Responsive to the short-term challenges

Committed to the long-term opportunities

The Carphone Warehouse Group PLC
Annual Report 2009

The Carphone Warehouse

Highlights

Directors' Report – Business Review

Directors' Report – Governance

Financial Statements

Taking the long-term view will always deliver better value to customers and shareholders.

> “ ”
> We maintain a private company mentality when it comes to investment and growth opportunities. Our focus is on long-term value creation... even if short-term returns are depressed as a result.
>
> Charles Dunstone
> 2006

> “ ”
> A company that will not compromise its pursuit of long-term strategic goals.
>
> John Gildersleeve
> 2006

> “ ”
> While every project needs to be financially justified, and we have rigorous hurdle rates for new investment, we tend to take the long-term view.
>
> Charles Dunstone
> 2007

> “ ”
> As always, we place the potential for long-term value creation above the shorter-term vagaries of stockmarket fashions.
>
> Charles Dunstone
> 2008

Our vision is clear and we know where we are going. We are able to respond to the short-term market conditions we face, but we are also able to keep a clear sight of our long-term objectives.

From a business that used to be predominantly reliant on its UK retail business, we now have significant retail operations across continental Europe and a highly visible recurring revenue base from our UK residential telecoms operations, creating a much broader and better diversified business.

Consistency in times of uncertainty

Our business was built on brave decisions. Our success has been the product of good timing and good judgement. The last 12 months have properly tested that formula.

However, we are confident that we have made further substantial progress in the pursuit of long-term value creation. The deal with Best Buy, the evolution of our retail proposition and the Big Box consumer electronics opportunity can transform the scale of our retail operations; in our telecoms business, the investments of the last five years are now beginning to pay back, with significant cash generation in the years to come. We will continue to focus on trying to make the right decisions rather than the quick decisions.

Strong Group performance in the face of tough market conditions.

Group Headline financials 08/09*

Earnings per share (pence)	12.6p
09	12.6
08	15.2
07	10.2
06	11.3

Underlying net debt (£m)	£159m
09	159
08	843
07	618
06	273

Dividends per share (pence)	4.35p
09	4.35
08	4.25
07	3.25
06	2.50

* Headline information is shown before amortisation of acquisition intangibles and goodwill expense and before exceptional items. A full reconciliation between Headline and statutory information, together with an explanation of the different terms used within the Annual Report, is provided in note 11 to the financial statements.

Results for previous years have been restated to reflect a change in the Group's accounting policy for subscriber acquisition costs (see note 1c to the financial statements) and segmental results have been restated to reflect the ongoing structure of the Group's operations following the sale of 50% of the Group's retail and distribution business to Best Buy Co., Inc (see note 2 to the financial statements).

Business sector highlights 08/09 (£m)

TalkTalk Group

Revenue	£1,385m
09	1,385
08	1,424
07	1,116
06	604

EBITDA	£181m
09	181
08	116
07	29
06	39

EBIT	£124m
09	124
08	69
07	(1)
06	23

Best Buy Europe (100% basis)*

Revenue	£3,563m
09	3,563
08	3,091
07	2,886
06	2,453

EBITDA	£188m
09	188
08	218
07	209
06	164

EBIT	£101m
09	101
08	151
07	154
06	116

*Best Buy Europe is a 50% joint venture from 1 July 2008.

"The Group's performance has held up well in the tough trading conditions – a testament to the resilience of the model."

John Gildersleeve, Chairman

It has been a momentous year for the Group, as it has been for many enterprises worldwide, given the rapid deterioration in the global economy. Carphone Warehouse has not been immune to these pressures. Our customers have been feeling the pinch, our suppliers have become less profitable, and the currencies in which our assets and liabilities are denominated have been extremely volatile. However, where possible we have continued to focus on our long-term goals: to build market share, to remain relevant to customers and to offer excellent value in everything we do.

Group revenue for the period was down 3% to £1,385m (2008: £1,424m). Both of these figures exclude Best Buy Europe to make comparability easier. Following the transaction with Best Buy at the end of June 2008, the results of the Group's retail and distribution business are shown net of interest and tax within joint ventures and associates. Results for the first quarter and for 2007-08 are shown as discontinued operations, again net of interest and tax. Best Buy Europe revenue was up 15% to £3,563m, reflecting significant market share gains and a stronger Euro.

At a divisional level, TalkTalk Group achieved EBIT of £124m. Whilst representing an increase of 80% on the previous year (2008: £69m), this was some way below our aspirations at the start of the year and reflected an unexpected slowdown in the rate of growth in the broadband market, principally as a result of a markedly less active housing market.

EBIT at Best Buy Europe fell 33% to £101m (2008: £151m) with strong top line growth more than offset by margin deterioration, caused partly by product mix and partly by our own trading strategy, which focused on market share gains in a weaker handset market.

Headline earnings per share fell 18% to 12.6p (2008: 15.2p). Statutory earnings per share, after exceptional items and amortisation of acquisition intangibles, increased from 8.1p in the prior year to 61.6p, reflecting the substantial gain on the transaction with Best Buy during the year. The Board is proposing a final dividend of 3.00p (2008: 3.00p), taking the total for the year to 4.35p (2008: 4.25p).

While profitability has suffered against a backdrop of a very harsh environment, I am pleased to be able to report on some areas of substantial progress for the Group. The deal with Best Buy, completed in June 2008, brought our retail operations together with the acknowledged global leader in consumer electronics retailing. Together we are confident of not only refreshing our existing retail proposition to deliver the "Connected World" to customers, but also building a substantial Big Box consumer electronics retail business in Europe. It also enabled us to pay off the large majority of our underlying bank borrowings, leaving us with a very strong balance sheet.

We have been using this financial strength to trade aggressively on the high street, accepting lower margins in return for sustained top line growth and burgeoning market share in a more depressed mobile phone market. Our increasing market presence will allow us to start to rebuild margins as volumes recover.

Within the TalkTalk Group, the service problems of a couple of years ago have been all but eradicated and we are now beginning to be recognised for good service as well as outstanding value. During the year we have focused on making our network even more robust and putting in place the additional capacity required to exceed our customers' growing usage needs. After six years of heavy investment, the business is now set to generate significant amounts of cash.

Despite the tough times, morale is high: our internal employee surveys are showing very positive readings and our people are excited about our plans for the businesses. It can be a challenge to feel motivated during times of such great uncertainty but our employees have really risen to the challenge and I would like to thank them on behalf of the Board for their continued efforts.

"For 20 years now we have developed our business with long-term shareholder value in mind. This is now more important than ever."

