

Thursday 31 July 2008

For immediate release

The Carphone Warehouse Group PLC

Interim Management Statement

Completion of Best Buy transaction provides strong platform for the future

The Carphone Warehouse, which is holding its AGM today at 11.00 am, announces its first quarter trading update. Figures relate to the 13 weeks to 28 June 2008.

Distribution

- Completion of transaction with Best Buy to create new European retail business
- Distribution revenues up 4% to £735m; up 6% excluding non-core businesses
- Retail revenues up 10% to £498m, down 1.4% like-for-like
- Retail gross profit up 1.7% like-for-like
- Total mobile connections up 12% to 2.6m
- Mobile subscription connections up 9% to 1.1m
- Best Buy Mobile continuing to perform outstandingly well

UK Fixed Line

- UK Fixed Line revenues down 1% to £343m
- Residential revenues flat at £268m
- 2.8m broadband customers, with 41,000 net adds in the quarter
- 70% of customers on-net
- Now expecting 200,000-250,000 broadband net adds this year, with revenue growth broadly flat

Charles Dunstone, Chief Executive Officer, said:

“Connections volumes have continued to grow well, driven by smartphones and mobile broadband sales. Our market share in these segments has been strong, thanks to our re-positioning of the business and the introduction of our broadened free laptop offer during the quarter. However, margin per connection was a little weaker with the shift in mix towards mobile broadband.

“As we indicated in June, growth in broadband customer numbers slowed during the quarter. Underlying growth in TalkTalk continued to be strong, with 86,000 net new TalkTalk broadband customers during the period. One of the benefits of the current environment is that churn is low and falling, making our relationship with customers increasingly valuable. We made significant progress on the AOL network and billing platform migrations, with both processes materially complete by the period end. The AOL base declined by 45,000 over the quarter, of which 12,000

were lost as a direct result of the network migration. We have successfully migrated over 1.3m AOL customers: a further 80,000 customers, whose operating systems or hardware are incompatible with the new platform, are yet to be migrated and a proportion of these are likely to be at risk.

“From a strategic perspective, the last few months have seen the most important developments in the Group’s history. The transaction with Best Buy has crystallised significant value and leaves the business in a strong financial position. We will provide a detailed update on our plans for the new venture in October.

“Operationally we have made further significant progress in the last three months. The reorganisation of the Group into two discrete operating divisions was successfully achieved in time for the completion of the Best Buy transaction. As noted above, the AOL network and billing platform migrations have been all but completed, ahead of schedule. We have also introduced the laptop proposition into the majority of our UK stores, supported by a major training and development initiative for all our sales consultants.

“While the second quarter has started well, with a sharp pick-up in subscription connections on the back of the iPhone 3G launch, we remain understandably cautious about the consumer environment. However, the strategic development of our Distribution business and the significant operational improvements we are making in Fixed Line leave us well placed to trade through these uncertain times and emerge as a stronger and better business on the other side.”

Distribution

Total Distribution revenues were up 4% to £735m. Excluding revenues from Non-UK Fixed Line and Dealer operations, which are non-core, Distribution revenues were up 6%.

Total connections grew by 12% to 2.6m in the first 13 weeks of the year. Subscription connections grew by 9% to 1.1m and pre-pay connections (including SIM-free) grew by 15% to 1.6m. Retail revenues were up 10% to £498m. Like-for-like Retail revenue fell 1.4% and like-for-like gross profit growth was 1.7%, with both benefiting from favourable currency movements. While volume growth has continued to be encouraging, the shift in mix towards mobile broadband had a negative impact on margin per connection during the quarter, which offset the benefit of greater than expected connections growth.

We opened 48 new stores in the period and closed 45, as our programme of relocating and upgrading stores continued. The total store base at the end of June was 2,414.

Insurance and Ongoing revenue were both up 8%, reflecting the growth in subscription sales. The insurance base declined 1% year-on-year, but with continued growth in the high tier base offsetting the fall in low tier customer numbers.

Mobile revenues were flat at £129m, with 15% revenue growth at The Phone House Telecom being offset by the annualisation of the part disposal of our French facilities management business, and declines in MVNO revenues. The Phone House Telecom customer base was up 19% to 1.9m year-on-year, mainly driven by growth in pre-pay. Subscription customer ARPU was up 9% at £25, reflecting both a favourable exchange rate movement and the stabilisation of ARPU trends.

Our plans for the new European venture with Best Buy, following the completion of the transaction at the end of June 2008, are in development. We intend to communicate our plans for the continued evolution of the existing Carphone Warehouse portfolio, and the introduction of big box consumer electronics stores, in October.

Best Buy Mobile, our US mobile retail partnership, continues to make outstanding progress. The conversion of Best Buy's US portfolio to the new store-within-a-store format will be materially complete in the next few weeks, and trading continues to accelerate. We now expect our share of Best Buy Mobile to make a positive contribution to Group earnings in the current financial year, ahead of schedule. Best Buy will give a more detailed update on performance in their next earnings release, scheduled for 16 September 2008.

