

Phones 4u Finance plc interim Update

Half year 1st January 10 to 30th June 10

Highlights (vs same period last year)

- Sale of the business on 27/04/2011
- Revenue up 15% to £451.5m
- Total connections consistent with prior period
- EBITDA of £48.3m delivered in a current highly competitive trading environment
- Strong cash generation
- Store numbers up to 528 from 502 at the start of the year
- Insurance policies increased by 3% year on year

Overview

The group's focus continues to be revenue growth, EBITDA and cash generation. Following a strong 2010, the group continued to perform well in a highly competitive market reporting turnover growth of 15%; the result of growth in revenue per phone contract and an increase in the number of insurance policies and revenue per insurance policy.

The group's EBITDA margins were lower than 2010 due to the increased level of competition in the distribution market driving lower margins and an increase in the insurance business claims rate.

The group's costs base has risen by 5% in the period primarily reflecting the increased number of stores within the estate and an increase in marketing spend but continues to have a significant element of variability which provides strong mitigation for further weakness

The group continues to be cash generative with operating cash conversion continuing to be strong at 103% of EBITDA for H1 2011.

Distribution

The total contract market is down 3.7% year on year. The reduction in the market has been caused by

- I) Migration from 18 month contracts to 24 month contracts reducing volumes of contracts coming up for renewal.
- II) A lack of significant high end product launches causing customers to delay their purchase until the launch of a new high end product.

As a result of the above dynamics in the marketplace, together with the current economic climate, the market has focused on offering customers increased value which means we have had to invest more to get customers onto the same tariff. This has resulted in a decline in our gross margin. Despite this, we have increased our contract market share from 7.8% to 8.2%, albeit delivered

through a larger store base. The increase in market share has off-set the impact of the reduction in the contract market leaving connection volumes broadly level.

We continue to manage our cost base with like for like costs down, however this has been off-set by increased store costs associated with a larger store base and marketing costs.

In-line with our strategy to grow market share we have added 26 new stores (19 SiS and 7 P4u Stand alone stores) resulting in 528 stores at the end of June 2011.

Insurance

The insurance division has shown strong growth during H1 2011 with turnover growth of 22.8% reflecting (i) the implementation of the price increases with clients as previously explained, (ii) increased claims for wholesale clients contractually driving increased revenue, and (iii) increased revenue through a third party brokerage agreement . Insurance EBITDA has reduced when compared with H1 2010 reflecting increased cost of claims. This increase is due to the increase in smartphones which increases our costs per claim and our claims rates. We continue to invest in our supply chain to reduce the cost of claims.

Business Sale

On the 27/04/2011 the business was acquired by BC Partners. As a result of the transaction Phones 4u Finance plc issued £430m secured loan notes and paid down £476m of bank and shareholder debt. Phones 4u Finance plc has become the primary reporting company for the 4u group compared with Mobileserv UKCo in 2010.