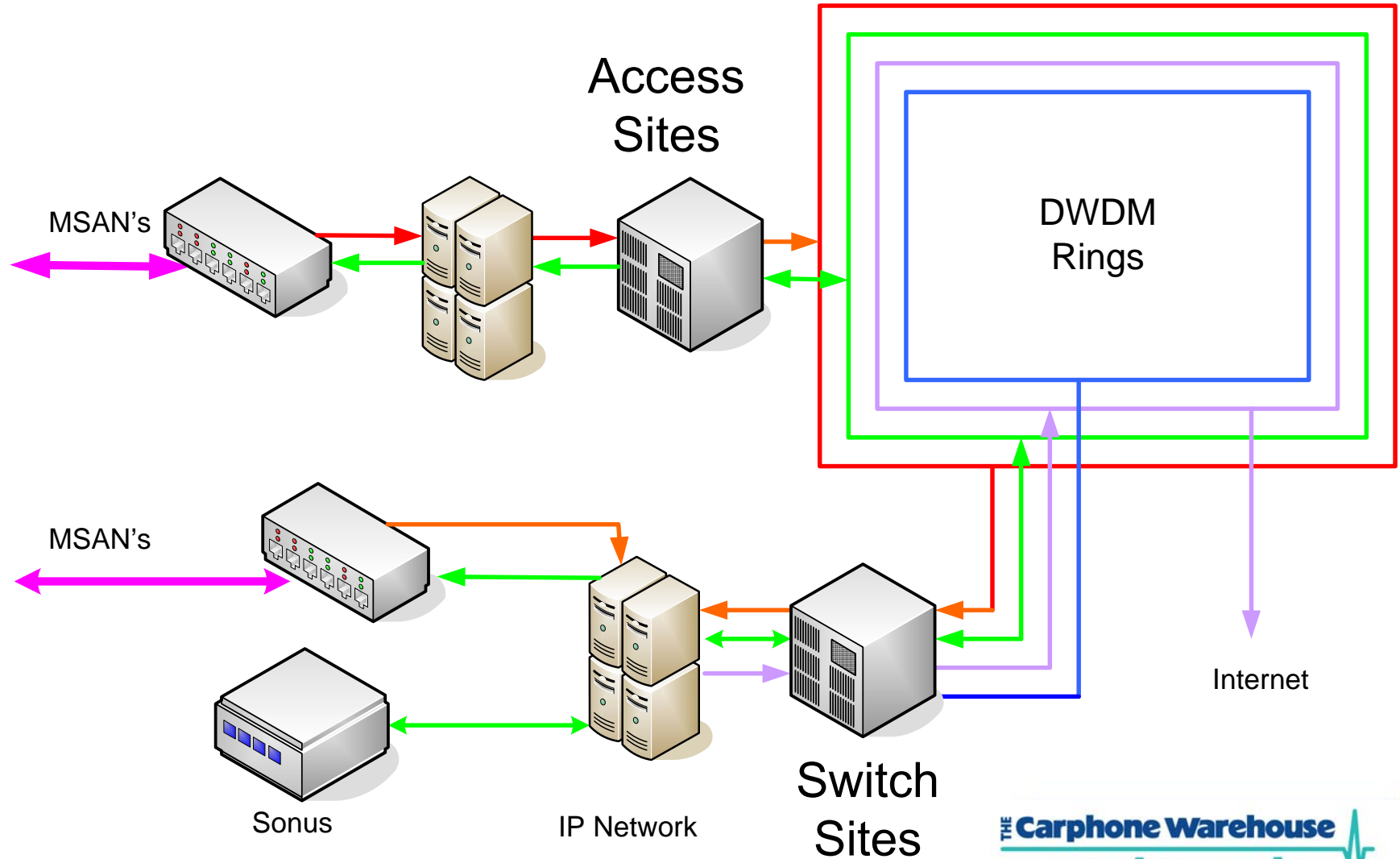
- To unify all our networks into one high integrity/capacity IP network for our future voice and data requirements
- Move to operating fibre network and operation of DWDM multi channel 400 Gigabit UK wide network
- This will reduce our backhaul and transmission costs, removing legacy technology out of our network and give us a hugely scalable network
- Gigabit backhaul from NGN exchanges for future content
- Distribute the softswitch architecture further
- Consolidation of existing networks
  - NGN Backhaul
  - AOL Backhaul
  - 21CN interconnect
  - SDH interconnect
  - SDH backhaul
  - SDH core network
  - Core IP network & Transit

# CPWN always leased bandwidth. So what's changed?



- Fibres no longer sold by IRUs, i.e. large upfront capital cost
- The price of fibre has halved to circa 50p per metre/annum
- Business rates have been substantially reduced
- DWDM kit has fallen significantly in price, increased in capacity, performance & is easier to operate
- CPWN bandwidth requirements are significantly increasing
- We can no longer live off spare capacity of our suppliers. They now have to invest significant capex to service us
- We wish to distribute more of our architecture from our 3 core sites
- The need for a highly scalable network
- Backhaul bandwidth is set to take off, we need to be ready

# UK Ethernet Network



# Timing and impact of Network Unification Project

- Three year roll-out starting end 2007
- Total capex £20m per annum as historical TDM capex reduces
- Significant reduction in backhaul unit costs
  - caps bandwidth costs
  - offset impact of increase in bandwidth demand
- Third party opportunities



## New divisional presentation and FY08 financial guidance

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# Background



- Disclosure has become increasingly complex with acquisitions and product launches
- External reporting no longer reflects internal budgeting and review process
- Investor feedback demanding greater simplicity and comparability



# Revenue split



Distribution	UK Fixed Line
Retail/Online Insurance Ongoing Mobile Dealer Non-UK fixed line	UK Residential UK B2B

- New format reflects key underlying asset base
  - Distribution = stores
  - UK Fixed Line = Opal network

# Geographical disclosure



- **Distribution to be disclosed by geographical market**
  - UK
  - Spain
  - France
  - Germany
  - Other
- **Revenue, EBITDA and EBIT for each**

# Support costs



- All central support and IT costs allocated above EBITDA line
- Central PLC overhead disclosed separately below divisional analysis
- Full divisional and Group pro forma in appendix

# Quarterly KPI disclosure



- **Distribution**
  - Revenue analysis (Q1 and Q3)
  - LFL revenue and margin (Q1 and Q3)
  - Stores
  - Connections
  - Insurance and Mobile customers
  - Mobile ARPUs
- **UK Fixed Line**
  - Revenue analysis (Q1 and Q3)
  - Broadband customers and ARPU
  - Other billed customers (CPS and narrowband) and ARPU
  - Unbundling stats

# Comps



- H1 and H2 FY06, H1 FY07 will be provided between now and prelims in June
- FY07 will be provided on both old and new formats at prelims

# Headline FY08 guidance - revenues



Revenue line	Trend	Drivers
Retail/Online	++	250 store openings, flat margin LFL, improving mix
Insurance	++	Driven by subscription connections
Ongoing	++	Driven by subscription connections
Mobile	+	Continued steady growth in subs, flat ARPU
UK Residential	+++	Annualisation of AOL acquisition, underlying broadband base growth
UK B2B	++	Organic revenue growth driven by new services, plus annualisation of acquisitions

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# Headline FY08 guidance - EBITDA



EBITDA line	Trend	Drivers
Distribution	+++	Increasing leverage of local support costs
UK Residential	+++	Scale and LLU migration
UK B2B	++	Beginning to benefit from NGN infrastructure

