The Carphone Warehouse

Broadband Update and acquisition of AOL's UK Internet access business

11 October 2006

Agenda

- Acquisition of AOL's UK Internet access business
- Free broadband update
- Financial guidance

Acquisition of AOL's UK Internet access business

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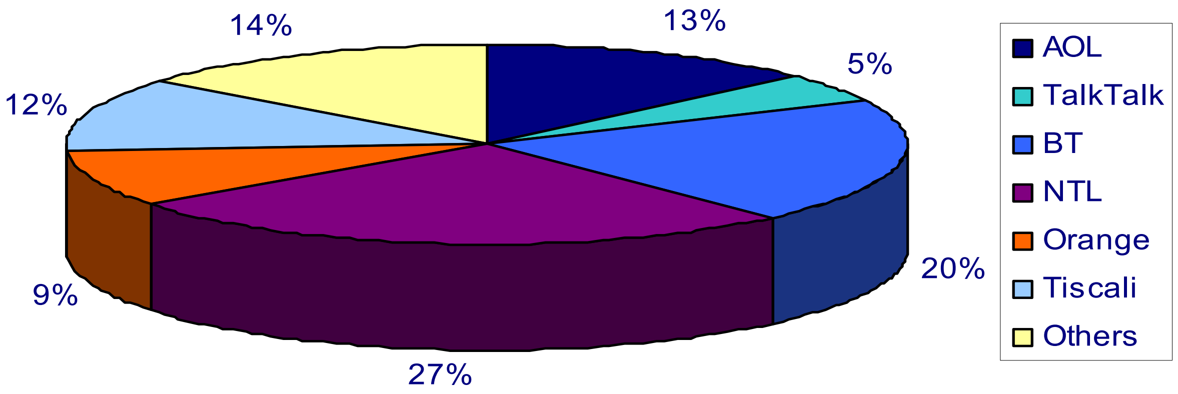
What have we bought?

- Acquisition of UK Internet access business
- On completion, expected to be
  - 1.5m broadband customers
  - 0.6m dial-up customers

Market share of residential broadband connections



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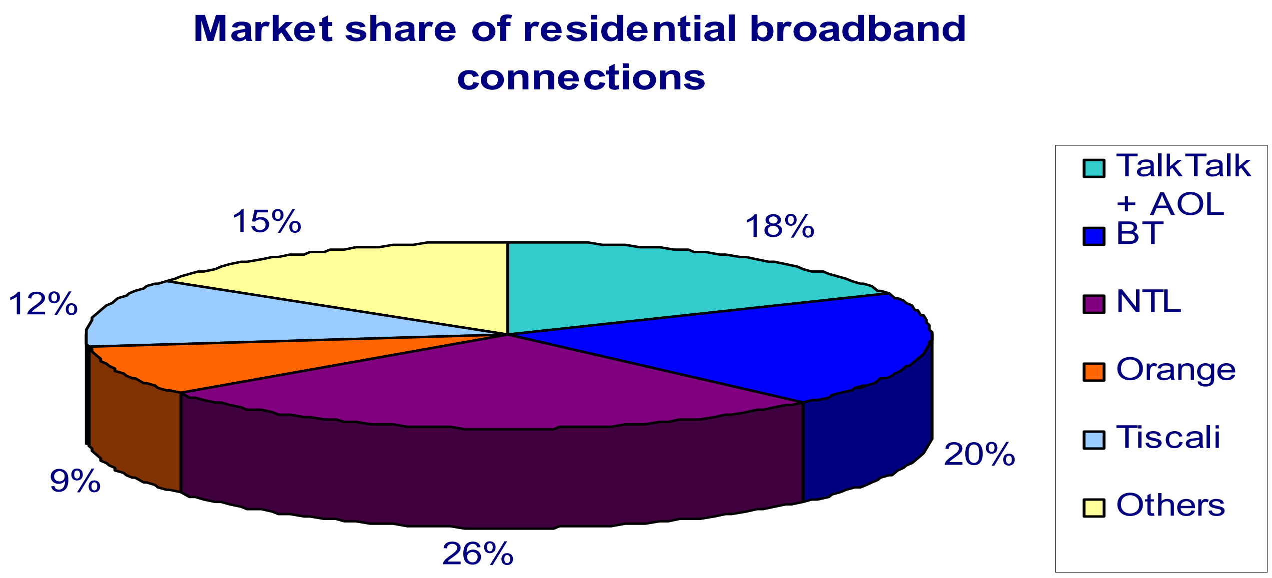
Deal rationale - Scale

- Immediately becoming the No. 3 broadband provider



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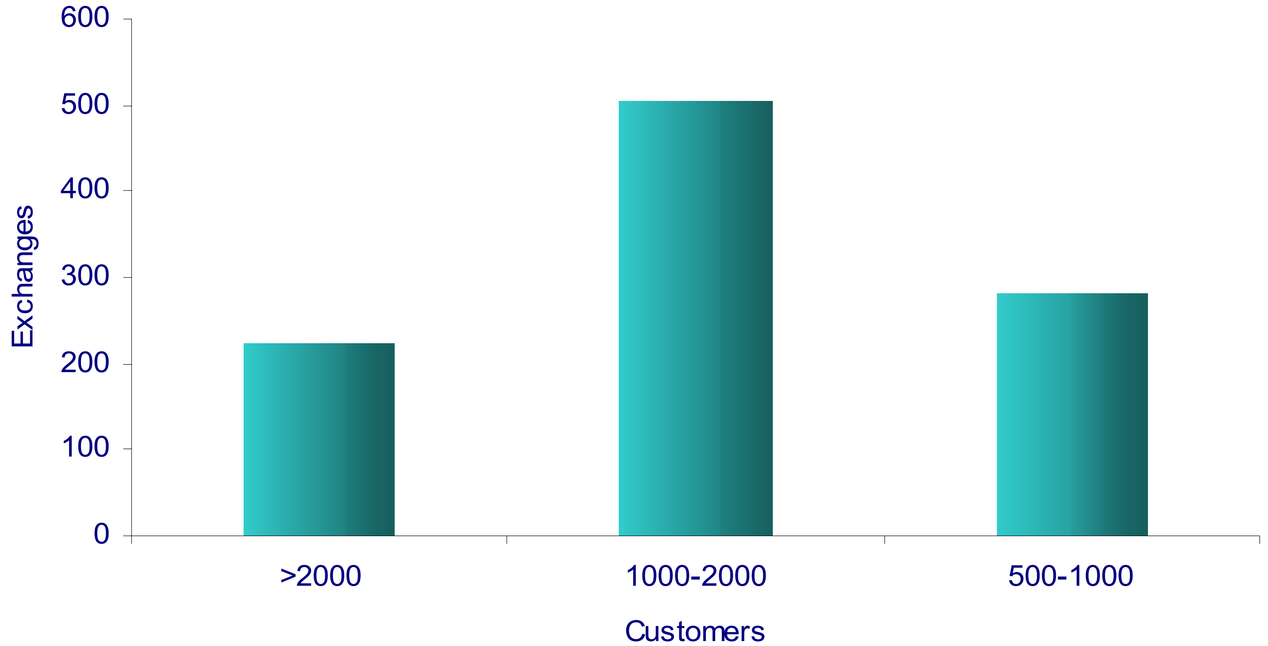
State of the nation post-completion