UK Fixed Line

UK Fixed Line revenues were down 1% to £343m. Business revenues fell 4% year-on-year, as the mix continued to shift away from premium rate and other low margin business towards higher margin corporate traffic. Excluding premium rate, Business revenues fell 2% to £70m.

Residential revenues were flat year-on-year at £268m. This performance reflects further growth in the broadband base, offset by the continued expected declines in voice-only and dial-up customers.

We recorded 41,000 net customer adds to our broadband base during the quarter. The AOL base fell by 45,000 over the quarter, reflecting a lull in recruitment activity during the network migration exercise, and the loss of 12,000 customers that we were unable to migrate. The TalkTalk broadband base continued its excellent growth trajectory, with 86,000 net adds during the quarter. At the end of the quarter we had 70% of our customers on our own network, with 107,000 customers unbundled during the period. Churn continued to fall, reflecting our strong value proposition and the increasing quality of the service.

Blended broadband ARPU was £22.1. With churn falling and growth in broadband penetration now slowing, our focus will increasingly shift to stimulating growth in ARPU through the provision of value-added services to customers. We believe that the home broadband connection will be an increasingly valuable and valued link for customers, acting as the access point for an ever wider range of services and connected devices.

Our total base of voice customers, including those with a broadband service, remained constant at 2.7m. Our base of non-broadband telecoms customers was 1.5m at the period end, reflecting a net loss of 209,000 voice-only and dial-up customers. ARPU was £16.7.

As a result of the trends seen in the first quarter, we now expect broadband net adds in the year to March 2009 to be 200,000-250,000, subject to the outcome of the migration of the remaining 80,000 AOL customers, and UK Fixed Line revenue growth to be broadly flat year-on-year. At this stage we are confident that falling churn and lower gross adds, combined with continuing improvements in customer service and network efficiency, will deliver an EBIT margin at the top of the 12-12.5% range previously indicated.

Future disclosure of Distribution KPIs and financials

As a result of the completion of the transaction with Best Buy, we will be changing our disclosure in relation to the Distribution joint venture. We will continue to report quarterly on connections and store numbers, but our Distribution revenue disclosure will be split geographically rather than by business unit, to be consistent with Best Buy's disclosure. Fixed Line disclosure will be unaffected.

Board changes

As a consequence of the completion of the transaction with Best Buy, Andrew Harrison, CEO of our UK business, is stepping down from the Board at today's Annual General Meeting. Given the increasing autonomy of our two operating divisions, David Goldie, CEO of our Telecoms business, is also stepping down. Their operational roles within the Group remain unchanged.

Adrian Martin is retiring as a Non-Executive Director today after eight years' service. The Board would like to thank him for his valuable contribution over a period of significant change and growth for the Group.

Conference call

There will be a conference call for investors and analysts at 8.30 am this morning. The dial-in number is +44 20 7081 9482, with a Freephone number of 1 866 432 7186 for US callers. A replay will be available for seven days, for which the dial-in number is +44 20 8196 1998, or Freephone 1 866 583 1035 from the USA. The access code is 897311. The conference call will also be webcast at www.cpwplc.com.

Next trading update and analyst day

Together with Best Buy, we plan to host an analyst day, comprising presentations and store visits, in Minneapolis during October 2008. Details will follow shortly. Our second quarter trading statement will be released as part of this event. We will publish interim results on 6 November 2008.

For Further Information

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Operating and Financial Statistics

Revenues

£m	13 weeks to 28 June 2008		
	2008	2007	% change
Distribution			
Retail	498	452	10%
Insurance	42	39	8%
Ongoing	23	21	8%
Mobile	129	128	-
Non-UK Fixed Line	23	28	(19%)
Dealer	41	45	(9%)
Eliminations	(21)	(9)	131%
Total	735	706	4%
UK Fixed Line			
Business	75	78	(4%)
Residential	268	267	-
Total	343	345	(1%)
Eliminations	(10)	(6)	62%
Group Total	1,068	1,044	2%

Like for like data

	13 weeks to 28 June 2008	
	Revenue	Gross Profit
Retail LFL	(1.4%)	1.7%

Connections, mix and store numbers

	13 weeks to 28 June 2008		
	2008	2007	% change
Connections (000s)			
Subscription	1,072	984	9%
Pre-pay	1,428	1,231	16%
SIM-free	140	134	4%
Group	2,639	2,349	12%
Own stores	2,187	2,078	5%
Franchises	227	199	14%
Total stores	2,414	2,277	6%

Customer bases

As at 28 June 2008

(000s)	2008	2007	% change
Insurance	2,292	2,311	(1%)
TPHT base	1,854	1,560	19%
TPHT subscription ARPU (£)	25.0	23.0	9%
UK MVNO base	402	452	(11%)
Broadband base	2,754	2,397	15%
Of which unbundled	1,921	966	99%
% unbundled	70%	40%	
ARPU (£)	22.1	21.2	4%
Other billed customer base	1,462	2,216	(34%)
ARPU (£)	16.7	18.0	(7%)