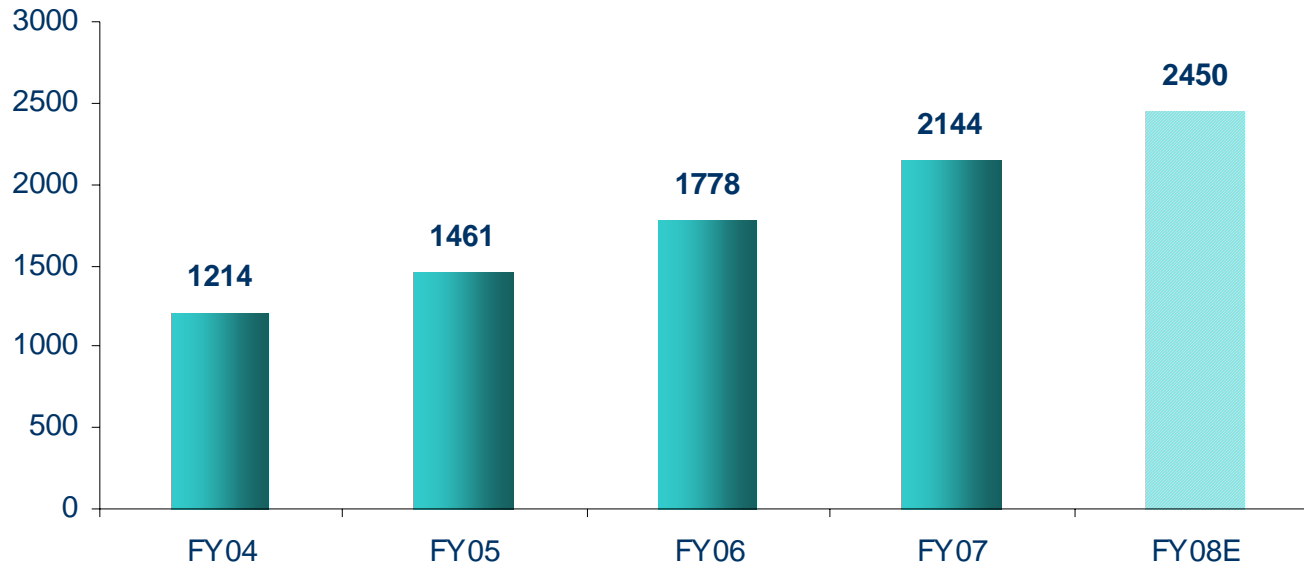


# Retail/Online – headlines



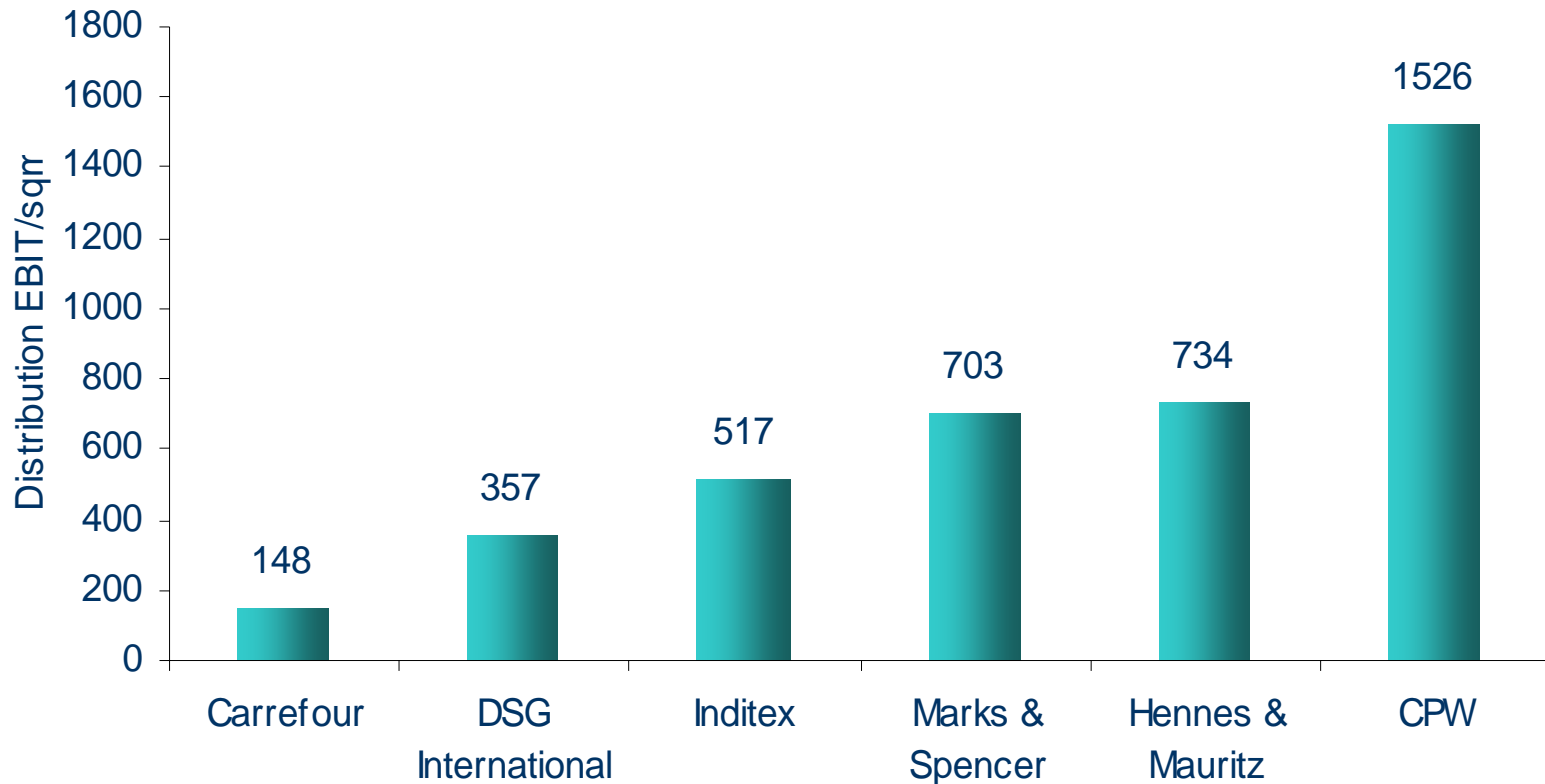
- 250 net new stores
- c. 12% average own store space growth
- 15% subscription connections growth
- Cash margin and revenue per connection steady on both subscription and pre-pay
- Flat Retail LFL gross profit
- Operational focus:
  - Non-handset margin, conversion, procurement and simplification
  - Store design, size and refits/relocations

# Retail expansion



- **Plenty of scope for continued expansion in existing markets**
- **Continued focus on market share growth**
- **250 net new openings plus acquisition of Osfone in Portugal – 66 stores**

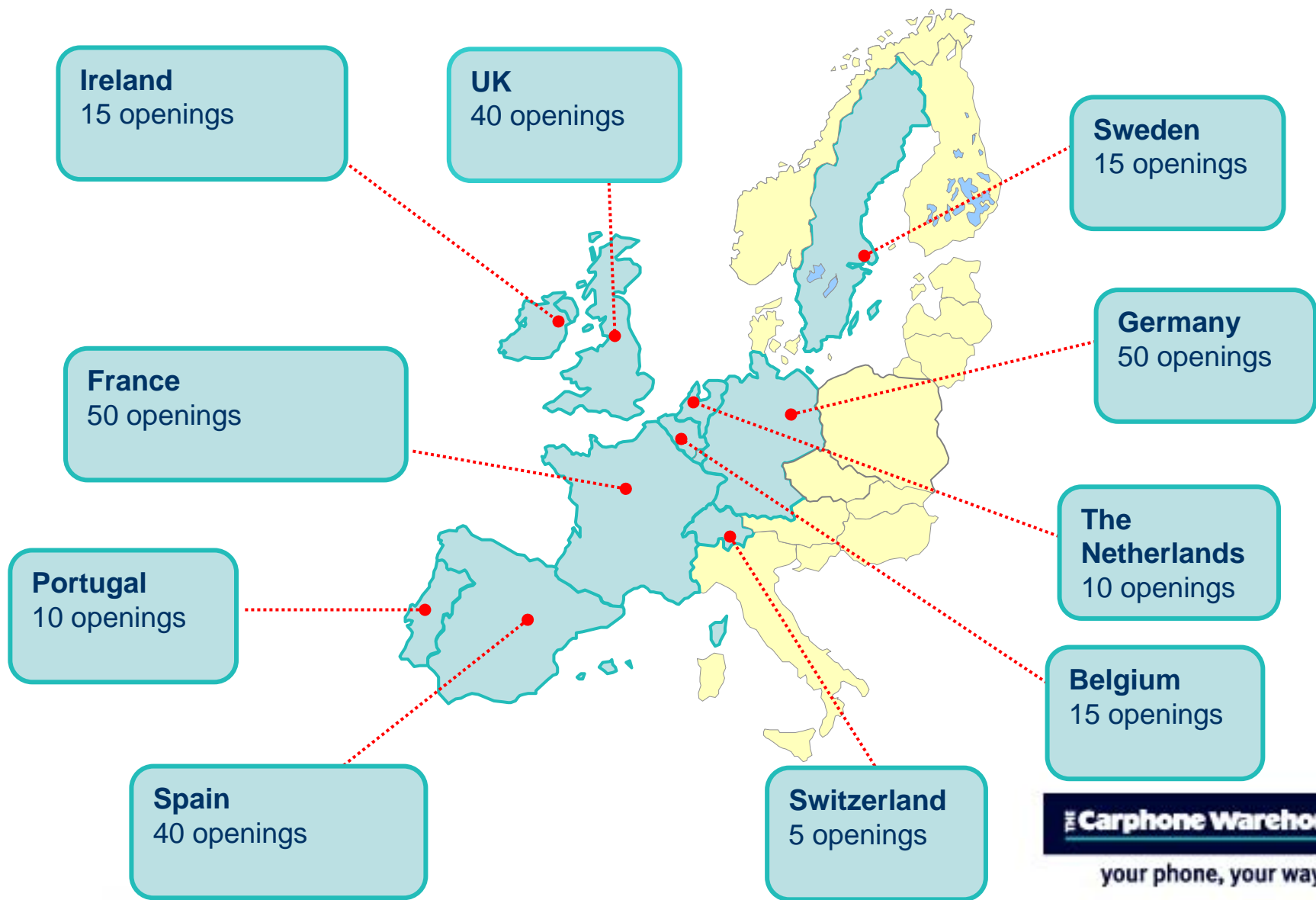
# Distribution is a high return business



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# Focus continues to be on major markets