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

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

Deal rationale - Efficiencies



- **Over 1,000 exchanges will have more than 500 customers**
- **Significant network efficiencies**
- **Marketing spend rationalisation**
- **Competitor consolidation**

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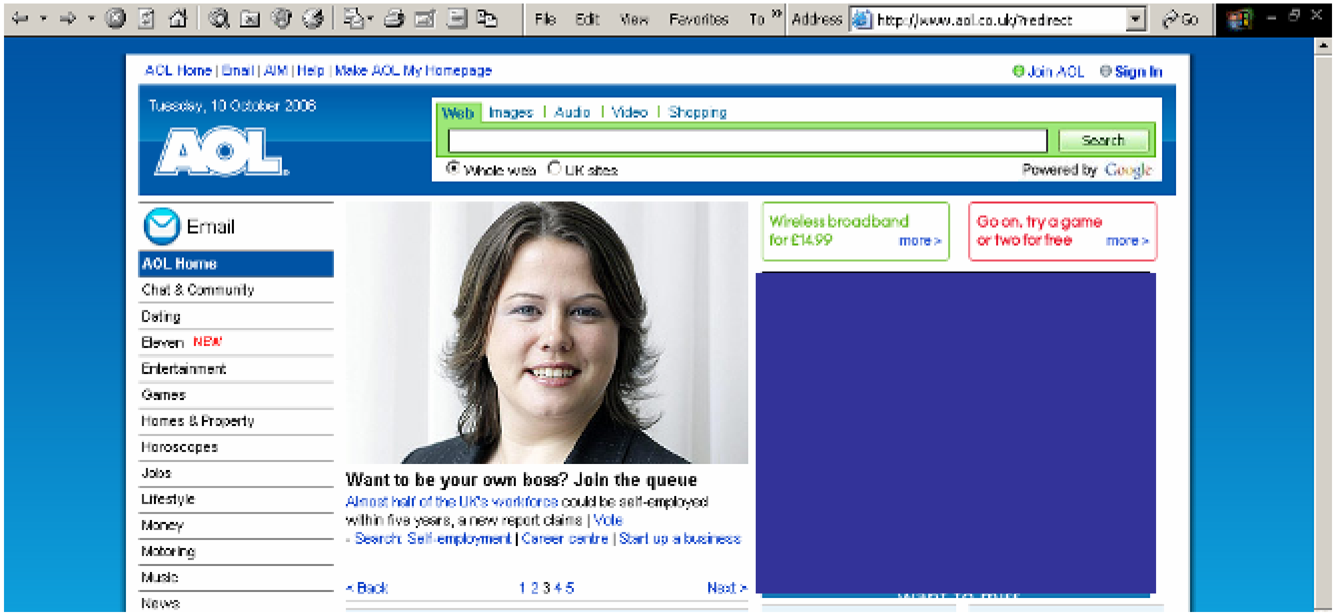
Customer proposition post-acquisition

- Retain AOL brand
- No change for existing AOL customers
- Continue AOL migration to partial LLU
  - Gives us a broadband-only offer
- Allow AOL customers to migrate to TalkTalk free broadband
  - Economically neutral for CPW

AOL Audience business



- Significantly accelerates content strategy vs go-it-alone approach
- Low risk, revenue share approach
- Enlarged customer base increases value of Audience operations
- Expertise will continue to lie within Time Warner

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Free broadband update

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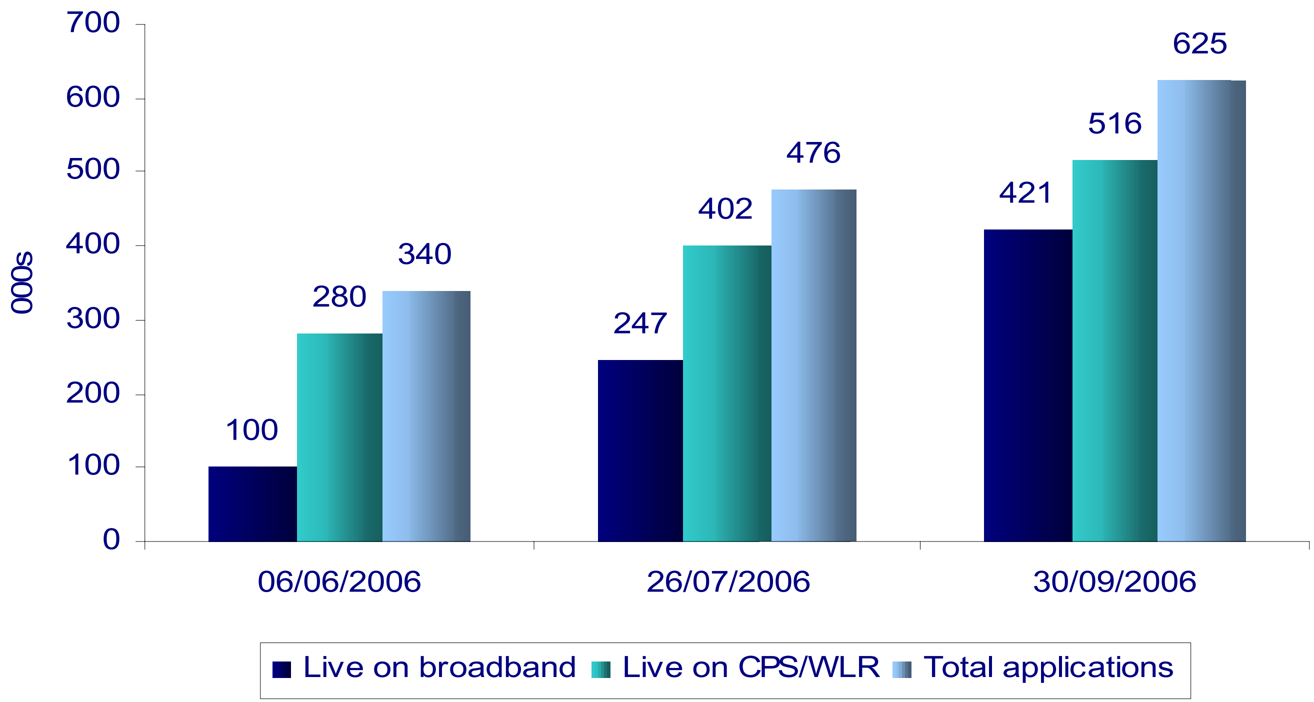
Q2 trading