Charles Dunstone, Chief Executive Officer

It seems hard to believe that it is a year since the last annual report. I note from my review last year that I flagged the "poor economic climate and inflationary pressures" as reasons for caution in my outlook statement. I was half-right: world economies have been at best, poor; at worst, terrible; but it is a reflection of how fast the macro environment can change and make fools of us all that we have been worrying for the last six months about the spectre of deflation rather than inflation.

Companies have to constantly adapt and change to survive. This is the difficult message I have had to give to shareholders this year. Our own major change this year – the deal with Best Buy which saw them become 50% owners of our retail business – was not generally well received, and did in part contribute to the share price decline. However, I am convinced it was absolutely the right thing to do and the right time to do it. Here's why.

Carphone has thrived for 20 years now on offering customers simple, impartial advice over their choice of handset, network and tariff. Increasingly though, customers don't need our advice for buying mobile phones: they have done it before and they understand how it works. So if we were to carry on selling just mobile phone contracts, we would risk opening the stores one day in two or three years' time and finding that we just weren't relevant to customers any more.

We believe our core skill is in making complex technologies simple for customers. As a result, we have been busy over the last two years – ever since I first mentioned it in the 2007 annual report – developing our retail proposition to deliver the "Connected World" to customers. A range of laptops is now available across most of our stores, and we are now rolling out mid-sized stores to offer a much wider range of connected devices.

We could have continued to go it alone with this strategy, but during our work with Best Buy helping them re-engineer their US mobile retailing operations, we discovered how much the two businesses have in common, and in particular that we have a shared vision of the future of technology for customers. I absolutely believe that in partnership with Best Buy, we can deliver the connected world to customers much better and faster than we could on our own.

Secondly, Best Buy is without doubt the leading consumer electronics retailer in the world. They have conquered their home market, where consumers are very demanding and the competition was strong. They have long eyed Europe as an attractive opportunity and see Carphone as a great vehicle through which to launch Big Box consumer electronics stores. It is a huge market and the existing customer experience can be indifferent. By joining together with them, shareholders in Carphone can access what is potentially an enormous new growth opportunity.

Finally, the years of investment in building up a valuable telecoms business had taken its toll on our balance sheet, and our levels of debt were uncomfortable given the gathering clouds of the financial crisis. The consideration from Best Buy enabled us to pay off the large majority of our underlying borrowings and we are now in a strong financial position where many others are struggling in this very tight credit market.

So in summary, we have brought in a peerless retailing partner to drive forward our strategy, given our shareholders access to a new growth opportunity, and achieved renewed financial strength. I feel that over the long term, these benefits more than outweigh the issue of near-term earnings dilution.

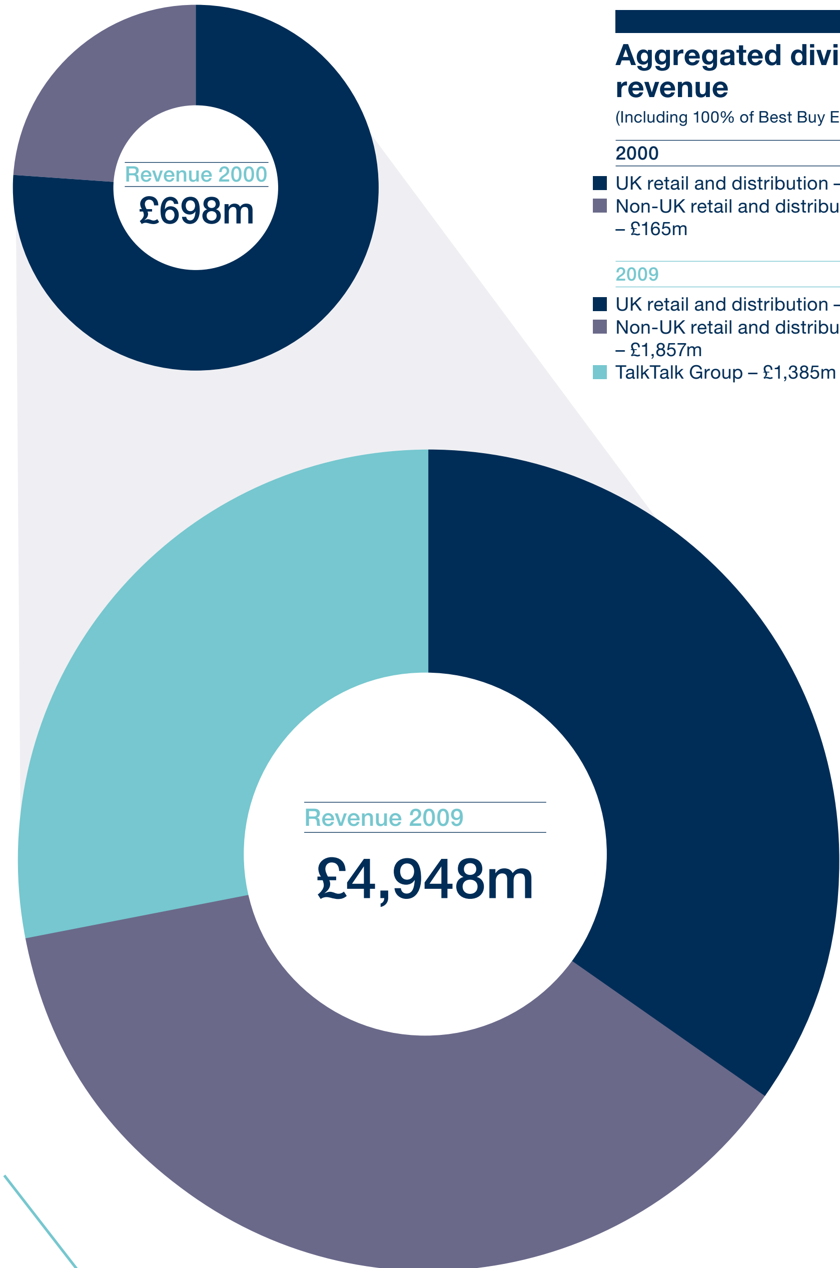
Key goals for the coming year

- **Growth:** we remain focused on growing our businesses in strategically important areas. The opening of our first Best Buy Big Box stores in the UK, the continued expansion of our US interests through Best Buy Mobile, and further growth in our UK broadband base will be central to our plans.
- **Cash:** we have set ourselves ambitious targets for the year ahead to generate operating free cash flow* of over £150m, after all investment in the Big Box business.
- **Operational efficiency:** we have undertaken a reorganisation programme covering all aspects of our business. Our goal is to reduce our operating cost base within Best Buy Europe and TalkTalk Group by around £50m and £10m respectively, without compromising on the customer experience.
- **Transparency:** we are enhancing our financial disclosure and simplifying our KPI reporting to allow investors to compare our businesses more easily with peer group companies.

