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Tuesday 15 April 2008

For immediate release

The Carphone Warehouse Group PLC

Fourth quarter trading update

Guidance for the year to March 2009

The Carphone Warehouse is today giving its annual strategy presentation to investors and analysts, and financial guidance for the year to March 2009. The highlights of this presentation are summarised below.

Q4 highlights

- Total telecoms subscriptions up 16% year-on-year
- Mobile connections up 12% to 2.7m
- Mobile subscription connections up 9% to 1.1m
- 109,000 broadband net adds, taking base to over 2.7m
- 1.8m customers unbundled, equivalent to 67% of the broadband customer base
- Year end net debt reflects increased investment in capex and SAC of £50m and adverse currency movements since December of £120m
- Full year headline PBT of £215-220m before asset write-off on disposal of the Swiss retail business
- Full year headline EPS in line with expectations

Guidance for the year to March 2009

- Greater separation of operating divisions to give increased autonomy with lower central overhead
- Continued evolution of retail business model towards broader connectivity services
- 120 net new openings planned, with 200 re-sites and major re-fits
- Mobile connections growth 8-10%
- Significant profit growth expected in Fixed Line
- Further acceleration of Best Buy Mobile US roll-out
- Strong cash generation to fund continued investment in growth platform

Charles Dunstone, Chief Executive Officer, said:

"Our performance over the last three months has been good in a slower consumer environment. In our Distribution business, continuing network competition and growing demand for mobile broadband have been key drivers. In Fixed Line, we have made further good progress on customer recruitment and continued migration to our own network, and we now have only 8,000 loss-making free broadband customers left to migrate.

"Net debt at the year end has increased both as a result of the significant weakening of sterling against European currencies, and our decision to increase spending on capex and customer recruitment. We have accelerated our investment in network capacity to protect and enhance margins over the long term, and our highly attractive customer economics comfortably support our increased SAC spend. Operating cash flow grew strongly and will continue to do so in the coming year, but we will continue to invest to build the best possible platform for sustainable long term growth and value creation for shareholders.

"Looking forward, we anticipate a year of considerable further progress. Although we are mindful of a tough consumer environment, we see significant opportunity to evolve our retail model to address the opportunities of a changing marketplace. The broadband business is set to deliver significant further margin improvement, and provides us with excellent earnings visibility.

"The steps we are taking to devolve greater flexibility and responsibility to the divisional level will allow our businesses to develop more effectively in their dynamic markets and avoid duplication of central and divisional costs. Progress in the US continues to be very encouraging, and with our partners Best Buy we believe this can become a significant third leg for the Group over the medium term."

Fourth quarter trading and full year out-turn

Distribution
Group mobile connections were up 12% to 2.7m year-on-year in the last quarter. Mobile subscription sales were up 9%, and continued to be supported by strong growth in mobile broadband and smartphone connections. The off-the-page channel remained weak, but the effects of the slowdown in this segment are now annualising.

Total telecoms subscriptions, including Retail sales of in-house and third-party fixed line broadband and telephony connections, were up 16% year-on-year, as we continued to develop our businesses across Europe towards a broader connectivity offering.

During the quarter we reached agreement on the sale of our Swiss stores to Swisscom, which will result in an asset write-off in the year to March 2008 of an amount still to be determined.

Fixed Line
We finished the period with over 2.7m broadband customers across TalkTalk and AOL. During the quarter we achieved net adds of 109,000 onto the broadband base, making a total of 442,000 for the financial year. We migrated a further 215,000 customers onto our own unbundled network, so that at the period end, 67% of all our broadband customers were on-net. Of those still being provisioned via BT's wholesale services, only a very small number are still loss-making, and in general these are in exchange areas that we had planned to unbundle but where access to the exchange has been impossible or delayed. ARPU and margin trends continued to evolve in line with our expectations.

The base of non-broadband telecoms customers was 1.7m at the end of March, in line with our expectations.