# Re-sites and refits



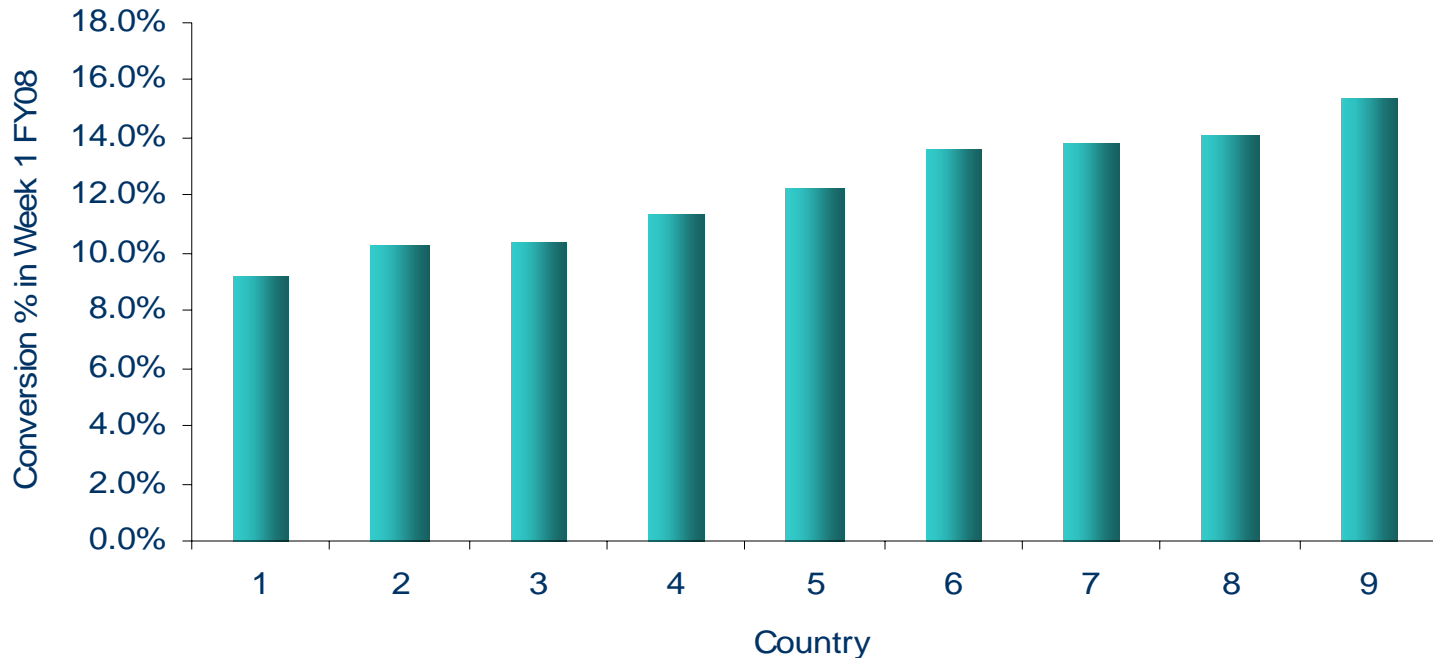
- Major additional investment
  - Larger stores in key locations
  - Refit of existing large stores
- Improve store environment for consumer (increase footfall)
- Increase conversion of footfall
- Prepare for future development of Retail business



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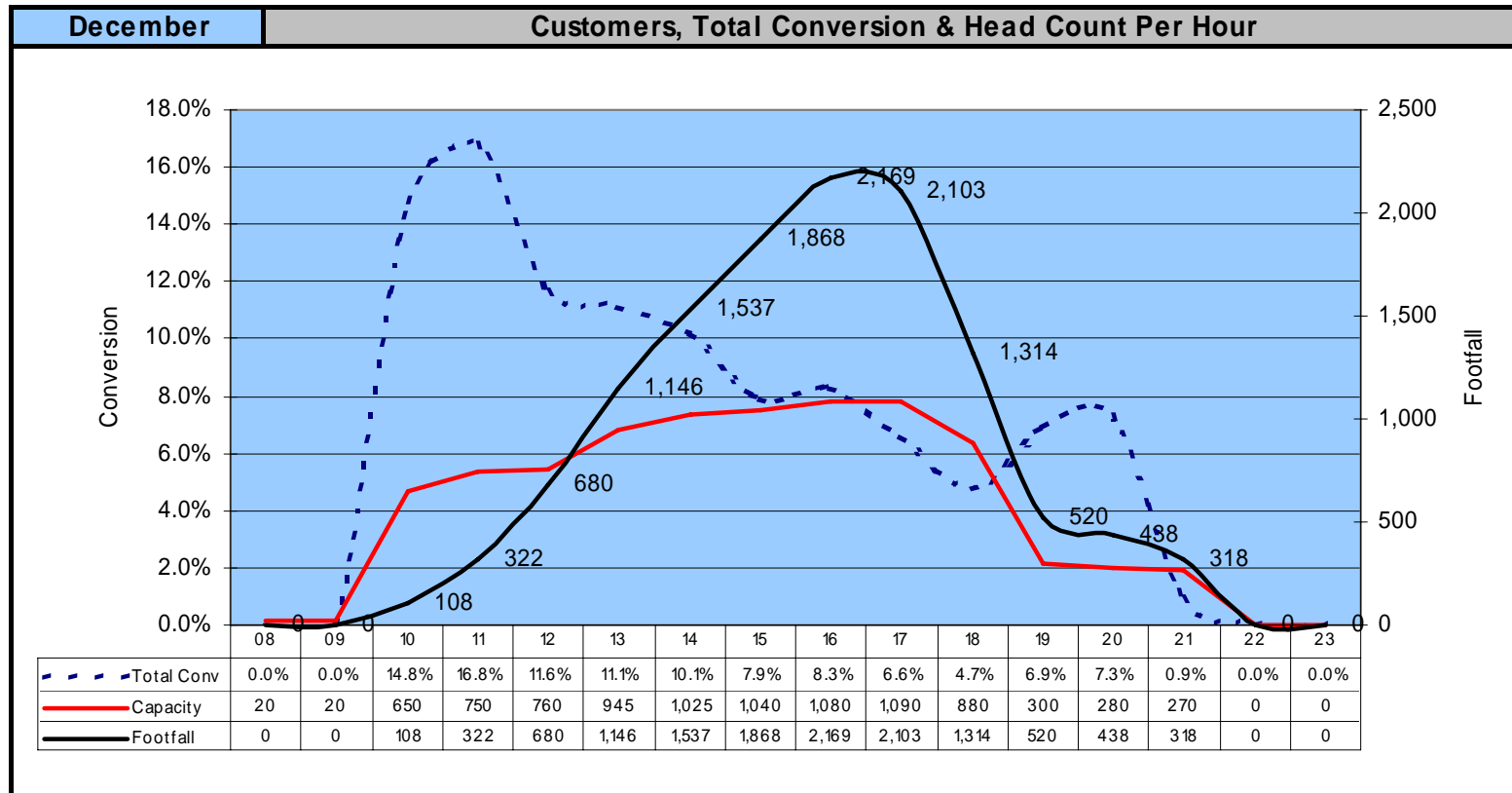
# Retail productivity



- Huge spread of conversion rates
- Contributing factors are in-store execution, over-trading/queuing, lack of resource scheduling