- Connections up 34.0% to 2.38m
- Subscription connections up 16.3% to 0.96m
- 66 net new stores opened
- Strong growth in Insurance and Mobile customer bases
- Continued good momentum in broadband with improved customer service
- Underlying growth of c. 50% in H1 pre-tax profit anticipated

Strong progress in recruitment and provisioning



- **Excellent runrate maintained over the summer**
- **82% of voice customers now live on broadband – up from 61% in July**

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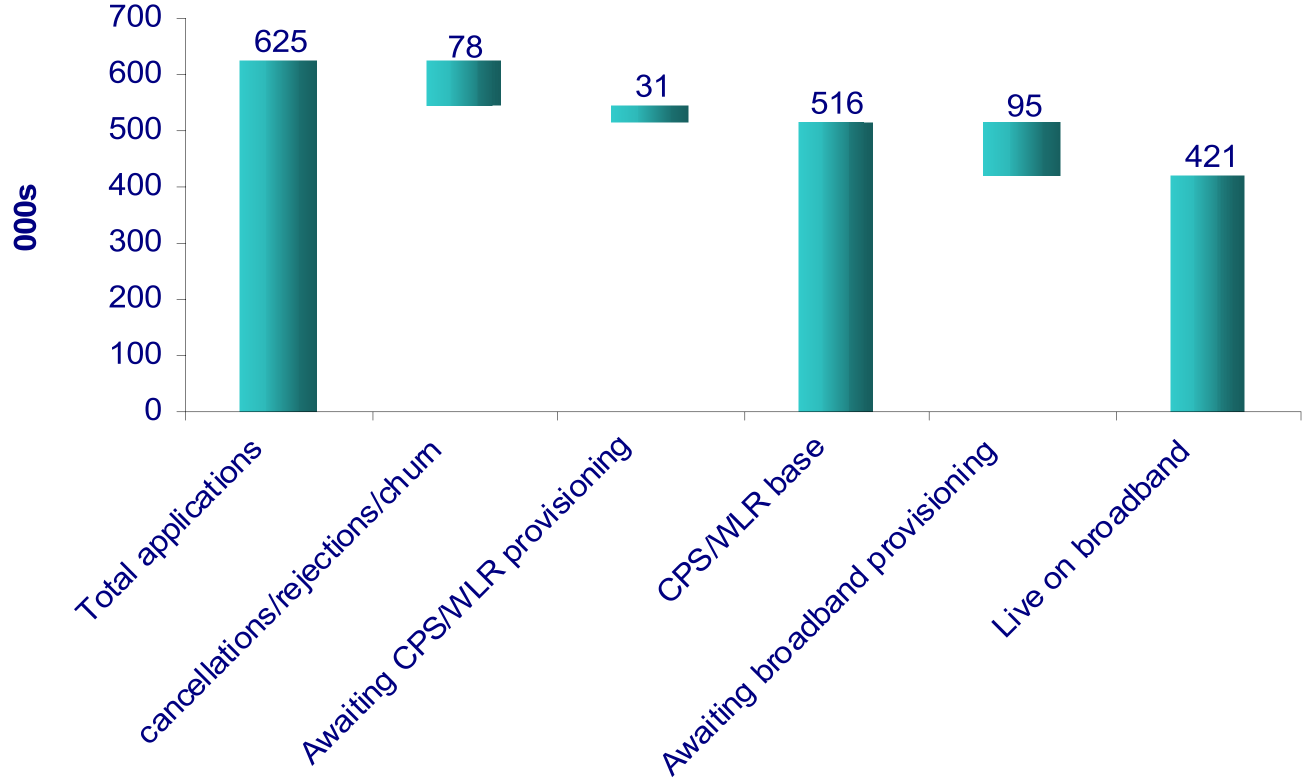
Reconciliation of applications to base



- **Successfully working through broadband backlog**

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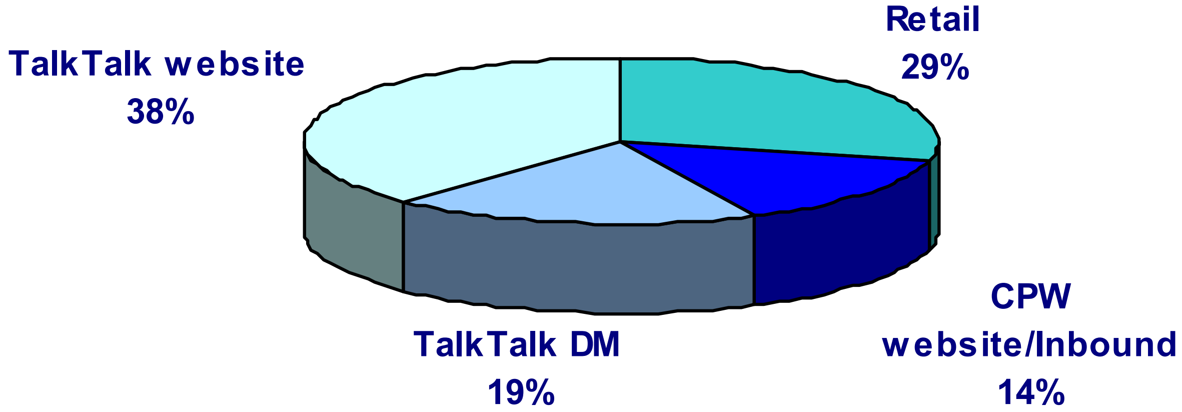
Analysis of applications