Cash flow and net debt
Year end net debt has been negatively affected by two factors: the significant weakening of sterling against the Euro and the Swiss Franc in the final quarter, in which a large proportion of the Group's borrowings are held as a hedge against non-sterling assets; and increased spending on capex and subscriber acquisition costs. The increase in capex is the result of extending our exchange

footprint further than originally planned, and accelerating our investment in our Network Unification Project, which will cap network operating costs in the medium term. The higher SAC spend reflects the launch of the AOL laptop offer. Inventory levels have also increased year-on-year on a like-for-like basis, reflecting our strategy of improving handset availability, and stocks of laptops. We remain well positioned to fund our future growth strategy.

Full year out-turn
We expect headline PBT to be between £215m-£220m, after taking into account the additional interest costs of higher net debt, but before an asset write-off on the sale of our Swiss retail business.

Outlook and guidance for the year to March 2009
As part of our presentation to analysts and investors today, we will be giving updated financial guidance for certain business areas in the coming year. The key elements of this guidance are set out below.

Overall we expect to make further good progress at the group level this year. Within Distribution, our focus is on evolving the business model towards a broader connectivity offer and improving operational efficiency, in what we expect to continue to be a tough consumer environment. In Fixed Line, further growth in the customer base, combined with the margin uplift delivered through the unbundling process, is budgeted to deliver further profitable growth.

In addition, we are finalising an internal review that will lead to clearer operational autonomy for the two divisions, and avoid duplication between central and divisional support resources. This will allow the Distribution business to develop a more clearly impartial proposition as a third party broadband provider. As a result, the divisions are absorbing and becoming accountable for additional dedicated overhead from the centre, and PLC costs will be significantly reduced.

Distribution
Divisional revenue growth is expected to be 9-10%. Excluding non-core revenue lines, revenue growth is expected to be 10-12%, driven primarily by connections growth of 8-10% and the wider introduction of new products. The EBIT margin will be affected by the absorption of approximately £15m of costs previously accounted for at the PLC level.

The rate of physical expansion will be more measured this year, reflecting our objective of focusing on operational improvements, and the softer economic environment. The longer term prospects for physical expansion remain as attractive as ever. Overall we plan to open 120 net new stores, with gross openings of approximately 200 of which around 50 will be the relocation of stores to bigger sites in better locations. In addition, we will be accelerating the conversion of our stores to the new format, particularly in the UK. Space growth will exceed new store growth as we continue to focus on larger formats. The development of the store portfolio will be supported by an increasing investment in employee training and development as our retail proposition evolves.

We expect rates of growth in subscription and pre-pay to be similar. While the handset market remains relatively flat, we expect further progress in mobile broadband sales across Europe, and overall market share gains. We anticipate that Ongoing and Insurance revenues will track in line with subscriptions growth.

UK Fixed Line
Divisional revenue growth is expected to be approximately 4-5%. EBITDA margins are forecast to expand to 22-23%, reflecting the ongoing trend of margin improvement through the unbundling process. After significant increases in depreciation and amortisation in the coming year, reflecting the material investments made over the last two years, we expect a divisional EBIT margin of approximately 12-12.5%, representing an increase of around 300 basis points year-on-year after reallocation of some PLC support costs down to the divisional level.

In our Residential business we anticipate further broadband base growth of around 400,000 customers as we head towards our goal of 3.5m customers by March 2010. Net customer growth is likely to be skewed towards the second half, as over the next few months we will be completing the final elements of AOL's integration. These involve migrating AOL Broadband customers off the AOL Inc network and billing platforms onto our own. Blended broadband ARPU will continue to rise, towards £24, as TalkTalk becomes an increasing part of the mix and we increase voice penetration of the AOL base.

With over 80% of new customers signed up in unbundled areas, and the opportunity to migrate additional AOL customers onto our fully unbundled network later in the year, we expect that by March 2009, 75-80% of the broadband base will be on-net.

The base of other billed customers, comprising CPS and narrowband accounts, will continue to decline as customer churn and upsell to broadband packages exceed new sales. ARPUs are planned to increase slightly, to around £18.5, reflecting the changing mix of the customer base.

