

7.00am, Wednesday, 30 March 2011

## DIXONS RETAIL PLC Trading Statement

Dixons Retail plc, Europe's leading specialist electrical retailing and services group, today announces that since the announcement of the Group's trading statement on 13 January 2011, as has been well documented, consumer confidence across a number of our markets has deteriorated, particularly in the UK & Ireland. As a result the Group expects that underlying profit before tax (excluding the operations in Spain) for the financial year to 30 April 2011 will be around £85 million.

The Group is setting out a 4 step action plan to respond to the consumer environment and ensure the delivery of the Renewal & Transformation plan as follows:-

1. Focus on winning markets and formats – review options for Spain, which includes the potential for an exit.
2. Focus capital expenditure on highest return projects - reducing capital expenditure to no more than £160 million in the 2011/12 financial year and £150 million per year thereafter.
3. Focus on cash generation.
4. Additional cost reduction initiatives – including reduced property loss of £6million - £7million in the year to 30 April 2011.

John Browett, Group Chief Executive, commented:

"Consumer confidence across some of our markets is fragile and we expect it to continue to be so through much of 2011. As a result we are setting out the steps we are taking to secure the delivery of the Renewal & Transformation Plan. Our business in the Nordics continues to perform strongly. The turnaround in Italy is improving the business and it is delivering slightly ahead of our expectations.

Our Renewal & Transformation plan is working, customers are experiencing better store environments, improved ranges and increased levels of service. Notwithstanding the current tough conditions, we continue to make the business better for customers, easier for our colleagues and cheaper to operate and are confident that the Group can deliver an EBIT return of 3%-4% over the medium term."

### **Current trading**

Like for like sales in the year to 26 March 2011 are down 2%, with like for like sales in the last 11 weeks down 7% reflecting the weaker trading environment across many of our markets. The Group believes that it continues to grow market shares.

## **UK & Ireland**

The new format stores continue to out-perform the market. In the year to 26 March 2011 like for like sales in the UK & Ireland were down 3% versus a market that management believes to have been weaker. At the time of the Group's trading statement in January, trading conditions were expected to remain difficult through the first half of the year, with consumer sentiment improving as we moved towards Christmas 2011. However, with consumer confidence even weaker than expected like for like sales in the 11 weeks to 26 March 2011 are down 11% in the UK & Ireland. In this more challenging trading environment the business has focused on cash gross profits and has held gross margins flat year on year. While this a relatively quiet period for the Group, management now expect that operating profit in the UK & Ireland division for the current financial year to 30 April 2011 will be approximately £70 million.

With continuing pressure on household budgets it is difficult to see a significant improvement in this pattern of trading in the short term and the Group is now planning on the basis that the consumer environment remains relatively subdued and that the electricals market overall shows a modest decline in the Group's 2011/12 financial year.

## **Nordics**

Elkjøp continues to perform strongly in all of its markets with like for like sales growing as it extends its market share gains. Like for like sales were up 9% in the 11 weeks to 26 March 2011. With total sales up 30% over the last two years Elkjøp has expanded its business significantly. As the business takes a step up in scale the rapid growth has led to an increase in the cost base. While its cost to sales ratio remains the lowest in the Group, these increases will limit profit growth in the current financial year. The business remains well placed to continue to grow market share across the Nordic region as well as improve profitability.

## **Other International**

The turnaround at Unieuro in Italy remains on track and it is now expected to be EBITDA positive in the current financial year. Trading conditions in Greece remain difficult. While it is expected to incur a small loss this year, Kotsovolos continues to generate cash and as market leader is well positioned to take advantage of distressed competitors. ElectroWorld in Central Europe is well positioned for the development of Czech & Slovakian markets in the medium term. ElectroWorld in Turkey remains a long term opportunity for the Group with our joint venture partner.

## **e-commerce**

Overall the Group continues to see strong growth in the multi-channel operations. The e-commerce business of Dixons.co.uk and PIXmania continue to trade in line with the trends seen over the Christmas period.

## **FOUR STEP PLAN**

The Board has identified a clear set of actions to mitigate the more challenging trading environment and to ensure the Renewal and Transformation plan continues on track.

### **1. Focus on winning markets and formats**

The Group has developed market leading electrical and 2-in-1 combined electrical and computing formats that deliver for customers in all of its markets. These new format stores continue to deliver gross margin uplifts of 20% in the first year relative to the base estate. The focus will be on transforming and developing these store formats across the Group. In Spain the Group operates the PC City specialist computing format and with the consumer environment in Spain showing further signs of weakness the Group is entering into a consultation process to consider its options, which includes the potential for an exit from store operations. The average duration of the leases in the 34 stores in Spain is less than 4 years. Such an exit would eliminate approximately £5 million of losses from the Group's underlying profit before tax in each of the financial years 2010/11 and 2011/12. A further announcement will be made as soon as any conclusion has been reached

### **2. Focus capital expenditure on highest return projects**

The rapid pace of the Renewal & Transformation plan has delivered over 350 transformed stores, including over 60 Megastores across the Group over the last 3 years. With strong gross profit uplifts we have an established formula to be rolled out across the remaining estate.