* Operating free cash flow is defined as EBITDA, adjusted for working capital movements and non-cash items, less capital expenditure.

Growing and diversifying the business over the long term

Through organic growth and acquisitions, the Group has delivered a high rate of compound growth in revenues and profitability over the last 10 years. From a business that used to be predominantly reliant on its UK retail business, we now have significant retail operations across continental Europe and a highly visible recurring revenue base from our UK residential telecoms operations, creating a much broader and better diversified business.



Aggregated divisional revenue

(Including 100% of Best Buy Europe)

2000

- UK retail and distribution – £533m
- Non-UK retail and distribution – £165m

2009

- UK retail and distribution – £1,706m
- Non-UK retail and distribution – £1,857m
- TalkTalk Group – £1,385m

> Short-term difficulties in macro-economic conditions should not distract from the scale of opportunity.
>
> Charles Dunstone
> 2009

Accessing the internet via mobile phone is still a relatively under used and limited activity.

How will customer expectations drive innovation?

Two of the innovative handsets that allow customers to access the internet, almost anywhere and at anytime.

Q&A

Charles Dunstone, Chief Executive Officer

Our conversations with investors generally revolve around just a few key questions. These change over time as our strategy and the marketplace evolve, but currently these are the main discussions we are having.

Q How are you responding to the tough macro environment?

A While the economy has entered what is for most of us uncharted territory, I view it as much as an opportunity as a threat. I take the view that in buoyant markets, anyone can do well, and innovators are easily copied. When times are tougher, imaginative and well-financed businesses can put clear water between themselves and their competitors. So the business remains committed to its growth avenues – through the evolution of the existing retail proposition, the launch of Big Box consumer electronics stores, and the expansion of our US franchise.

At the same time, you have to remember that customers have two choices: firstly, whether to spend their money or not; and secondly, who to spend it with. As a retailer, you have to give customers a reason to part with their money, and by offering outstanding value, exclusive products and a unique new customer proposition, we are growing our market share. There is a cost to us in margin, but as markets recover, our increased market power will help us to rebuild that over time.

In the broadband business, TalkTalk is the clear value proposition in the marketplace, focusing on simple, transparent tariffs where customers only pay for what they want. There are signs of building momentum within this business thanks to its outstanding value and improving service and innovation.

Finally, all businesses need to protect their bottom line. We have had to make some difficult decisions as part of our cost reduction exercise, and our goal has been to offset further deterioration in gross margin through a matching reduction in operating costs.

Q How are you going to improve cash generation?

A We have been disappointed by our cash generation over the last couple of years. There have been three main reasons: an overspend on capex and subscriber acquisition costs a couple of years ago; working capital outflow within the retail business; and foreign currency exposure in a weak Sterling environment.

We are now past the peak of investment in our broadband network: capex has fallen sharply this year and will fall a little further next year, to a sustainably low run-rate. At the same time, broadband gross adds and churn are lower than they have been historically, reducing the overall cost of recruiting new customers.

On working capital, the way we earn commission from networks automatically creates a lag between payment to handset suppliers and receipts from network operators. This is well understood by investors. However, our terms vary between networks, with the working capital of certain partners being greater than others; so our business mix over the last year accentuated this trend. We expect a more normal mix going forward, resulting in a continued working capital outflow but at a much reduced rate.

Finally, we have closed out our Swiss Franc hedging position, leaving our currency exposure now just to the Euro, where we hedge our Euro-denominated trading assets. This should result in much reduced volatility in our net debt figures.

Q **Your competitors and suppliers are generally larger and better capitalised than you: isn't this a long-term disadvantage?**

A It is true that we are a relatively small business in industries generally populated with major multinationals, but this has been the case throughout the Group's life. We have thrived on being nimble, allowing us to minimise the time between spotting opportunities and mobilising to address them. Our ability to come from nowhere to become the number three in the UK residential telecoms market is clear evidence of this.

We have also stayed focused and stayed close to the customer. In both our businesses, the first thing we ask ourselves is "What can we do better for the customer?". This may not result in immediate profit maximisation, but it does create a sustainable business that makes fair margins over time and creates barriers to entry through scale and low pricing.

Q **How does fibre deployment affect your broadband business?**

A The regulator OFCOM has recently announced that it plans not to impose any wholesale price regime on BT for the resale of fibre-based connectivity to UK homes. Fibre networks facilitate much higher broadband speeds than existing copper networks. In theory, this could allow BT to set a very high wholesale price for fibre, thus preventing users of its network (such as us and Sky) from reselling fibre profitably and giving BT the opportunity to gain significant market share through marketing its own superfast broadband product without meaningful competition.

There are several flaws to this theoretical argument. Firstly, BT has a low retail market share for an incumbent. This means that it will be difficult to get a good return on an expensive fibre deployment on a "go it alone" strategy because they don't have the density of customers; they would need wholesale customers to help defray the capital outlay. We expect to work closely with Openreach, the infrastructure arm of BT, on the development of wholesale products.

Secondly, demand for "raw" speed, while growing, is still relatively low. BT's ability to take significant retail market share simply through a higher speed product, with no compelling exclusive content, is likely to be limited. At the same time, the achievement of higher speeds through the enhancement of the copper infrastructure, and the rapid development of compression technologies which would allow much more effective data transmission at prevailing broadband speeds, could dampen demand for fibre-based products.

Finally, we all look to Virgin Media, the cable-based broadband operator with its own network, to see how their customers are responding to their new, higher speed products. If demand for 50Mbps services picks up rapidly, then rapid fibre deployment with fair wholesale prices will be the natural market response.

Q **Won't increasing customer usage erode margins in the broadband business?**

A Customer usage increased, on average, 60% year-on-year this year, which was in line with our expectations. We are designing our network for continued strong traffic growth as customers find more to do on the internet and will, over time, value reliability and consistency from their ISP as much as out-and-out speed.

Over the last two years we have been increasing backhaul capacity into our exchanges by up to ten times. The scale economies of this process are very healthy, with the operating cost to us of running a gigabit circuit only being twice that of running a 100 megabit circuit. This means that our capacity-related operating costs are effectively capped for the medium term.

I believe that, as customers use broadband for an ever-wider array of services, metering will be an inevitable next step in the marketplace, with customers learning to pay for what they use rather than having flat rate tariffs.

Q **Don't you need content as part of your broadband offer?**

A The way customers are accessing content is rapidly fragmenting. Although Pay TV is a significant part of the market, an increasing amount of content is freely available on the internet and this is only going to grow over time. I don't think that telecoms businesses make good media businesses, so we will continue to focus on providing the best value and most reliable network allowing our customers to access content of their choice on the web. How could we justify charging a premium for content that customers either don't want or could find somewhere else for free anyway?