# Amsterdam Kalverstraat (NL)

under resourced in December, particularly in the afternoon between 1 and 5pm

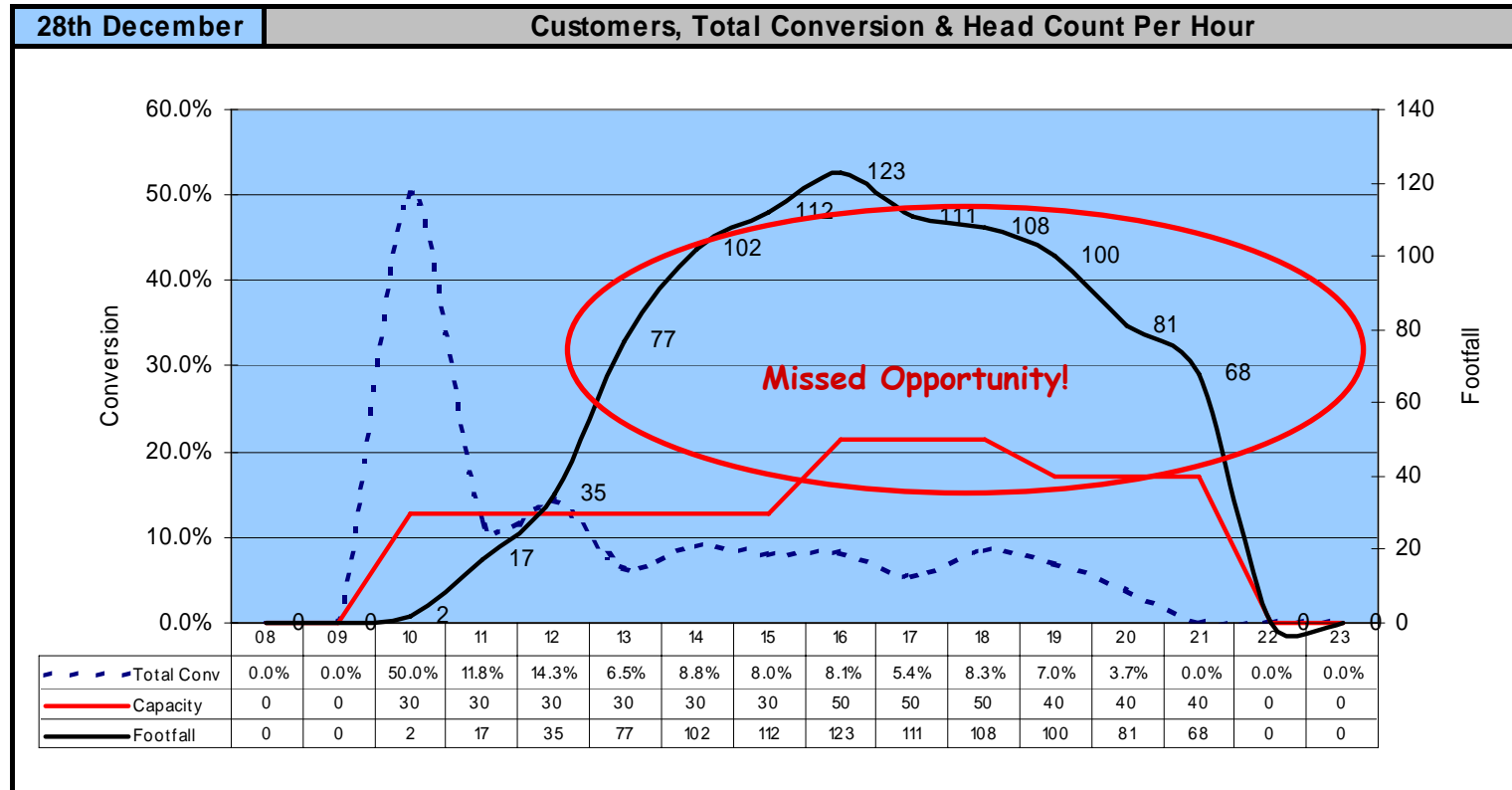


If we achieved 12% conversion, margin would have +46% on actual



# Amsterdam Kalverstraat (NL)

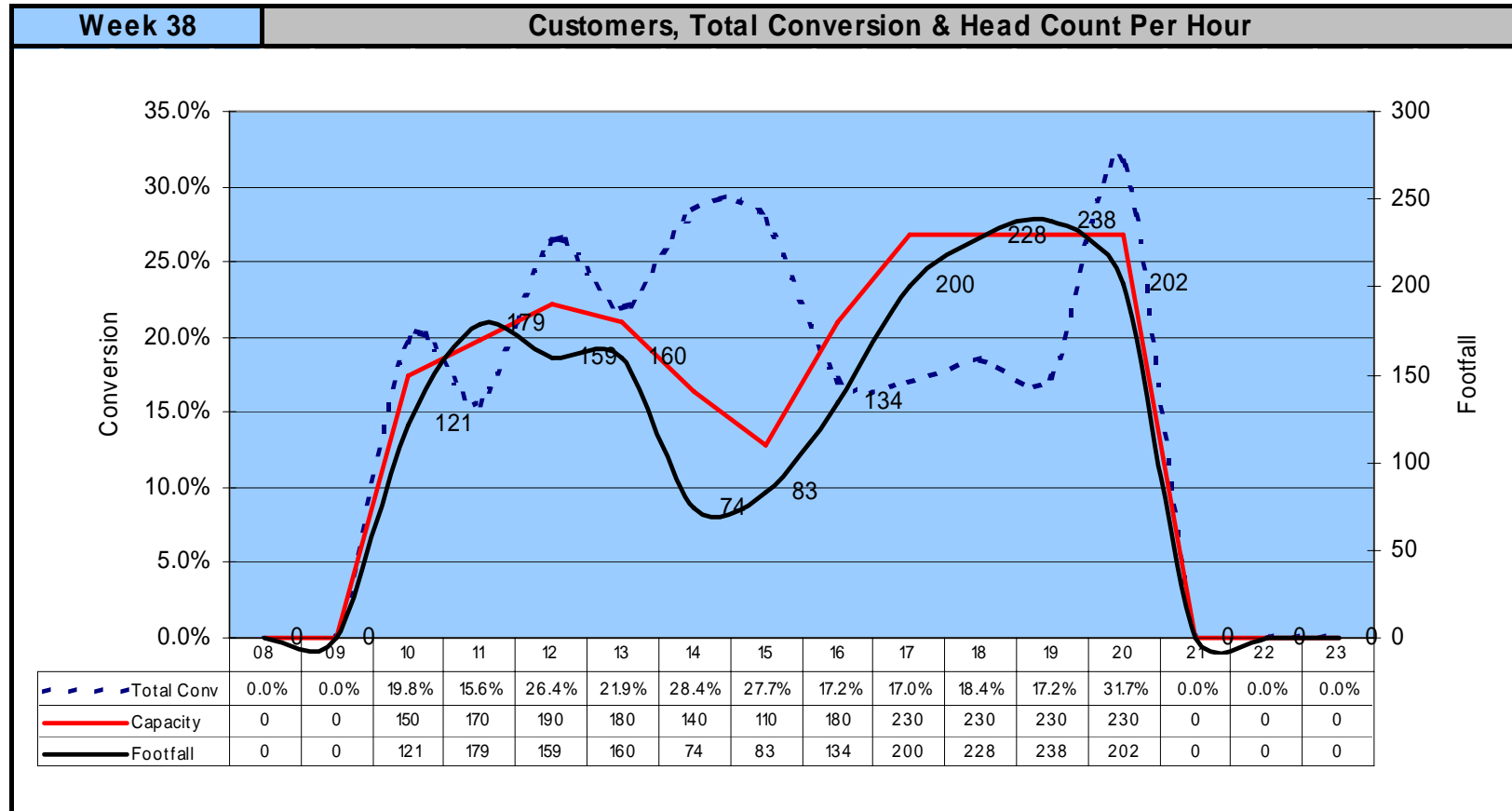
December 28<sup>th</sup> - Day 2 of the Sale was surprisingly the Busiest Day of the Month



**936 Customers but only the capacity to serve 450!**

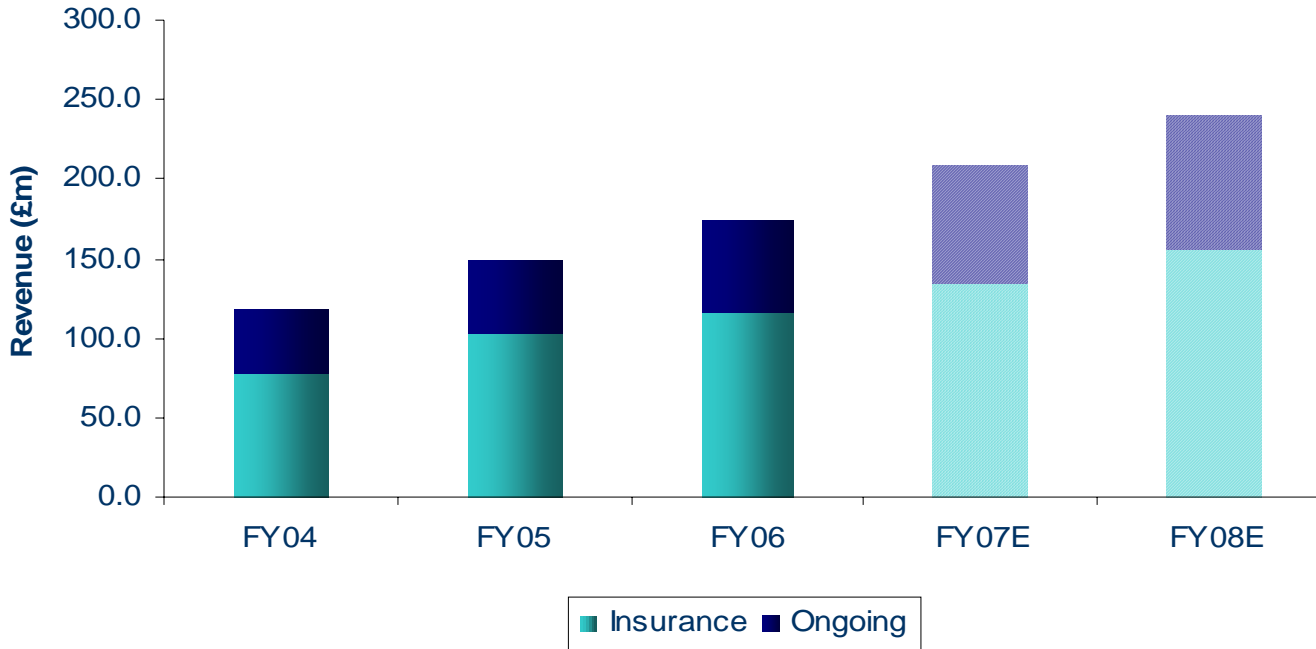
**If we achieved 12% conversion, margin would have totalled 1,873 (+70% on actual)**

# What can be achieved – 272 Granollers (ES)



- **Total Conversion = 21.2% vs. Spain Average = 10.2%**
- **Conversion rose from 12-14% in October to 16-22% in December**