- No real change in initial trends
  - 51% are existing TalkTalk/Onetel customers
  - 45% already had DSL
  - 17% are outside our 1,000 exchange footprint

Competitive landscape

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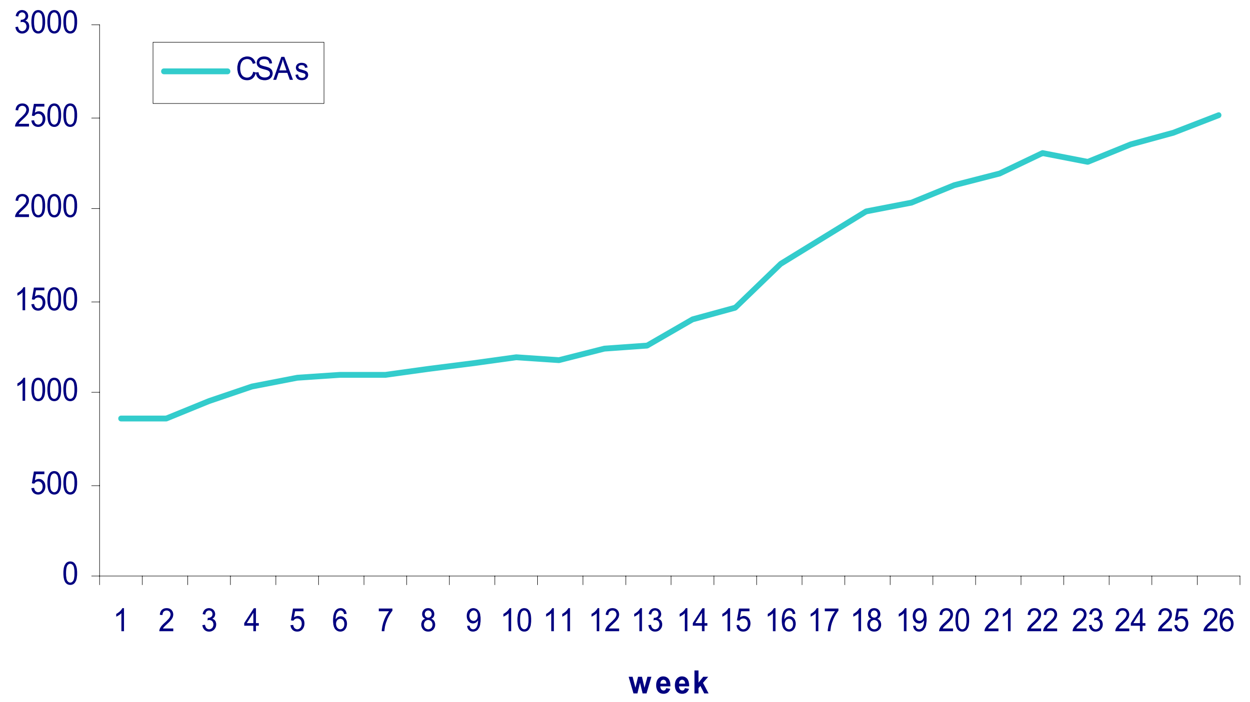
Customer service



- Major acceleration in call centre headcount
- Now scaled to process up to 50,000 transactions per week
- Quality improving with experience and training

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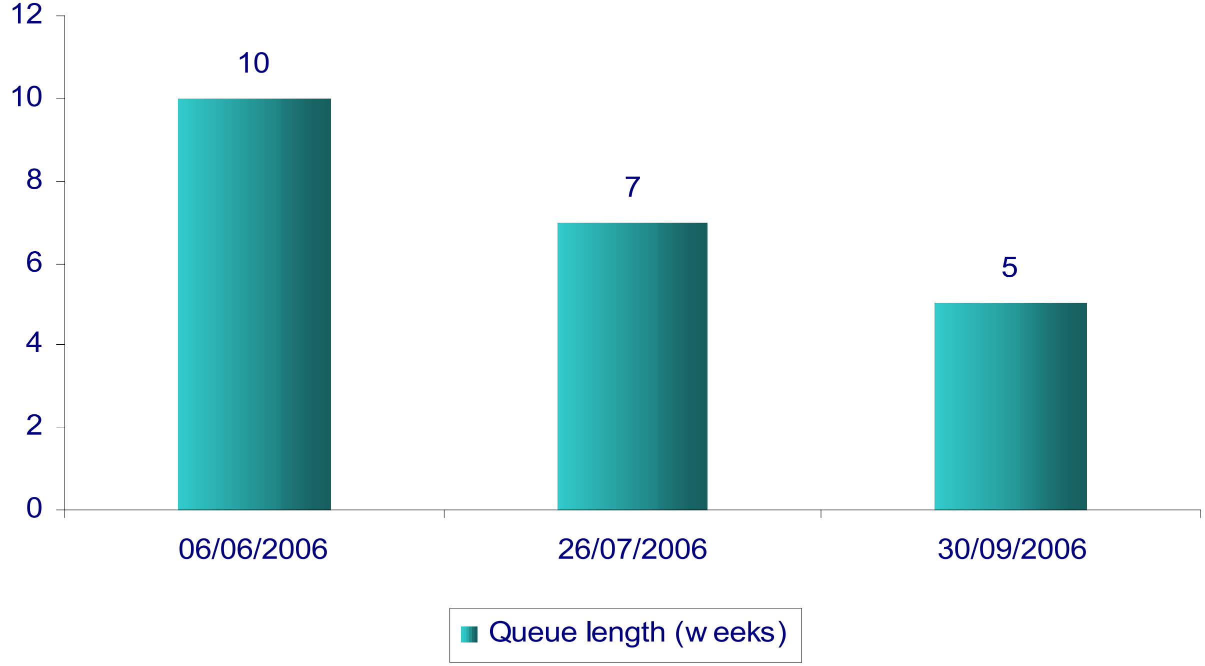
Broadband go-live wait