Q **How do you compete with the mobile networks' direct distribution strategies?**

A The mobile networks have long been competitors on the high street as well as partners, and we have thrived within this market dynamic for many years. Customers are not all the same: for every customer who is happy to stay with the same network and deal with them direct, there is another who wants to shop around, try a wider range of handsets and get impartial advice. That's why Carphone Warehouse exists.

Q **Isn't consumer electronics retailing an unattractive sector?**

A Not at all. It is estimated to be a £30bn market in the UK alone. We all love the technology we have in our homes – music, home theatre, gaming, even coffee machines and fridge freezers – but generally we don't love going to buy it or having to make it work. Our analysis of the UK market suggests that competition is focused around price rather than service, and while most technology products aren't commoditised, they are sold that way.

Our goal is to open large stores with deep ranges, well-informed staff, and a high level of in-store interactivity and after-sales service. We want it to be a pleasure to come shopping for technology, not a chore. The economics of running 30,000 square foot stores are much more attractive than stores half the size, which our competitors typically run, and the current property market is providing us with some compelling opportunities.

In November last year we announced plans to conduct a structural review of the Group. This process was a natural consequence of the Best Buy deal and ref ected discussions with investors through the summer over our future plans for the Group.

The review covered a broad range of considerations, the most significant of which are set out below, with our summarised views on each issue. In conclusion, the Board decided that a demerger was the right course to pursue, allowing the two businesses clearer autonomy and investors clearer choices.

We expect to achieve the demerger by July 2010, at which time we expect TalkTalk Group and our investment in Best Buy Europe to be listed as independent publicly-quoted companies. We are confident this will make it easier for shareholders to assess more clearly the value of the Group's businesses and that each business will continue to thrive with its distinct management strategy, investment characteristics, financing arrangements and potential.

Meanwhile, the two businesses are already effectively run as separate entities, with a very limited shared central function. This was a process begun ahead of the Best Buy transaction last year, and taken further in early 2009 with the devolution of most remaining central functions down to the divisional level. The Group functions that remain are the Board, Group Finance, Treasury, Investor Relations and Company Secretariat.

We now see the Group as a holding company managing four assets – our 100% holding in TalkTalk Group, the 50% stake in Best Buy Europe, the 48.5% stake in Virgin Mobile France, and the Group's freehold properties. The key elements of each and our strategy for them are set out here.

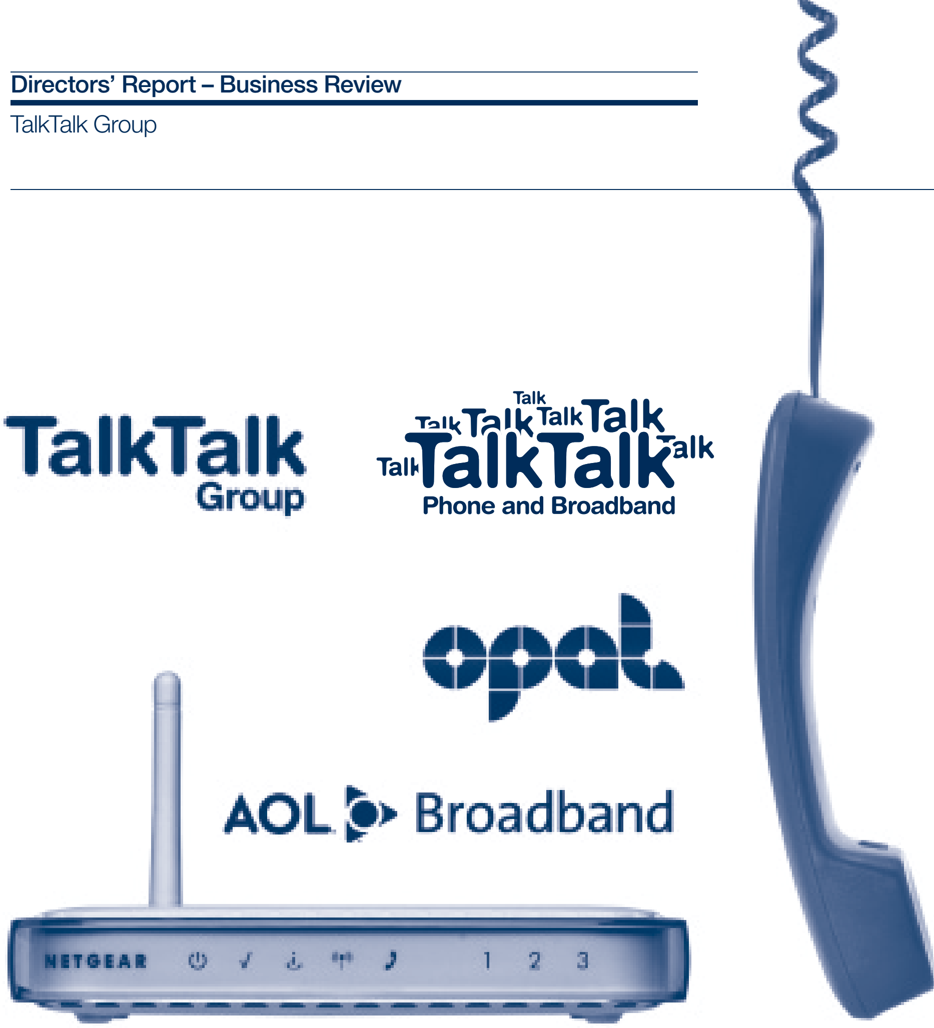
Key considerations for the structural review

Consideration	Conclusion
Do the two businesses complement each other commercially?	Yes, but not materially. The Carphone Warehouse stores are still an important distribution channel for TalkTalk broadband sales but now account for only 20% of gross sales, down from around 50% at launch. Most new customers are now switchers rather than new to broadband and use other channels to switch providers. Commercial terms are already at arm's length.
Does one business have a financial reliance on the other?	Not any more. The growth of the broadband business was historically financed by the cash generated by the retail business. Both businesses are now expected to be self-financing.
Do the businesses have different investor profiles?	Yes, we believe so. The TalkTalk Group is becoming a highly cash generative business with a utility-like profile; Best Buy Europe is entering a growth and investment phase with a major market opportunity in front of it.
Are the businesses easily separable from a management and administrative viewpoint?	Yes. We pushed the majority of shared resource down into the divisions in May last year, and have gone through a further restructuring process early in 2009.
Are there any material financing implications of a demerger?	Yes. The demerger will require us to put in place separate facilities for the two businesses. However, we are making good progress on this and do not see it as an obstacle to demerger.