# Insurance and Ongoing



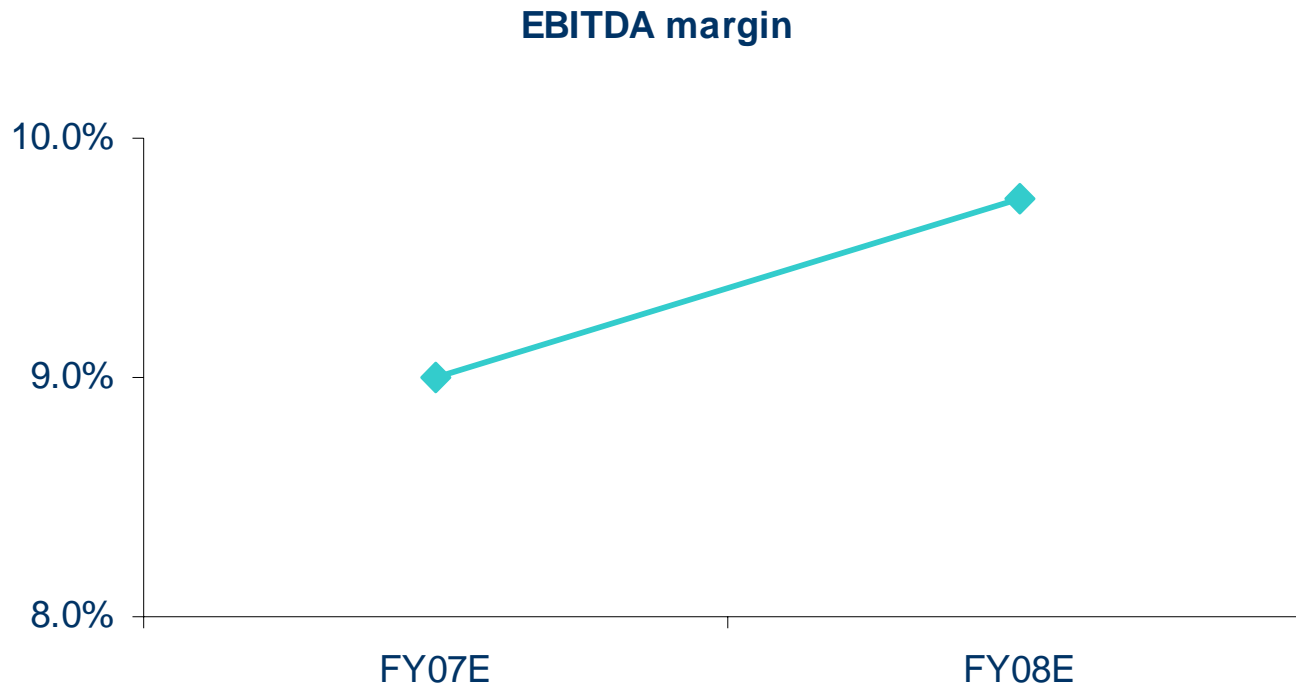
- Continue to be a major driver for store openings
- Significant lifetime value drivers
- 15% growth expected in FY08

# Mobile – headlines



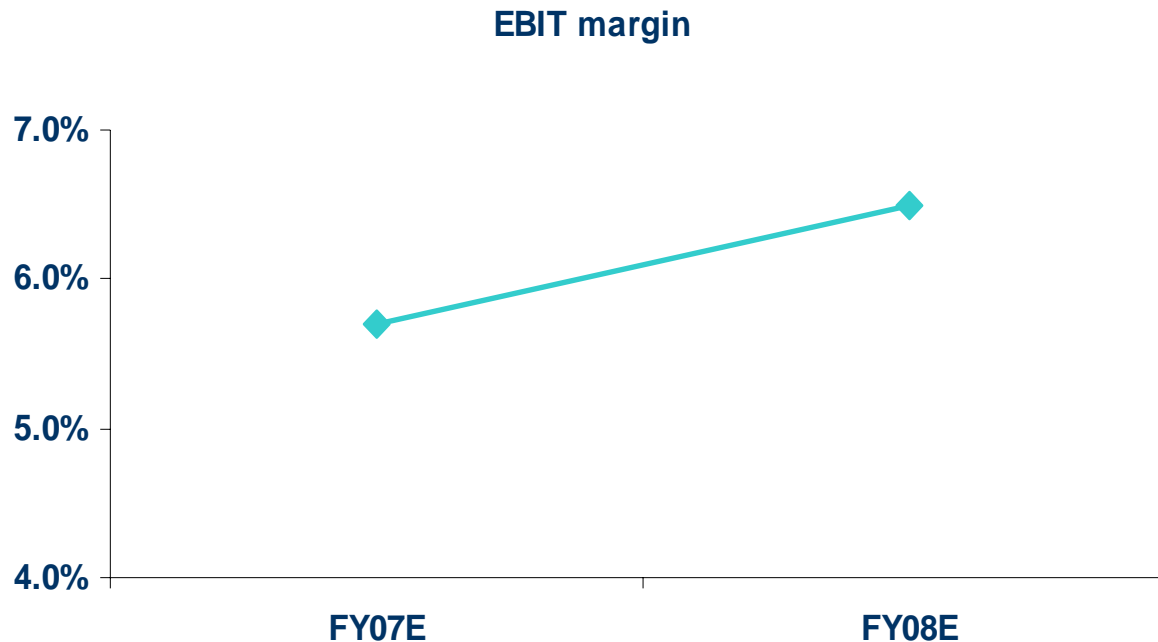
- Steady growth expected
- Continued investment in TPHT base growth
  - ARPUs stabilised
  - SAC investment flat year-on-year
- UK MVNO becoming profitable, offset by non-UK launches
- FM contracts may unwind
  - France
  - O2
  - ...but developing “value add” relationships

# Distribution EBITDA



- Margin to increase 50-70 basis points year-on-year
- Leverage of local support costs and IT infrastructure

# Distribution EBIT



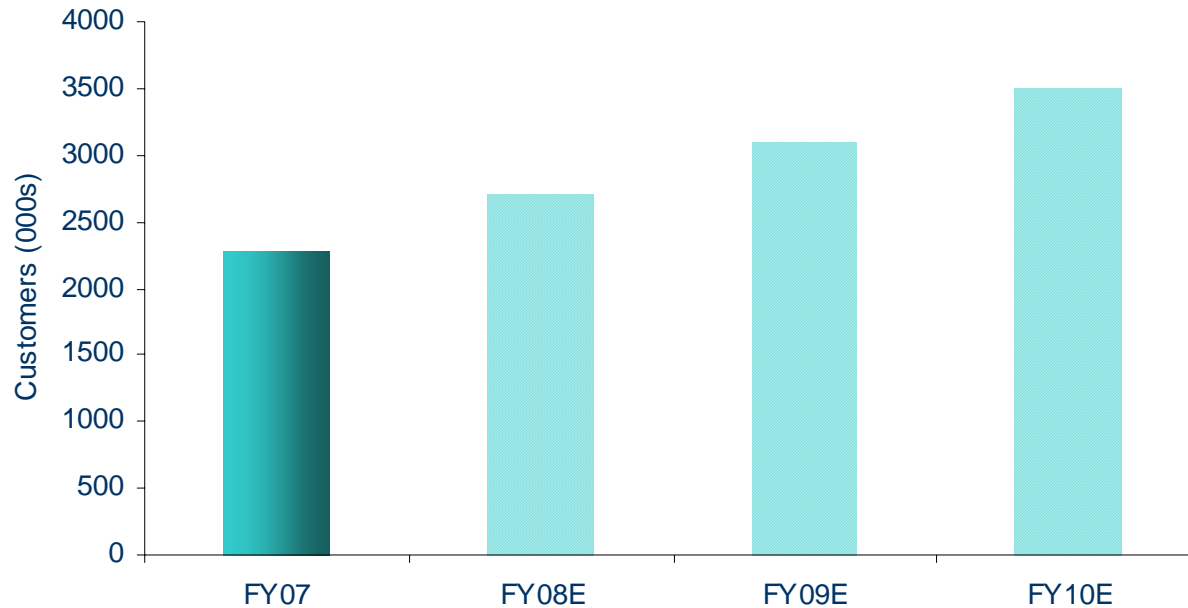
- EBIT margin expansion a little ahead of EBITDA margin
- Some further efficiency on depreciation and SAC amortisation

# UK Fixed Line – headlines



- **Divisional revenue growth c. 45%**
  - AOL acquisition
  - Organic customer growth
  - Continued good momentum in B2B operations
- **Significant margin progress**
  - LLU migration
  - Scale
- **Continued major investment in recruitment and infrastructure**