- Significant increase in call centre capacity
- Improvement of systems and processes
- Ongoing co-operation from BT Wholesale

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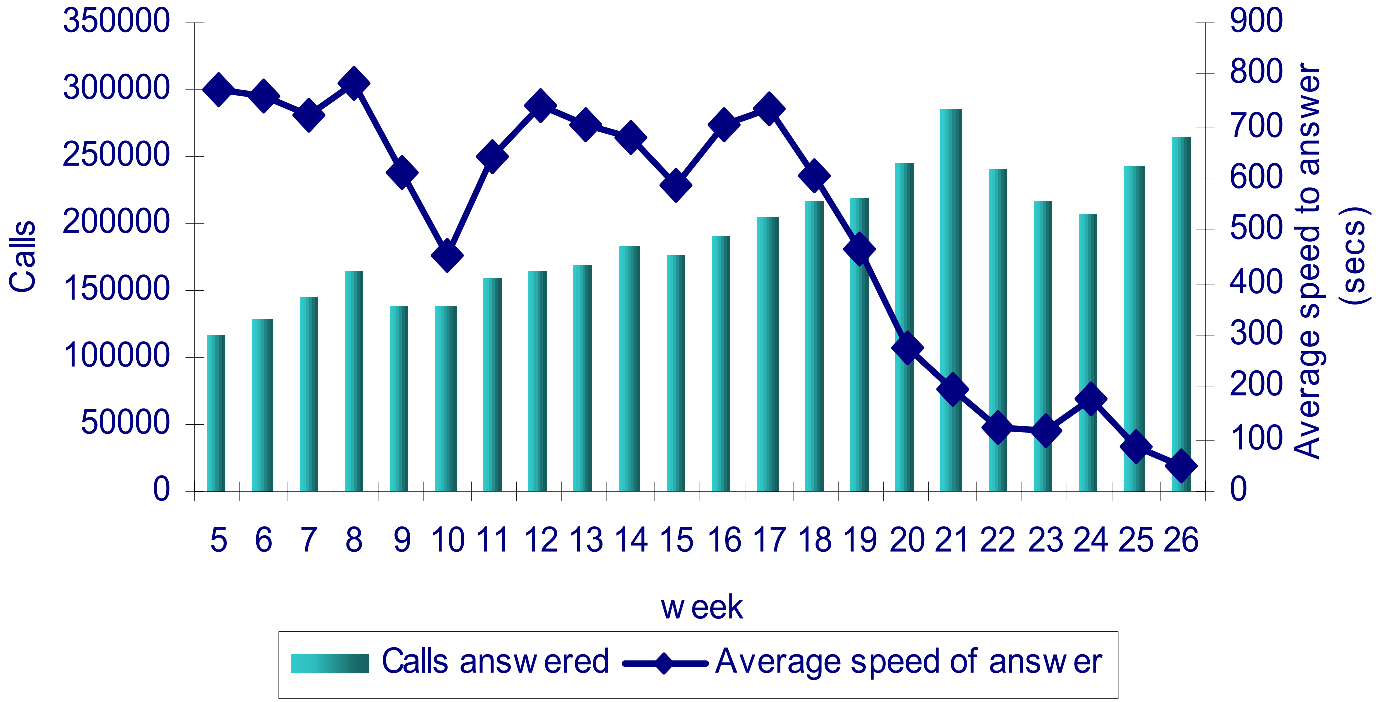
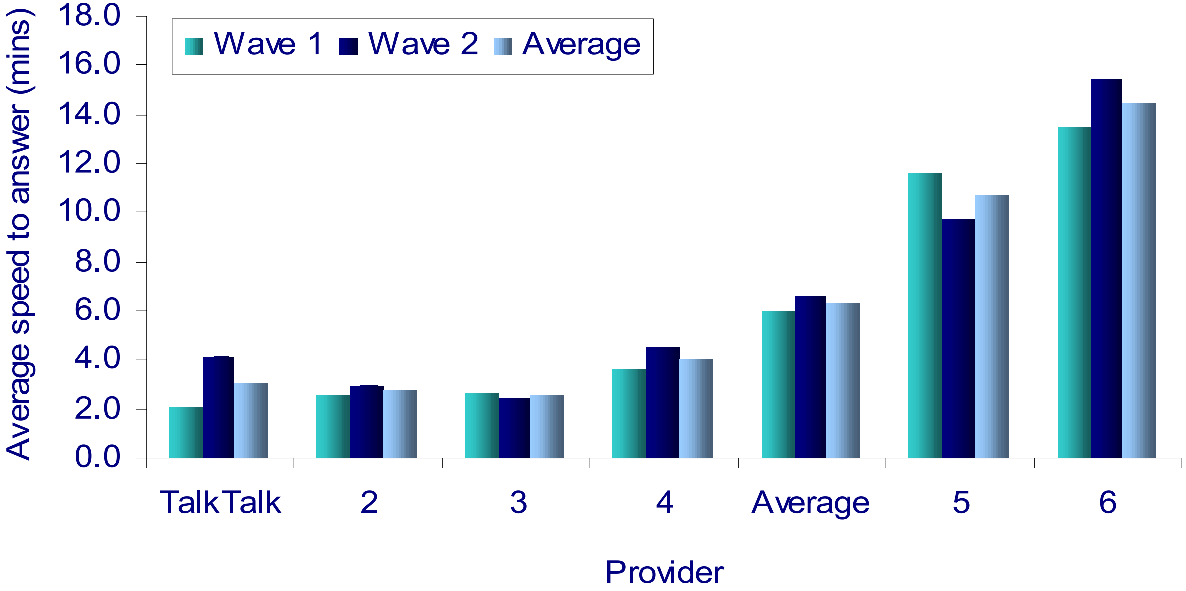
Call centre response times



- **Increase in headcount and resolution of legacy issues has seen dramatic improvement in performance**

Call centre response times – customer service



Source: E-Digital, weeks ending 1/10/2006 (wave 1) and 8/10/2006 (wave 2). ISPs in survey are TalkTalk, AOL, BT, NTL, Orange and Tiscali.