The Carphone Warehouse Group PLC

TalkTalk Group	Best Buy Europe	Virgin Mobile France	Freehold property
100%	50%	48.5%	100%

	TalkTalk Group	Best Buy Europe	Virgin Mobile France	Freehold property
Key assets	■ 2.8m broadband customers. ■ 1.1m voice-only and narrowband customers. ■ Only fully-unbundled network in the UK.	■ Nearly 2,500 stores across nine European markets. ■ Strong supplier relationships and access to exclusive product.	■ 1.1m mobile customers. ■ Widest MVNO distribution in France. ■ Relationship with Orange.	■ Four freehold properties in London and the North West. ■ £65m book value; £72m estimated market value.
Strategy	■ Maintain or grow broadband market share. ■ Focus on value and simplicity. ■ Continue to improve network performance and reliability. ■ Target strong cash generation.	■ Evolve retail proposition to embrace a broader array of connectivity services. ■ Grow mobile market share profitably. ■ Launch multi-channel consumer electronics business.	■ Continue to grow customer base to reinforce position as "fourth network". ■ Aim to be profitable and cash generative within two years.	■ Maximise value through development and potential sale.



TalkTalk Group

TalkTalk Group is our UK fixed line telecoms division, serving over 3.9m fixed line customers comprising 2.8m broadband and 1.1m voice-only and narrowband customers. It is currently the number 3 player in the UK broadband market, with by far the most extensive unbundled network in the UK, which supports a low-cost operating model that enables strong profitability even on market-leading tariffs. Its B2B operation, branded Opal, is a major player in the small business market.

Over the last 12 months we have successfully completed the integration of the AOL broadband business and continued to grow the business organically. The bulk of our network investment is now complete and the business is set to be strongly cash generative going forward.

Financial Performance

- Revenue down 3% to £1,385m, reflecting a growing broadband base offset by declines in our narrowband and voice-only bases
- Headline EBITDA up 56% to £181m, driven by the increasing proportion of on-net customers
- Headline EBIT up 80% to £124m, reflecting EBITDA growth partially offset by higher depreciation and amortisation charges
- Capex of £106m, down 38% year-on-year after the substantial completion of our network build-out

Operational Highlights

- Completed integration of AOL broadband business
- Continued migration of customers onto our own network, with 78% of all broadband customers now on-net
- 186,000 broadband net adds, before 93,000 AOL base clean-up, taking the total base to 2.8m
- Broadband monthly ARPU up 3% to £22.65
- Major improvements in customer service, resulting in reduced churn and much more positive customer perception

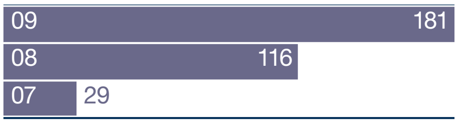
Key Performance Indicators

Broadband customer base (m)

2.8m

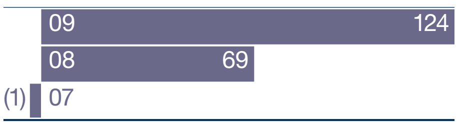
Headline EBITDA (£m)

£181m



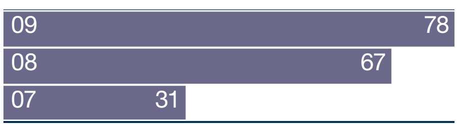
Headline EBIT (£m)

£124m



% on-net

78%



Strategy

The TalkTalk Group is clearly positioned as the best value provider in the UK residential broadband market. We do not believe that low cost should equate to low service, so we are absolutely focused on maintaining and improving our network quality, developing innovative products and delivering a positive experience to customers.

Maintaining and growing our broadband market share

Our market share has been steady at around the 16% mark for the last two years. We believe that, as our service levels have improved, some of our direct competitors have weakened and as consumers look for value, we are well placed to grow our share. With strong margins and low churn, each marginal new customer generates a very high net present value for the division. In addition, increasing scale enables us to spread fixed network costs across a wider base.

Focusing on value and simplicity

Our customer research tells us that people are fed up of paying over the odds for a bundle which includes services they don't want. Our proposition is clear: we are the best value provider of a combined package of calls, line rental and broadband, with no expensive extras. However, we have developed a range of "Boosts", which allow customers to sign up for higher speeds, greater download capacity and other features, whenever they like without being contractually committed to them.

Continuing to improve network performance and reliability

As broadband becomes more ubiquitous and customers find more and more things to do on the internet, usage is increasing significantly. We have anticipated this trend and have been developing our network to manage the huge increases in demand expected over the next three years. The investments we have made will allow us to do this while protecting our margin structure.

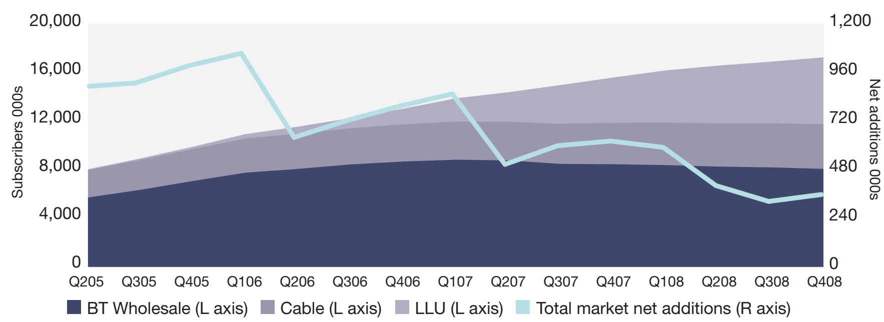
Targeting strong cash generation

The Group has invested over £900m into the TalkTalk Group over the last six years. That period of investment is now over: capex is declining sharply, and the customer base we have built up is highly cash generative. We have set a target of over £100m operating free cash flow from the division in 2009-10.

Marketplace Trends

UK broadband market

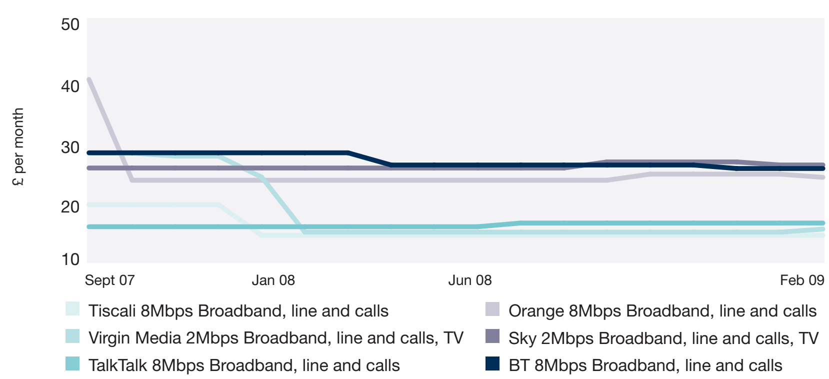
Growth in the UK broadband market slowed sharply during 2008, principally as a result of the decline in housing transactions. Penetration has reached over 65%, and despite the slowing growth we expect the market to eventually reach 80% penetration in the next 3-4 years.