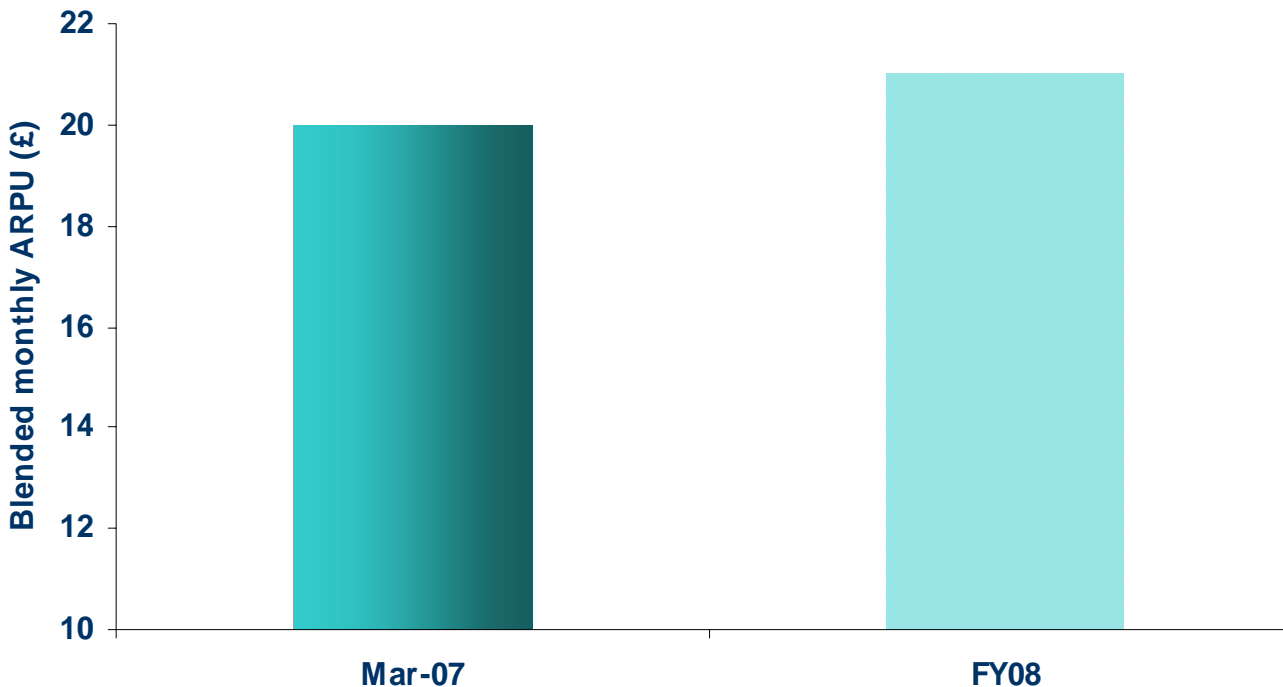
# Broadband base



- Expecting relatively consistent growth towards three year target

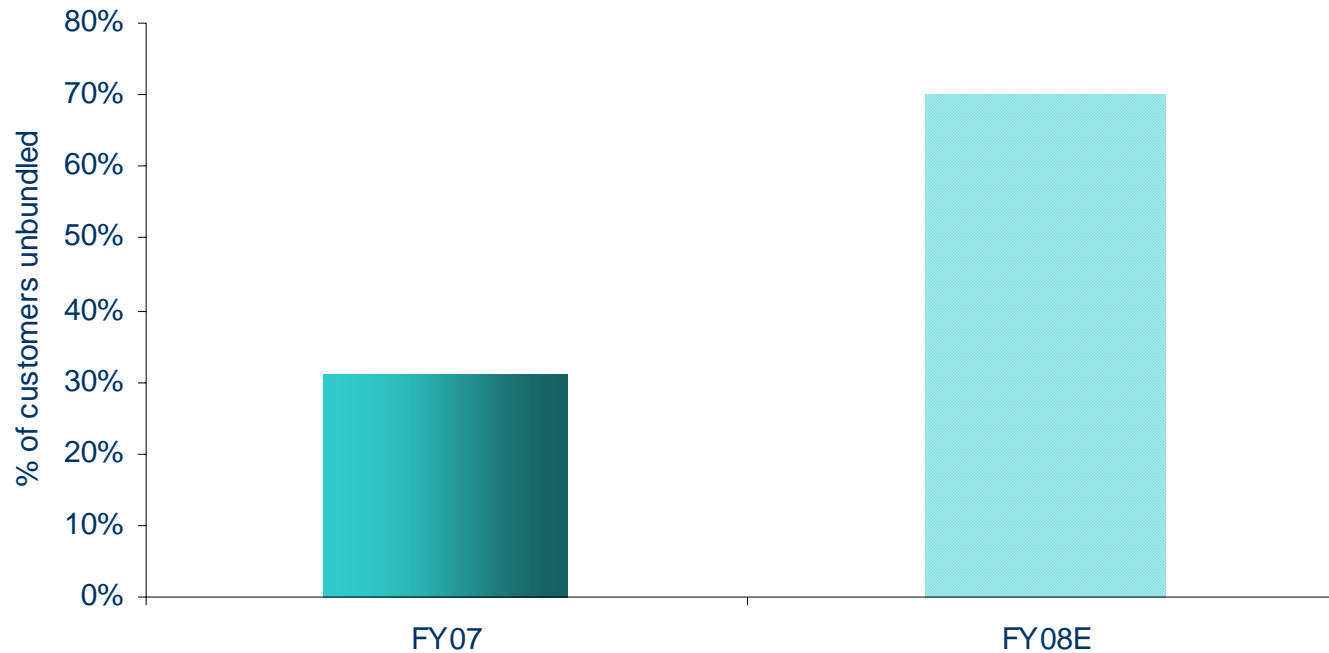


# Broadband ARPU



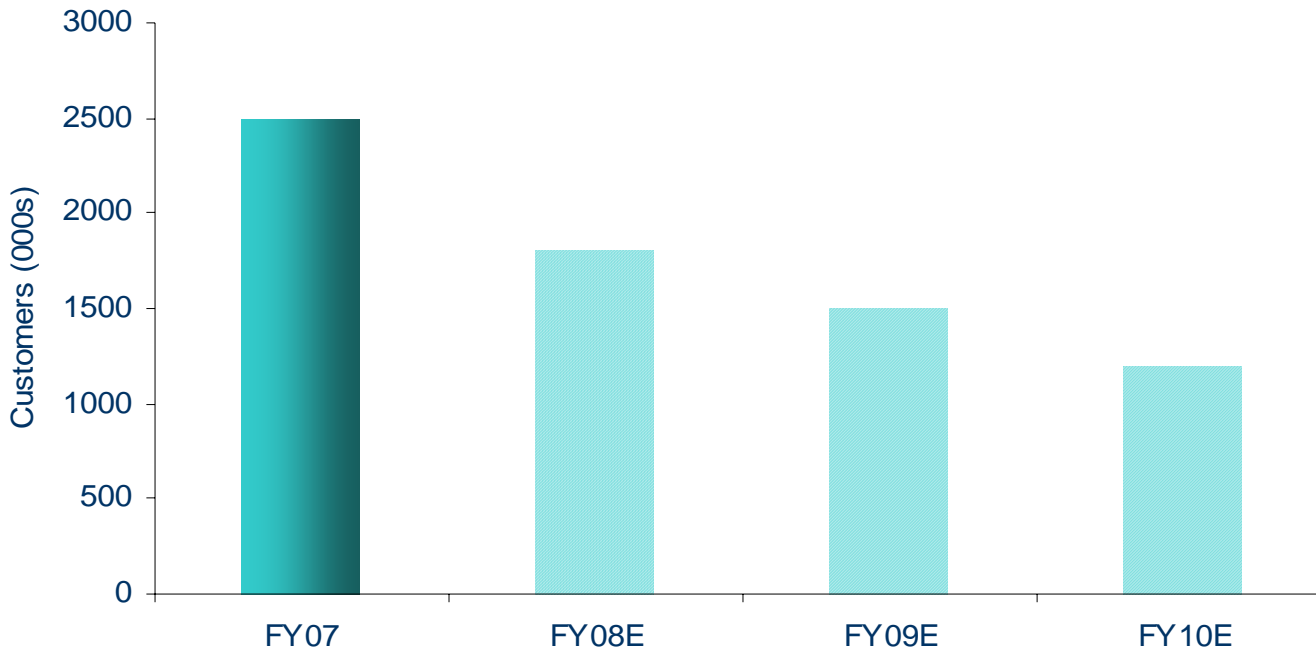
- ARPU increasing as TalkTalk becomes increasing % of base
- AOL ARPU declining slightly with focus on entry-level products

# LLU migration



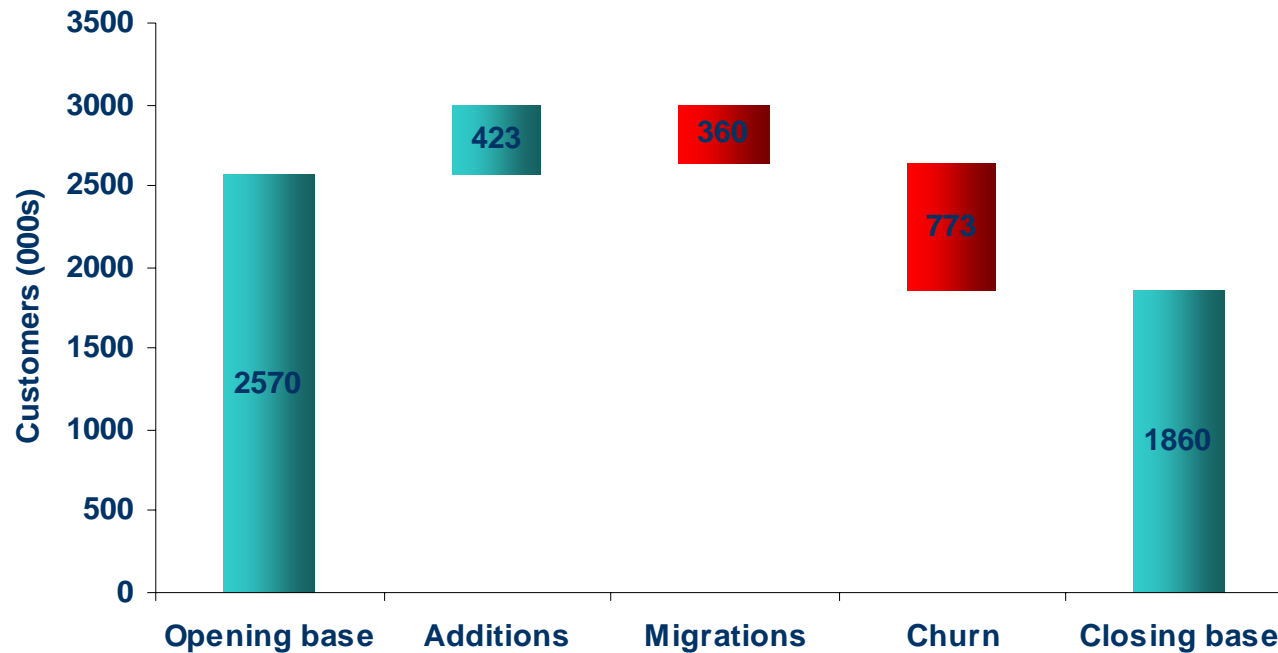
- Migration platforms now stable
- Significant margin opportunity
- 70% of broadband base on LLU by March 2008