- **Our response times have improved materially and are now in the top tier**

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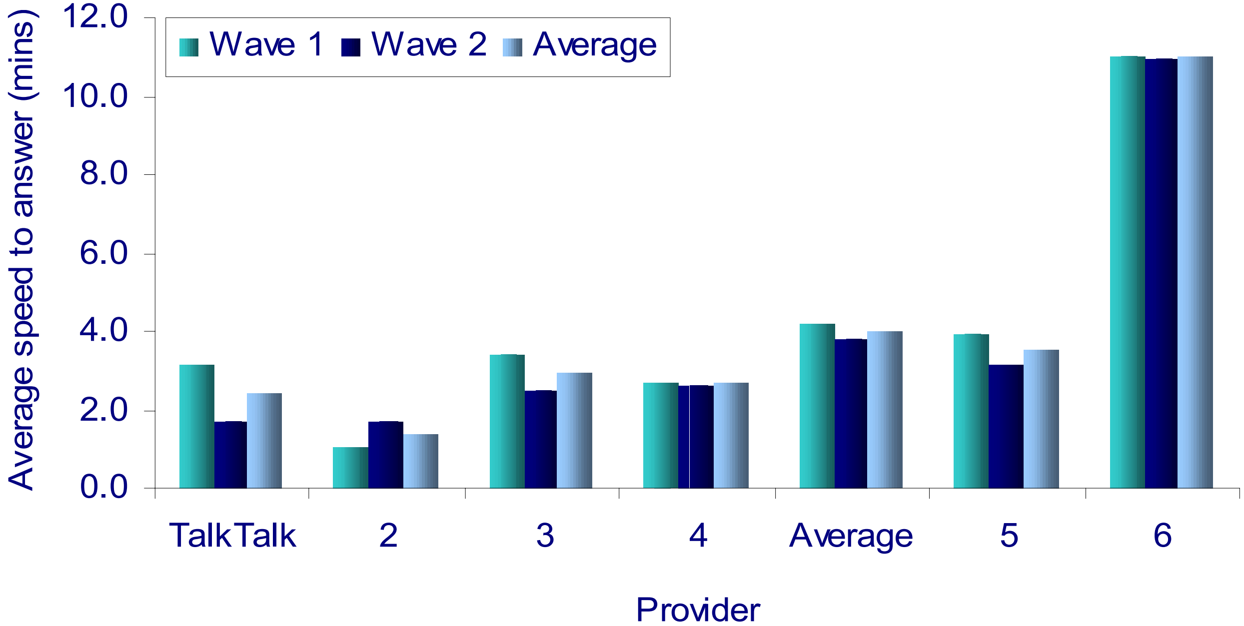
Call centre response times – technical support



Source: E-Digital, weeks ending 1/10/2006 (wave 1) and 8/10/2006 (wave 2). ISPs in survey are TalkTalk, AOL, BT, NTL, Orange and Tiscali.