Source: Enders Analysis

Broadband tariffs

Broadband and bundled pricing has been remarkably stable overall for the last three years, since we came in and repriced the market in April 2006. Competition is rational, with financially weaker players now marketing less aggressively, and there have even been signs of price rises in recent months. Over time we expect pricing changes to be driven by speed and metered access.



Source: Enders Analysis

Headline Financials

	2009 £m	2008 £m
Revenue	**1,385**	1,424
Residential*	**1,089**	1,112
Business	**296**	312
EBITDA pre-SAC and marketing	**307**	280
SAC and marketing	**(126)**	(164)
EBITDA	**181**	116
Depreciation and amortisation	**(57)**	(47)
EBIT	**124**	69
EBIT %	**9.0%**	4.8%

* Comprises residential customers and small business customers with similar profiles.

Short-Term Risks and Challenges

- A weak consumer environment could affect market growth and increase the level of bad debts
- We may not be able to pass on in full the copper price increases allowed by OFCOM to our customers
- Struggling competitors may behave irrationally and undercut the market

Longer-Term Risks and Challenges

- Some of our competitors have much greater financial resources and may choose to use broadband as a loss-leader for other products
- Regulation may curb our access to fibre infrastructure at fair prices, thus preventing us from delivering higher speeds to customers
- Network or customer service may deteriorate, increasing our churn rate

TalkTalk Group delivered another good performance last year, growing its customer base, increasing the proportion of its customers on its unbundled network from 67% to 78% and achieving a substantial reduction in its churn rate. Despite the unexpected slow-down in the rate of growth in the broadband market, TalkTalk Group still increased in profitability, with Headline EBIT growing by 80% to £124m and Headline EBIT margins almost doubling from 4.8% to 9.0%. TalkTalk Group has also started to deliver strong cash flows, and has significantly increased visibility of these cash flows going forward.

Residential revenues were down marginally in the last financial year, falling 2% to £1,089m (2008: £1,112m).

Blended broadband monthly ARPU rose by 3% to £22.65. The increase was driven by the greater proportion of higher ARPU TalkTalk customers within the base. Non-broadband ARPU rose 18% to £20.93, reflecting price increases in line with BT's voice price increases during the year.

B2B revenues declined by 5% to £296m (2008: £312m). Opal continued to improve its revenue mix, with an ongoing trend towards higher value services offsetting falling premium rate traffic. In the second half, the business launched its new suite of data products for the small business market, which is expected to drive moderate revenue growth in 2009-10.

During the year underlying growth in the broadband base was 186,000 customers, but as part of the AOL integration process, we identified a discrepancy of 93,000 customers and reduced the base accordingly at the half year. This delivered a net increase of 93,000 customers to 2.8m.

Our base of non-broadband customers, encompassing customers taking our voice-only service or narrowband package, continued to decline in line with our expectations, ending the year at 1.1m customers. A large number of these customers are signing up to our own bundled broadband services.

The TalkTalk broadband base made further excellent progress during the year, increasing by 339,000 customers or 27%. The customer service issues of previous years are now behind us and our simple value proposition continues to gain traction in the market. Growth picked up noticeably towards the end of the financial year, reflecting what is seasonally our strongest quarter for broadband growth but also underlining the brand's value credentials as customers increasingly look to save money in the current economic climate.

Trends in churn at TalkTalk were also very encouraging, with annualised churn falling materially year-on-year as customers became increasingly satisfied with our service levels, and the housing market became more subdued. With our highly efficient, fully-unbundled network, we are able to generate strong cash margins while maintaining the most competitive telecoms bundles in the market. With customer lifetimes lengthening and acquisition costs stable, we believe the net present value of the base is increasing all the time.

As expected, the AOL Broadband base fell by just under 245,000 customers, reflecting the 93,000 adjustment noted above and customers switching from the higher broadband tariffs to which AOL customers were historically signed up. We focused our retention programmes on customers living within our unbundled exchange footprint, where we can offer lower tariffs reflecting our lower cost base in those areas. As a result, AOL churn rates reduced towards the end of the year. We also completed the integration of AOL during 2008, combining the businesses under a single UK residential management team.

We made further substantial progress on the footprint, capacity and resilience of our telecoms network during the year. We unbundled a further 326 exchanges, taking our fully-unbundled network to 1,705 exchanges and our partially-unbundled network to 1,251 exchanges. Together this gives us approximately 80% coverage of the UK population. We unbundled 372,000 customers during the year, taking the total unbundled base to 2.2m customers or 78% of the total broadband base, in line with our goal. We remain the largest unbundler in the UK, representing 39% of all unbundled lines. Importantly, we are still the only broadband provider that has succeeded in making full unbundling work. This is testament to the skill of our engineers and our strong supplier partnerships, and enables us to provide packaged broadband and voice services at a much lower cost than our partially-unbundled competitors.

At the year end we changed the way we account for subscriber acquisition costs (“SAC”). Historically we have capitalised SAC and amortised it over a customer’s minimum contract term – typically 18 months. We are now expensing SAC as incurred, bringing our policy in line with the majority of other telecoms companies and more closely aligning our profit and loss performance with our cash flow.

Cash flow

	2009 £m	2008 £m
Headline EBITDA	**181**	116
Working capital	**(35)**	12
Capex	**(106)**	(172)
Operating free cash flow (pre-exceptionals)	**40**	(44)

TalkTalk Group generated operating free cash flow of £40m (2008: outflow of £44m). Strong EBITDA growth was partially offset by an outflow on working capital, which was caused by timing issues due to a change to calendar month ends; there was no deterioration in underlying working capital. Capex reduced from £172m to £106m, reflecting high levels of network investment in the prior year.

The major elements of the capital expenditure on the network in 2008-09 were the additional exchanges unbundled, increased capacity in existing exchanges, and the continuation of our project to increase backhaul capacity within the network. By the end of the year we had substantially completed our new CRM and billing platform investment and have commenced migrations, which should enable us to provide an enhanced service to customers in the years ahead.

Outlook

The prospects for the coming year are good. After many years of investment, we expect TalkTalk Group to deliver significant free cash flow and consolidate its position in the marketplace. While we remain mindful of the tough times many of our customers are enduring, we believe that residential broadband and telephony are must-have services that customers are unwilling to forego. At the same time, as a clear value player with no unwanted services within the bundle, we expect to benefit from customers seeking to save on monthly outgoings by moving to TalkTalk.