# Non-broadband base



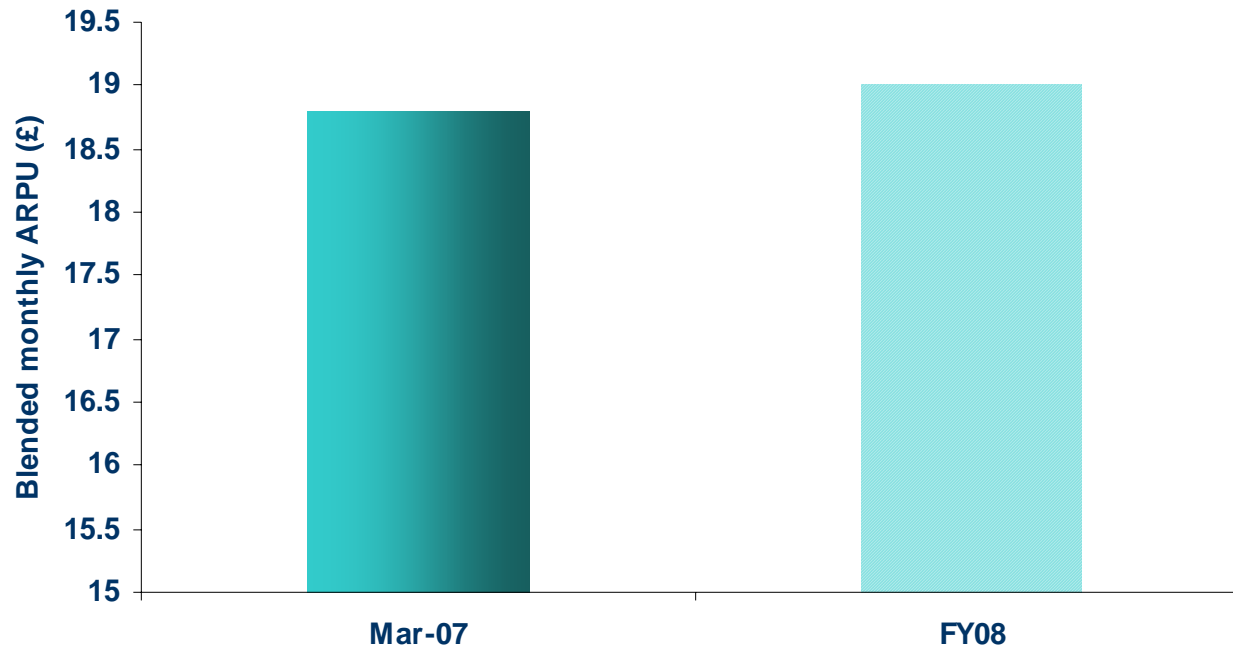
- **CPS and narrowband bases both in decline**
- **Rate of decline in CPS expected to ease this year as migration to TalkTalk broadband slows**
- **Strong margin and cash generation**

# Movement in CPS base in FY07



- Steep decline in voice base driven by
  - Rapid migration to TalkTalk Broadband
  - Lack of focus on acquiring voice-only customers
- Continued opportunities in voice-only business

# Non-broadband ARPU

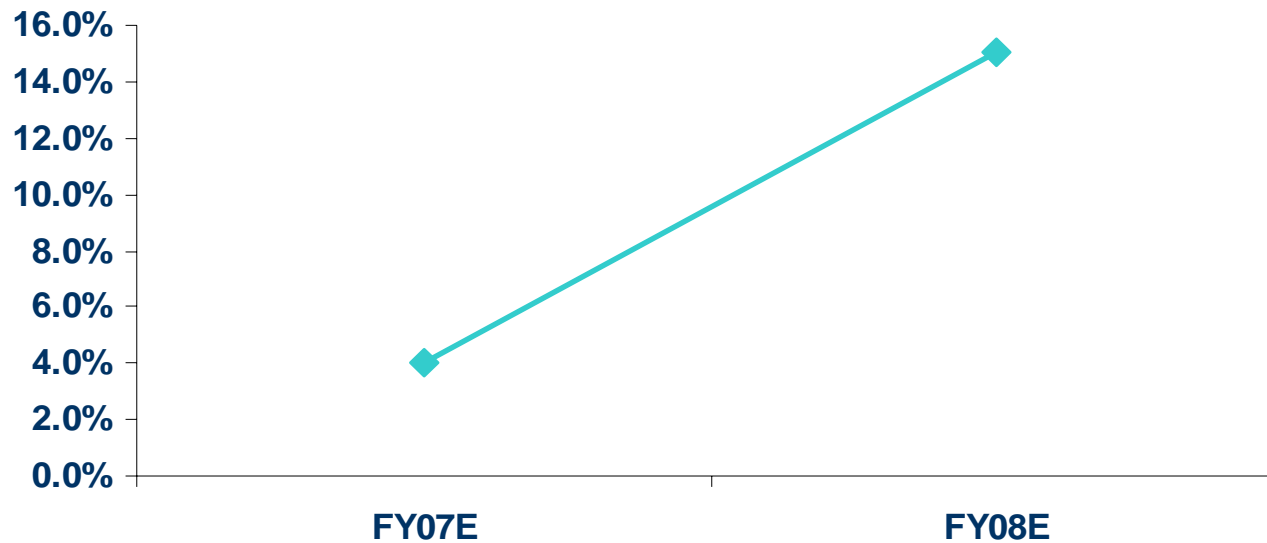


- ARPU increasing slightly with narrowband's decline

# Residential EBITDA



EBITDA margin



- Unwinding of IP Stream losses and connection costs
- LLU migration
- AOL network integration
- Increasing scale

# B2B Fixed Line



- Revenue up 11-12%
  - Annualisation of small acquisitions
  - Good underlying growth in new services
- EBITDA margin stable/slightly up
  - Voice market competition more benign
  - Network efficiencies
  - Operational leverage

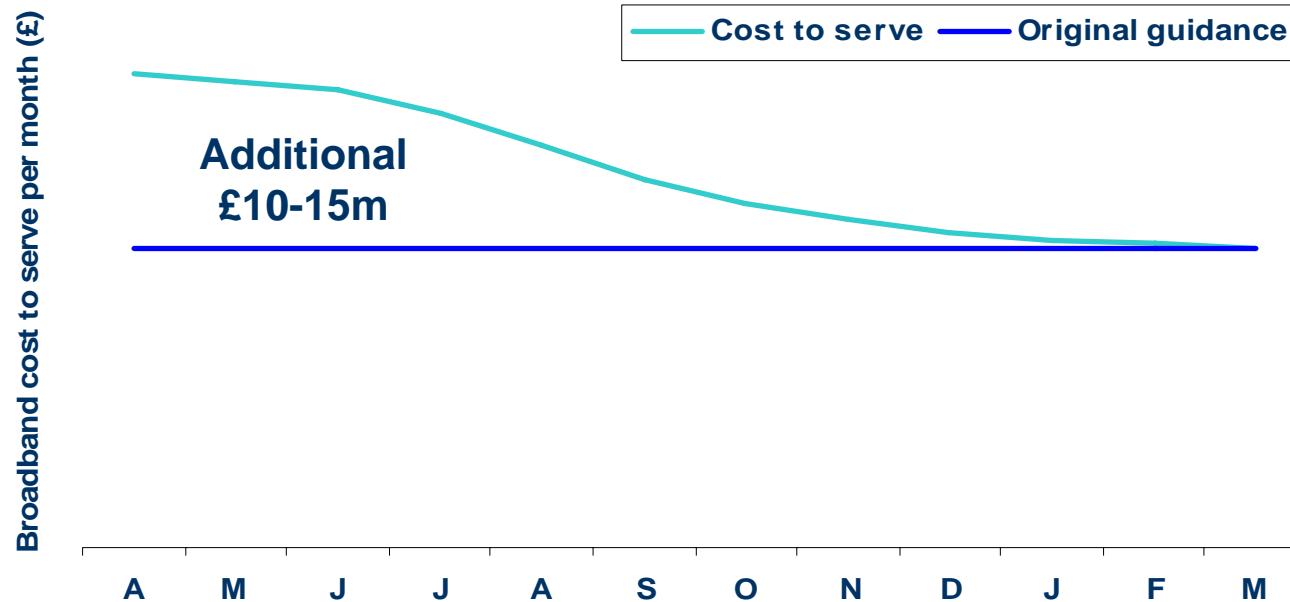
# AOL



- **Strategic focus:**
  - Develop additional products and services under the AOL brand
  - Roll-out of SMPF equipment
  - Direct marketing
- **Integration plans:**
  - Exit from Transitional Services Agreement
  - Migration onto single billing platform
  - Sharing of backhaul and engineering capability
- **Learn from a quality, service-driven ISP**
- **Exceptional re-organisation cost likely in 2007/8**