- **Intention to make customer service a positive differentiator**

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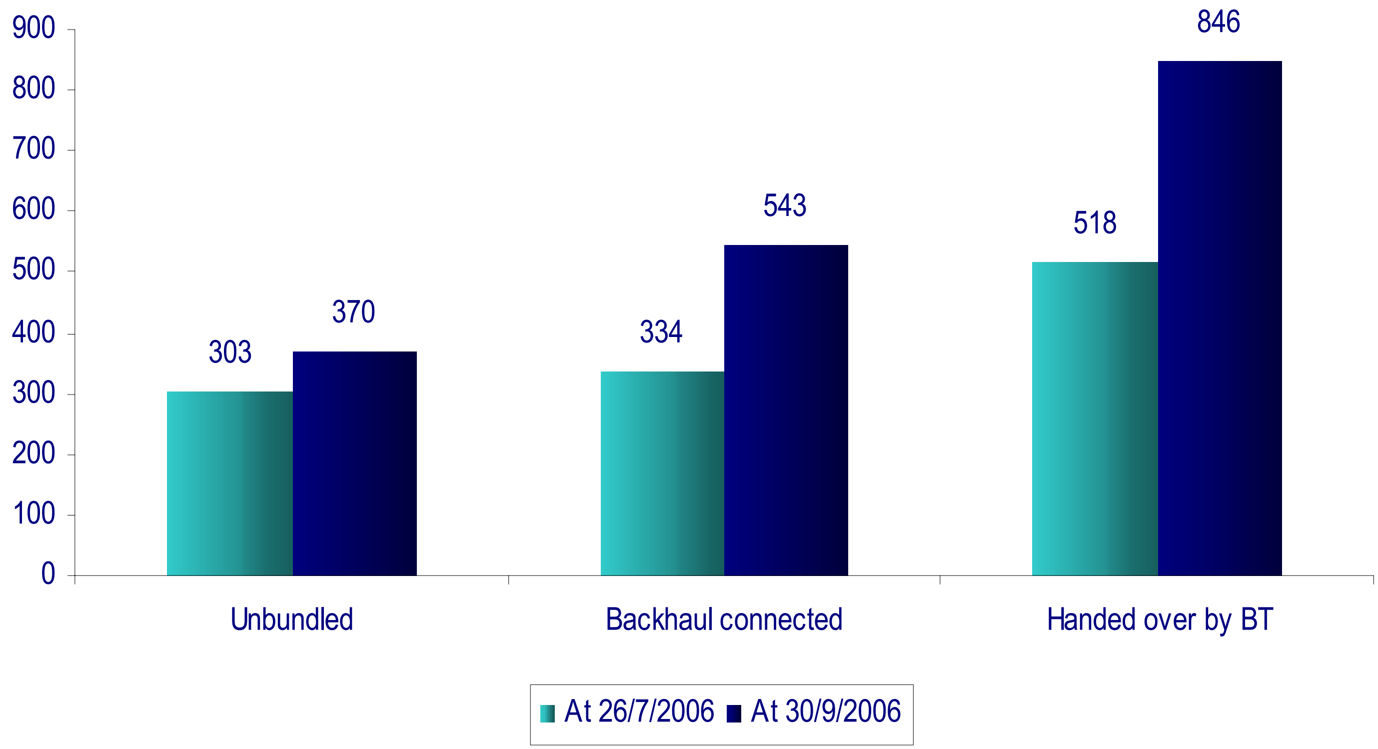
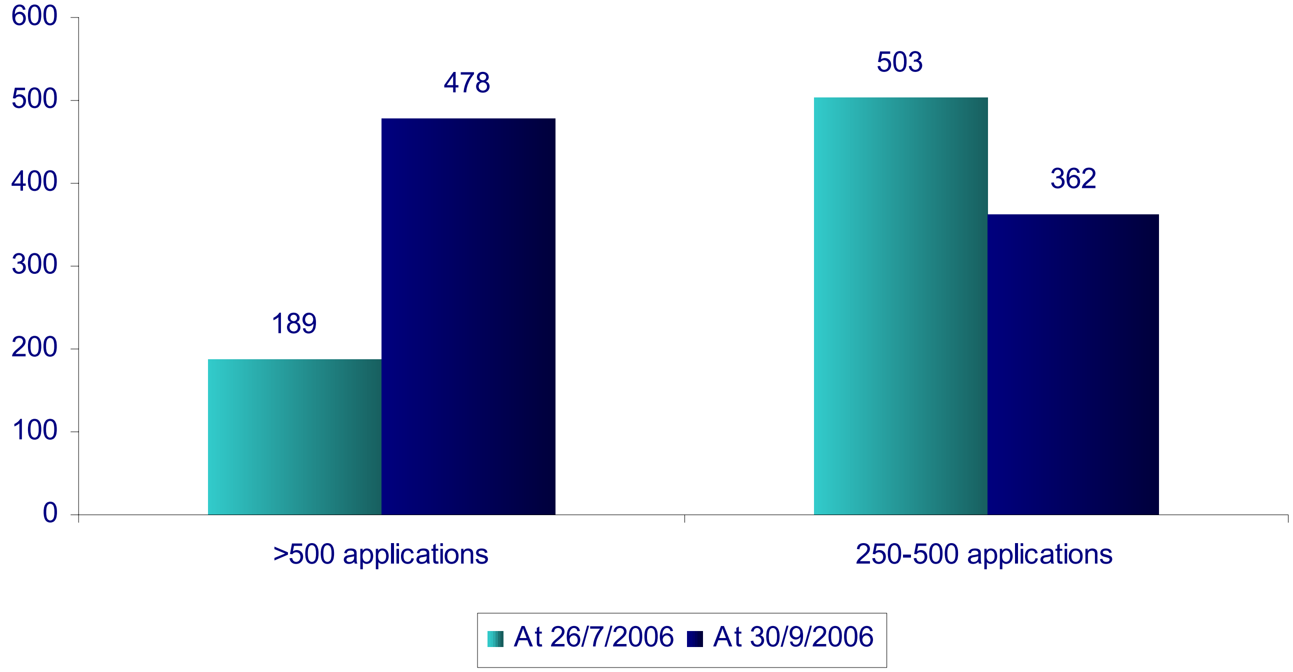
Engineering progress



- **Very good visibility on exchange roll-out**

Moving to unbundled lines



- **840 exchanges have now had > 250 applications**
- **20,000 customers live on LLU with significantly enhanced user experience**
- **Moving to bulk migration platform**

Summary

- The combination of TalkTalk and AOL creates the clear number 3 broadband provider in the UK with 2m customers
- We have made significant progress in broadband provisioning and customer service
- Momentum in customer recruitment continues
- Underlying economics at least in line with guidance
- Move to bulk migration beginning now

Financial guidance

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Headline changes to guidance

	£m
Additional broadband start-up losses	(20)
Increase in Distribution contribution	5
Increase in TalkTalk non-broadband profitability	5
AOL current year impact*	10

** Subject to completion by 31 December 2006*

- Core business performing strongly despite additional investment in Retail and support costs
- Highly successful Onetel integration has led to improved profitability

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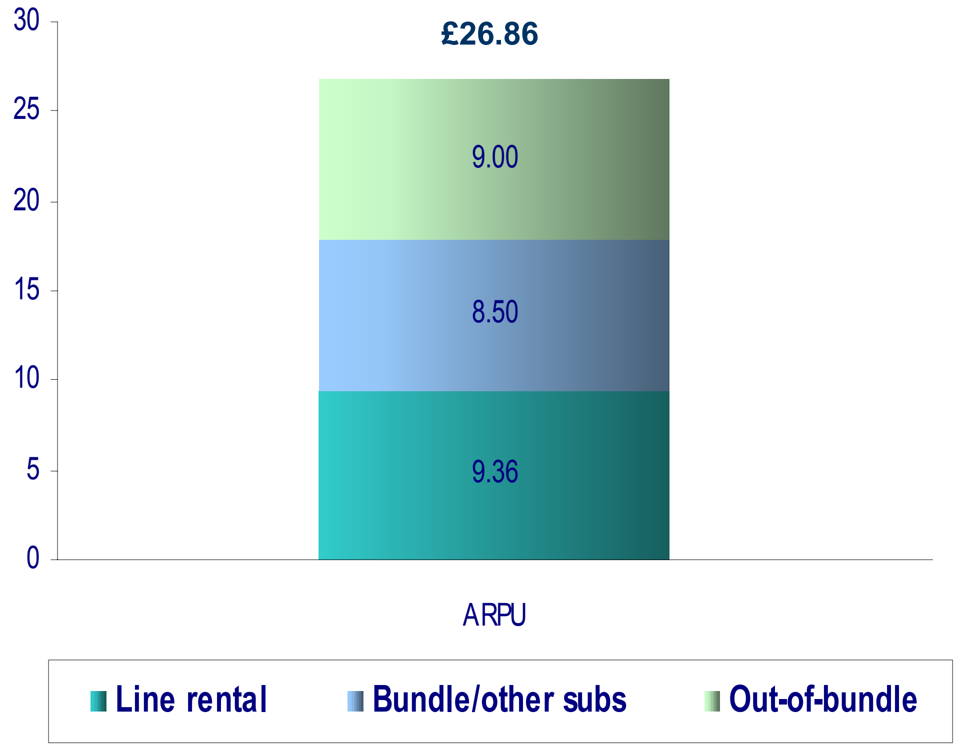
Summary of Broadband losses in FY07