We expect to achieve 125,000-175,000 broadband net adds next year, reflecting stable market share in a maturing market. ARPU growth is expected to be marginal, with some beneficial mix effects and the sale of additional value-added services likely to be cancelled out by a slight decline in voice traffic.

The non-broadband base is likely to continue to decline but at a slower rate than this year, with ARPUs again broadly stable.

Within the B2B operation, we are budgeting for revenue growth of 3-5%, driven by the launch of new data services and a renewed strategic focus. EBITDA margins in both businesses are expected to be flat to slightly up, driven by operating efficiency and scale benefits.

While overall EBIT growth is likely to be limited, we are targeting significant free cash flow generation. We are planning for neutral working capital and a further reduction in capex, to £80m in the coming year. This allows us to target operating free cash flow of over £100m, a figure which we believe is sustainable in the medium term.

Longer term we are bullish about the outlook for broadband. The market appears to be consolidating around four major players, of which we are clearly differentiated as offering transparent value and simplicity. Across both our divisions, we are guided by our view of the connected world – that customers will increasingly use mobile and fixed broadband connectivity wherever they are, to integrate their entertainment, domestic and business needs seamlessly. This makes the broadband connection in the home one of great strategic importance and value.

However, we remain conscious of the role of the regulator in ensuring that where significant investment has been made, it is suitably protected. Fibre networks will come, although we do not believe they will reach the mass market for five years. When they do, we are confident that we will be able to access that infrastructure at fair rates determined by natural market forces.

Best Buy Europe

Best Buy Europe, in which the Group has had a 50% share since 1 July 2008, encompasses our retail operations across Europe and our share of profits in Best Buy Mobile in the US.

During the year we have made significant progress in evolving our existing customer proposition and product mix beyond mobile phones to include mobile broadband, laptops and other connected devices. We have not only broadened the offer in our small stores but also introduced a slightly larger format, “Wireless World”, which embraces gaming and an extended laptop offer, as well as a Geek Squad technology support presence.

We have also laid the foundations for our Big Box consumer electronics format, which we plan to launch in the UK in spring 2010.

Financial Performance

- Revenue up 15% to £3,563m, driven by market share gains and currency movements
- Headline EBIT down 33% to £101m, reflecting the tough economic environment and our pursuit of market share gains
- £7m of opex relating to the Big Box project
- First-time contribution of £8m from Best Buy Mobile, a year ahead of plan

Operational Highlights

- Roll-out of laptop proposition to all UK stores and the majority of European stores
- Estimated 5% UK laptop share from a standing start
- Strong growth in handset market share
- Very strong growth in strategically important products such as mobile broadband and smartphones
- First new format mid-sized stores opened, with a further 30-40 to follow this year

Key Performance Indicators

Connections (m)

12.5m

09	12.5
08	11.5
07	10.0
06	8.2

Revenues (£bn)

£3.6bn

09	3.6
08	3.1
07	2.9
06	2.5

Headline EBIT (£m)

£101m

09	101
08	151
07	154
06	116

Strategy

The Carphone Warehouse has survived and thrived in a highly competitive mobile industry by constantly identifying changes in consumer behaviour which present opportunities if we address them and threats if we do not. Over the last two years we have been undergoing our biggest evolution yet, as we address the opportunity presented by the "Connected World" – and this governs the main elements of our divisional strategy.

Evolving the retail proposition to embrace a broader array of connectivity services

We have been very successful in developing our existing store proposition to offer a wider range of connected devices, to reflect new services available in the market and customers' changing technology needs. Mobile broadband, laptops and smartphones have been significant contributors to top line growth this year. Looking ahead, this is set to continue as we refine the small store offer and roll out 30-40 of our new, mid-sized stores.

Growing our market share of mobile connections

Market share has long been a key element of our strategy. Significant share makes us an important partner to network operators and handset manufacturers alike. The opportunity for market share growth is greater in a weak handset market, as more marginal players struggle to compete with our proposition. We estimate that our market share improved significantly year-on-year and we aim to deliver further strong gains over the next 12 months.

Launching a multi-channel consumer electronics business

With our partners Best Buy, the acknowledged global champions of Big Box consumer electronics retailing, we are planning to launch a major assault on the UK electricals market. Our first out-of-town stores are scheduled to open in spring 2010 and, if successful, we will roll out a presence across the UK supported by a full multi-channel service offering. We are confident that the planned investments will generate a new and material leg of growth for the business.

Marketplace Trends

Handset sales Western Europe*
(units sold, millions)

08	94.8
07	95.1
06	89.1
05	79.6

Source: GFK

* For the nine markets in which Best Buy Europe operates.

European handset market

After five years of strong and consistent growth, 2008 witnessed a slight fall in the European handset market. A combination of market saturation, the macroeconomic environment and a lack of new products in the mid-tier all contributed to this decline. At this stage we expect a similar trend in 2009, followed by stabilisation in 2010.

Laptop sales Western Europe*
(units sold, millions)

08	15.4
07	10.9
06	7.6
05	5.4

Source: GFK

* For the nine markets in which Best Buy Europe operates.

Laptop sales and penetration

The laptop market is set for continued strong unit growth as prices fall, hardware becomes subsidised with mobile broadband, and smaller, "netbook" type products proliferate. The market in Western Europe was up 41% in 2008 but is still only a fraction of the size of the mobile phone market.

Headline Financials (100% basis)

	2009 £m	2008 £m
Revenue	**3,563**	3,091
Gross margin	**1,033**	940
SG&A	**(845)**	(723)
EBITDA	**188**	217
Depreciation and amortisation	**(87)**	(65)
Joint ventures	**–**	(1)
EBIT	**101**	151
EBIT %	**2.8%**	4.9%

Short-Term Risks and Challenges

- A weak consumer environment and an uncertain outlook mean that the business needs to remain flexible in its financial planning
- The launch of the Big Box consumer electronics proposition requires significant upfront investment and a major commitment of resource on which we may not achieve a satisfactory return
- Currency movements could have a negative impact on handset prices and erode margins
- Failure to improve working capital management could increase financing costs

Longer-Term Risks and Challenges

- Mobile networks may continue to invest in their own distribution platforms and seek to deal directly with their customers
- The rate of technological change may slow, reducing the need for customers to upgrade their handsets
- We may experience significant price competition in the consumer electronics market, damaging the economics of our business plan
- Competition between network operators may subside, reducing incentives to customers

Best Buy Europe's revenues grew 15% to £3,563m, with 9% growth coming from the strength of the Euro year-on-year. Headline EBIT fell 33% to £101m (2008: £151m). Although profitability fell year-on-year, we made significant progress in the development of the business and are well positioned in terms of market share, product diversification, an efficient cost base and the strength of our relationships with both vendors and mobile network partners.