# Customer service



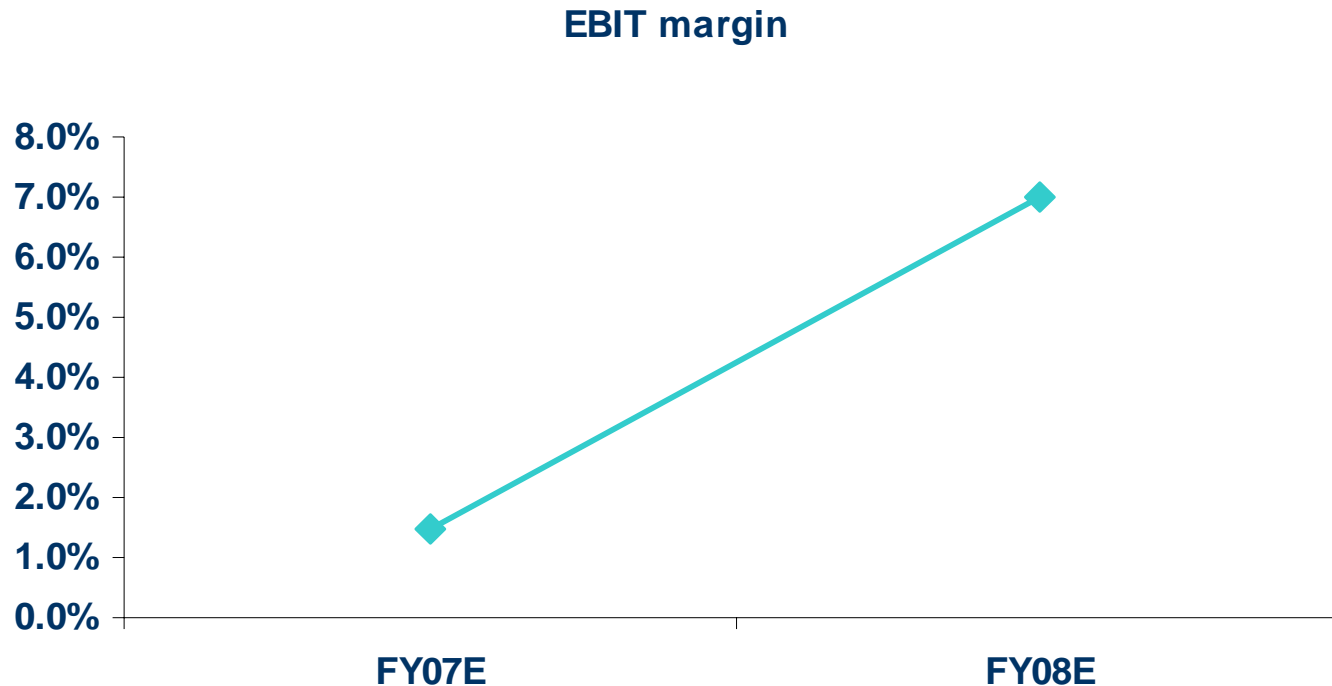
- Broadband customer service unit costs will fall through the year
- Voice cost-to-serve in line with expectations

# Depreciation and SAC amortisation



- **UK Fixed Line depreciation to rise 50-60% year-on-year**
  - LLU equipment (TalkTalk and AOL)
  - Launch of new billing and CRM system
- **SAC amortisation to increase by c. £40m**
  - Full year impact
  - Delayed migrations
  - AOL migrations written off over remaining contract life

# UK Fixed Line EBIT



- Rising to around 7%
- Approaching 10% next year
  - Further network efficiencies
  - Steadier growth in D&A

# Financial impact of JVs

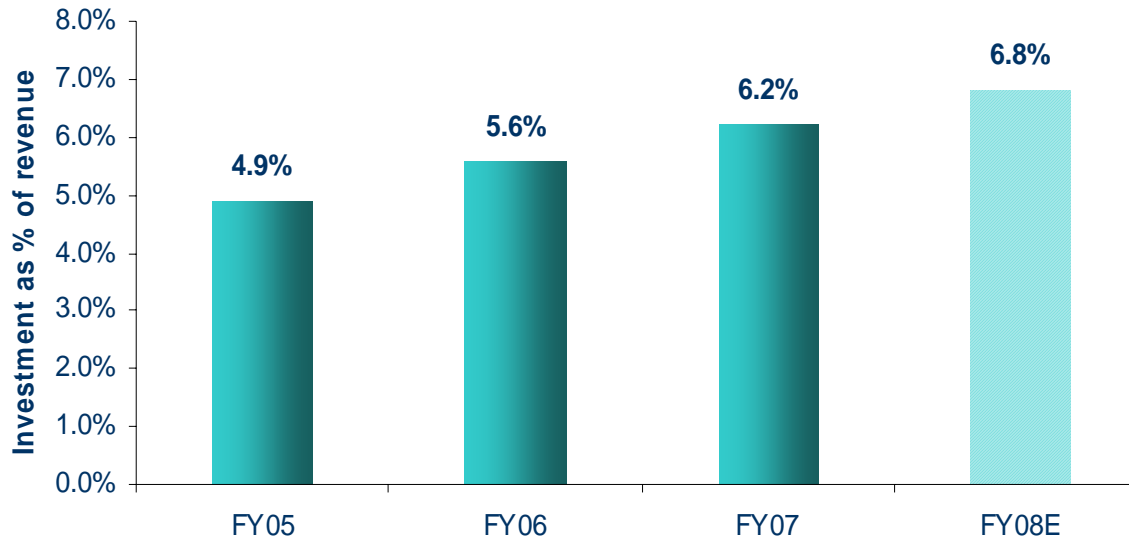


- Virgin Mobile France – concerted drive for growth
- Geek Squad/Best Buy Mobile – early stage investment
- P&L impact £15-20m
- Cash flow impact £25m

# PLC costs, interest, tax and dividend

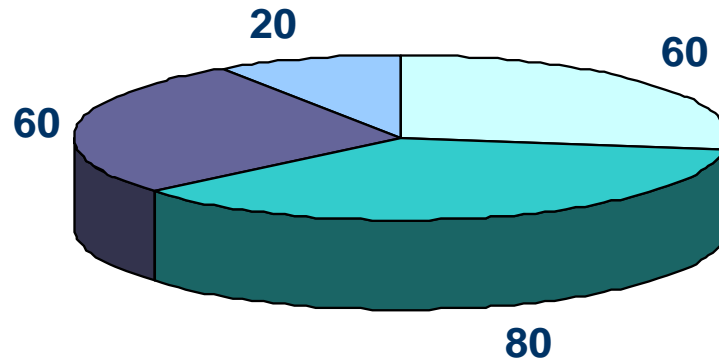
- PLC costs c. £35-40m (£30m in FY07)
  - “Double year” for options costs – extra £7-8m
  - Some underlying growth
- Average net debt c. £750m
- Tax rate c. 20%
  - Brought forward trading losses
  - Multi-jurisdiction profit generation
- Dividend to return to pay-out ratio of around 20%

# Total investment (SAC plus capex)



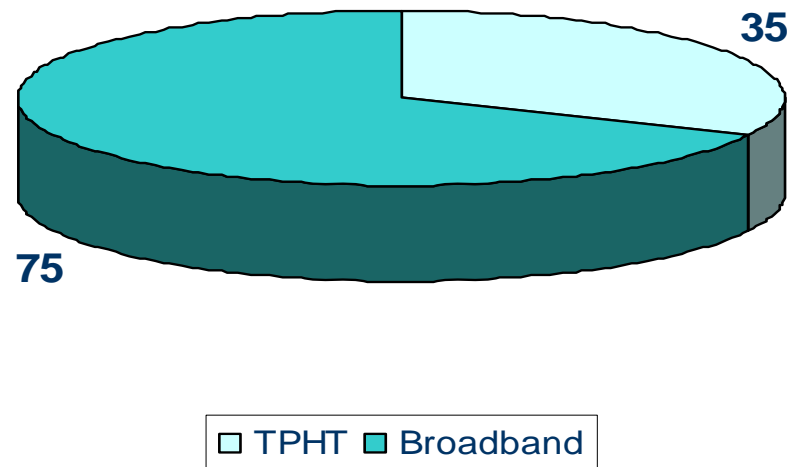
- Major investment programme continues
- Last year we said “gross investment as % of revenues will begin to decline in FY08” – but it is rising again
  - Additional LLU roll-out
  - JVs not in revenue line
  - Continued growth opportunities across the business
- All financed from cash generation

# Capex



- Telecoms capex reflects > 1,000 new exchanges (TalkTalk and AOL) and beginning of Network Unification Project

# SAC



- £110m to be invested in customer recruitment this year
- Compares with total SAC amortisation of approx £90m
- Amortisation likely to catch up with cash cost by March 2008



# Cash flow neutral for the year



- **Working capital neutral**
  - Outflow from continued Retail growth
  - Significant benefit from change in VAT regulations
  - Telecoms neutral
- **Cash tax limited**
  - Assisted by acquisitions
  - AOL intangible write-off
- **£50m of AOL deferred consideration**

# Summary

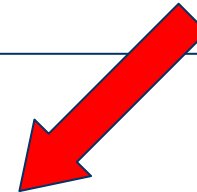


## Distribution

- Evolution of store strategy
- Better customer conversion
- In-store productivity
- “Value add” relationships

## UK Fixed Line

- Migration to LLU
- Improve customer service
- Continued customer recruitment



- Strong earnings growth
- Good cash generation
- Investment for further growth

**Carphone Warehouse**

your phone, your way



## Appendix

**THE Carphone Warehouse**

your phone, your way

# New Distribution pro forma



	£m
<b>Revenue</b>	<b>X</b>
Retail/Online	X
Insurance	X
Ongoing	X
Mobile	X
Non-UK Fixed Line	X
Dealer	X
<b>EBITDA</b>	<b>X</b>
Depreciation	X
Amortisation	X
<b>EBIT</b>	<b>X</b>

# UK Fixed Line pro forma



	£m
<b>Revenue</b>	<b>X</b>
Residential	X
B2B	X
<b>EBITDA</b>	<b>X</b>
Residential	X
B2B	X
Depreciation	X
Amortisation	X
<b>EBIT</b>	<b>X</b>

# Group pro forma



	£m
<b>Revenue</b>	<b>X</b>
<b>Divisional EBITDA</b>	<b>X</b>
PLC costs	X
<b>Group EBITDA</b>	<b>X</b>
Depreciation	X
Amortisation	X
JVs	X
<b>Group EBIT</b>	<b>X</b>