In light of the Group's more cautious stance on the economic outlook, priority for the Group's capital will be given to transforming the stores that present the best opportunities for improving the offer for customers as well as the returns for shareholders. It is expected that this will be achieved with capital expenditure of no more than £160 million in the 2011/12 financial year and approximately £150 million in the following years with capital expenditure then being in line with depreciation. The Group plans to transform a further 55-60 stores, including 15-20 Megastores, in the UK and 10 megastores in the Nordics in 2011, as well as further stores in Italy.

### **3. Focus on cash generation**

The Group's continuing focus on cash generation has seen robust management of margins despite the challenging market conditions. Stock has also been managed carefully and stock levels in the UK & Ireland are lower than last year and aged stock is at its lowest level as a percentage of overall stock. Net debt is expected to be in around £250 million at year end.

The Group is currently in the process of marketing a sale and leaseback on its warehouse in Jonkoping in Sweden and considerable interest has been expressed by third parties to date. On a successful transaction the Group expects to receive approximately £55 million in proceeds from the sale early in the new financial year.

The £160 million 6.125% 2012 Bond (the 2012 Bond) is due for redemption on 15 November 2012. Funds to redeem the 2012 Bonds will come from the proceeds of the disposal of the warehouse as well as from the Group's cash resources.

### **4. Additional cost reduction initiatives**

The Group remains on track to achieve cost savings of £50 million in the 2010/11 financial year. Having previously outlined cost savings initiatives for the next two years we are now adding to these with £50 million per year targeted over the next three years to manage profitability. These opportunities are becoming apparent as we have simplified operations, particularly in the UK.

The store portfolio realignment in the UK is progressing well and store exits in the current year have been achieved at a lower cost than originally planned. The Group has disposed of 2 freehold properties in Finland, reducing property losses further. As a result property losses for the Group are expected to be lower than expected at £6-£7million in the current financial year.

#### **Note:**

As at 29 March 2011, the range of analysts expectations as monitored by Dixons Retail plc for Group underlying profit before tax (including property losses, net finance charges and the operations in Spain) for the year to 30 April 2011 is £85million to £109million.

— Ends —

There will be a conference call for Investors and Analysts at 8.00am this morning. Dial in details are as follows:-

Conference call name:- Dixons Retail Business Update Call

Telephone number - UK:- 0871 700 0345

Telephone number - International:- +44 (0) 1452 555 566

Conference ID:- 54762292

**For further information**

David Lloyd-Seed,	Group Communications Director, Dixons Retail	01727 205065
Mark Webb,	Head of Media Relations, Dixons Retail	01727 205019
Laura Cummings/ Zoe Bird	Brunswick	0020 7404 5959

Information on Dixons Retail plc is available at <http://www.dixonsretail.com>

**NOTES:**

- 1) Like for like sales are calculated based on stores that have been open for a full financial year both at the beginning and end of the financial period and are calculated using constant exchange rates. Customer support agreement sales are excluded from all UK like for like calculations. Operations that are subject to closure have sales excluded as of the announcement date. Stores subject to a refurbishment are excluded during the period of refurbishment.
- 2) UK & Ireland comprises Currys, CurrysDigital, Dixons Travel in the UK & Ireland, PC World, operations in Ireland, DSGi Business and KNOWHOW™. Like for like sales exclude DSGi Business and KNOWHOW™.
- 3) Nordics comprises the Elkjøp group and Dixons Travel Denmark.
- 4) Other International comprises Greece (Kotsovolos), Italy (UniEuro, PC City Italy store in store and Dixons Travel Italy), Spain (PC City Spain), the Czech Republic (ElectroWorld), Slovakia (ElectroWorld) and Turkey (ElectroWorld).
- 5) e-commerce division comprises Dixons.co.uk and PIXmania.
- 6) Movements in the financial position, including levels of borrowings, of the Group since the last balance sheet date are reflective of the trading performance and statements outlined above. Other than this, there have been no significant changes in the financial position of the Group.
- 7) Certain statements made in this announcement are forward looking. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual results to differ materially from any expected future events or results referred to in these forward looking statements. Unless otherwise required by applicable law, regulations or accounting standards, we do not undertake any obligation to update or revise any forward looking statements, whether as a result of new information, future developments or otherwise.