In our business-to-business operations, we are planning for revenue growth of 2-3% through organic growth, with EBITDA margin improving year-on-year through greater operational efficiency.

Best Buy Mobile
As previously announced, the Best Buy Mobile concept is now being rolled out to all Best Buy consumer electronics stores in the US. Given the continued excellent progress being made by the proposition, we have decided to further accelerate the roll-out, so that the whole of Best Buy's US mobile operations will be converted to the new Best Buy Mobile format by the end of the current calendar year – a year earlier than planned.

The Group's profit share in the coming year is likely to be immaterial, as the uplift in underlying profitability already being demonstrated will be offset by the one-off costs of conversion and significant investment in recruitment and training. However, by 2011 we expect Best Buy Mobile to be making a contribution of £25-35m to Group profitability.

Virgin Mobile
Virgin Mobile, our MVNO JV with Virgin Group in the French market, is entering its third year of operation with over 800,000 customers split equally been pre-pay and subscription. The business will continue to focus on expanding its distribution channels, raising the profile of the brand and growing its base towards critical mass. While it will record further losses this year as it continues to invest in growth, we expect it to reach break-even in the year to March 2010.

PLC costs
As part of our strategy of making our operating divisions more autonomous and accountable for their use of resources, a number of shared functions previously included within PLC costs will now operate primarily at the divisional level. As a result, PLC costs are likely to be in the region of £15m for the coming year, including approximately £7m of non-cash options costs.

Group cash flow, balance sheet and dividend policy
We will continue to make significant investment in our infrastructure across both divisions, with total capex of approximately £220m budgeted. This reflects a decline of around £40m year-on-year after the peak year of investment just passed. The capex will be committed broadly as follows:

New stores, key money, re-sites and refits	£45m
Telecoms network infrastructure	£85m
IT systems development and hardware	£70m
Other	£20m

In addition, we plan to capitalise approximately £130m of subscriber acquisition costs across our mobile and UK residential fixed line businesses, where minimum term contracts apply. The cash outflow from capitalised SAC is anticipated broadly to match the annual amortisation charge.

We expect to raise the dividend in line with growth in headline EPS in the coming year, reflecting the Board's continued confidence in the long term prospects of the Group.

Presentation
There is a presentation for investors and analysts on Group strategy and guidance for the coming year at the offices of UBS, 1 Finsbury Avenue, London EC2M 2PP, starting at 10.00am this morning. The event will also be audio webcast live at cpwplc.com.

Next announcement
The Group will publish its preliminary results for the year to March 2008 on 3 June 2008.

<u>For Further Information</u>

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Operating Statistics

Connections, mix and store numbers

	13 weeks to 29 March 2008		
	2008	2007	% change
Connections (000s)			
Subscription	1,108	1,017	9.0%
Pre-pay	1,445	1,237	16.8%
SIM-free	146	156	-6.8%
Group	2,699	2,410	12.0%
Store numbers			
Directly operated	2,175	1,950	11.5%
Franchises	236	194	21.6%
Group	2,411	2,144	12.5%

	52 weeks to 29 March 2008		
	2008	2007	% change
Connections (000s)			
Subscription	4,450	4,016	10.8%
Pre-pay	6,456	5,428	18.9%
SIM-free	588	571	3.0%
Group	11,494	10,014	14.8%

Customer bases and exchanges

	As at March		
(000s)	**2008**	**2007**	**% change**
Insurance	2,353	2,233	5.4%
Mobile - TPHT	1,837	1,498	22.6%
Mobile – UK MVNO	394	482	(18.3%)
Broadband base	2,713	2,271	19.4%
Of which unbundled	1,813	702	158.3%
Other billed customer base	1,673	2,361	(29.0%)
Unbundled exchanges	**2008**	**2007**	
TalkTalk exchanges	1,619	1,024	58.1%
AOL exchanges	1,011	390	159.2%
Total exchanges	2,630	1,414	86.0%