	£m
Original guidance – EBIT loss	(50)
Additional IP Stream connection costs	(5)
Additional IP Stream losses	(10)
Accelerated customer service recruitment	(10)
Savings – marketing, bulk migration fees	5
New guidance	(70)

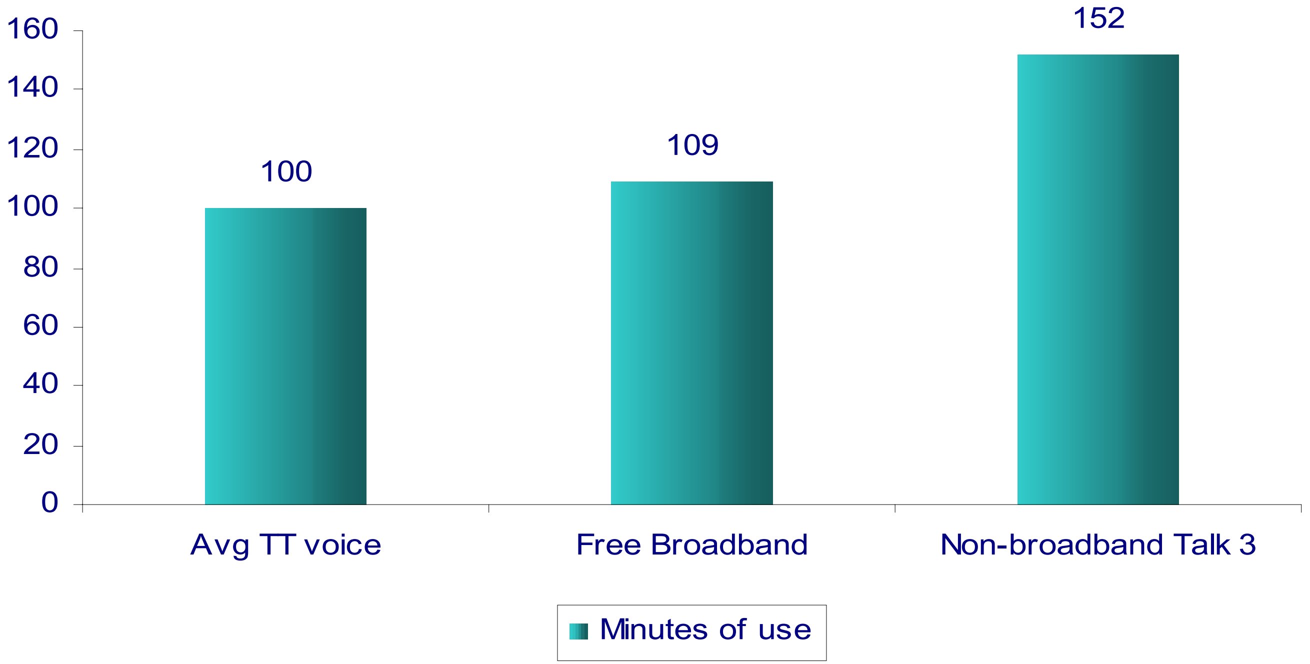
- Increased costs are mainly the result of the success of the proposition
- Cash flow impact similar to P&L
- No knock-on impact expected for FY08
- Migration in H2 will be key

Customer ARPU and margin

- Out of bundle ARPU running at £9
- Total ARPU slightly ahead of guidance
- Mobile termination ruling benign
- Termination income will start to kick in in H2



Minutes of use (indexed)



- **Free broadband customers are much less heavy voice users than standard Talk 3 customers**

Cost to serve

- Billing/bad debt costs in line
- Call centre costs well ahead of plan in the short term
- Contact rates now normalising
- Confident of hitting budget cost to serve in FY08

Network operating costs

- Network investment remains on budget per exchange
- Backhaul now in place on budget in > 500 exchanges
- Customer density building rapidly
- Usage patterns support cost guidance
- Continue to target customer contribution of £7/month on LLU before D&A

Impact of AOL acquisition - 1

- £370m cash consideration
  - £250m on completion
  - £120m in instalments over next 18 months
  - Funded by additional bank debt
- Structured as an asset deal, with significant cash tax benefits
- Extent of re-organisation costs still to be determined

Impact of AOL acquisition - 2

- Additional PBT of £10m in FY07, subject to completion by 31 December 2006
- Additional PBT of £30-40m in FY08
  - LLU migration
  - Cost savings (marketing, network efficiency)
  - Audience income
- AOL capex of £20m p.a. in the two years post-acquisition
  - Major efficiency from combining investment programmes

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Appendix

LLU economics – customer view

- Talk 3 (inclusive calls plus line rental) – c. £26 ARPU
  - Including termination revenues
- Strong voice margin enhanced by network efficiency
- Additional margin on WLR/MPF arbitrage
- Circuit and exchange rental costs of c. £1,000 pm/exchange
- Contribution (after all opex) of c. £7 pcm before D&A
- B/E of 250 customers on an exchange

Cash costs of delivering residential services

Monthly (£)	CPS+WLR +IPStream	MPF	MPF
Customers /exchange	N/A	250	500
Monthly rental	16.40	6.70	6.70
Other opex	2.50	4.50	2.00
Total cash costs	18.90	11.20	8.70

- MPF is £10 cheaper per customer month to deliver than CPS/WLR/IPStream
- A further £2 incremental benefit from termination revenue and ingress savings

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