During the year, we achieved total connections of 12.5m, up 8% year-on-year (2008: 11.5m), despite what we estimate to be a year-on-year decline in the European handset market. As a result we estimate that our market share has grown significantly, reinforcing our belief in the value of our independent model in the eyes of the consumer.

Subscription connections were also up 8% to 4.8m (2008: 4.5m). Growth in subscription sales was driven by high-end, internet-enabled handsets, and by mobile broadband connections. It is clear that mobile data, whether via laptops or handsets, using 3G networks or WiFi, is really taking off. We have positioned ourselves well to capture this rapid growth, as the connections figures demonstrate. In contrast, the market for mid-tier handsets, the historical "bread and butter" of the subscriptions market, was in decline throughout the year. There are now signs however, that the features available in high-end devices are now cascading into the more mass market mid-tier ranges, and this segment of the handset market is beginning to show signs of improving.

Pre-pay connections were up 9% to 7.0m. After a slow second quarter, pre-pay sales picked up in the second half of the financial year as we took significant market share from general retailers. Although we initially thought that the pre-pay business would be more at risk from a more cautious consumer environment, any effects were more than offset by our own strong market share gains.

Like-for-like revenue, stripping out the impact of new space, was up 7.9% and at constant currencies, like-for-like revenue was up 1.1%.

Divisional gross margin fell 140 basis points year-on-year, from 30.4% to 29.0%. This decline reflected both a more aggressive trading stance, as we sought to use our scale and strong financial position to grow our market share, and the impact in our product mix of lower margin mobile broadband connections and our drive into the laptop market place.

We opened 180 stores during the year, and closed or relocated 132, giving net store additions of 48. The total store base was 2,459 at the year end (2008: 2,411), including 219 franchise stores (2008: 236). Total average selling space excluding franchises was up 8% to 122,470 sqm (2008: 113,438 sqm). Including franchises, total average selling space was up 7% to 131,137 sqm (2008: 122,976 sqm).

During the year we reduced our plans for fresh store openings based on our traditional store format after several years of rapid expansion. We focused instead on the most significant change

White City, London
We opened four new mid sized store formats last year show casing a much wider range of laptops and connected devices alongside the core mobile propositions.

Best Buy Mobile, USA
Best Buy Mobile had an outstanding performance this year. We have opened 33 standalone stores this year, taking the total to 39. Best Buy Mobile's in store presence is now in every Best Buy Big Box store in the US.

to the in-store proposition achieved in the business's history, which included the introduction of a full laptop offer across a significant proportion of the portfolio. In October, we opened the first of our new, mid-sized stores, which are up to 300 sqm, compared to our normal small store size of around 60 sqm. These mid-sized stores offer not only a much wider range of laptops, but also areas dedicated to gaming, wireless TV and music services, all backed up by an in-store Geek Squad presence. These stores have performed very strongly, with excellent customer feedback, and we will be introducing a further 30-40 over the coming year, through a mix of new stores and refits.

During the year we also trialled a major change to how our sales consultants are remunerated, with the introduction of higher base salaries and bonuses, to replace the traditional mix of lower salaries and sales-based commissions. Under the trial, bonuses are based on a store's Net Promoter Score, which is a measure of the difference between positive and negative customer feedback. The trial was a success and we are now progressively introducing this structure across the whole of the UK business. There has been no deterioration in sales performance as a result, and we believe that, over time, it will create even greater trust in the brand in the eyes of customers.

In the US, Best Buy Mobile had an outstanding year. This business, in which Best Buy Europe have a profit-sharing agreement, was launched two years ago to reposition Best Buy's mobile retailing operations with the assistance of Carphone Warehouse. Over the course of the year its in-store presence has been introduced across all of Best Buy's Big Box stores in the US, delivering near triple-digit rates of like-for-like growth and significant market share gains as a result. In addition, Best Buy have opened 33 standalone stores, taking the total to 39. Our share of profits for the year was £8m and is expected to grow significantly in the year ahead.

Since the deal with Best Buy, which completed at the end of June, we have committed significant resource to the Big Box consumer electronics retail launch, planned for spring 2010. We had originally scheduled the first store openings for the second half of 2009, but the highly favourable property environment has presented us with increasingly attractive opportunities, both in terms of locations and lease terms. As a result, we have chosen not to rush, but to take our pick of the opportunities and ensure that our launch has the most material impact. We incurred approximately £7m of costs relating to the launch during the year.

Best Buy Europe's Insurance business continues to be an important contributor to the profitability of the business. Customers value the protection it gives when they commit to a high value contract and receive a heavily subsidised, valuable mobile phone. Although performance earlier in the year was relatively subdued, business picked up in the second half. We benefited from the introduction of the laptop proposition into the stores, and also from the development of a combined insurance and Geek Squad assurance policy, giving customers not only protection against loss, but also access to technology assistance from the Geek Squad.

Cash flow (100% basis)

	2009 £m	2008 £m
Headline EBITDA	**188**	217
Working capital	**(160)**	(4)
Capex	**(115)**	(107)
Operating free cash flow (pre-exceptionals)	**(87)**	106

Best Buy Europe saw an outflow on operating free cash flow of £87m (2008: inflow of £106m). The adverse movement was largely due to working capital, particularly in the first half of the year. Our working capital position reflected an increasing alignment of our interests with our network partners, with commission being deferred over the contract life rather than paid up front. Whilst not affecting revenue recognition, this had an adverse impact on working capital. We have been working with the networks and other key suppliers to limit further absorption of working capital, experiencing minimal absorption in the second half of the year, and expect much-improved cash generation in 2009-10.

Mobile Life Report 2008
We established Mobile Life in 2006 to better understand the impact of mobile phones on our customers' daily lives. Mobile Life provides our business with invaluable insights which enable us to respond better to our customers' needs across the business, to deliver better product solutions, to improve advice, and to provide superior customer care.

For the full document visit: www.cpwplc.com

Outlook

The short-term outlook for Best Buy Europe is inevitably uncertain. Economies across Europe are set to be in recession throughout 2009, and we do not expect the handset market to be immune to these wider pressures. We have set our budgets for the year with this in mind.

Overall we expect revenues to be broadly flat in 2009-10, excluding currency effects. We estimate that the handset market will fall slightly but that we will continue to make market share gains, with connections approximately flat. In addition, the evolution of the retail proposition should see an increasing proportion of non-connection related revenue within the mix, with the result that from the following year, connections will become a less reliable proxy for revenue growth.

We expect gross margin to decline by 25-50 basis points. This reflects a continuation of our trading strategy and further increases of hardware sales within the revenue mix. However, the cost saving programme which we have undertaken during 2008-09 is expected to offset the impact of the gross margin deterioration at the EBITDA level.

We are planning for a minimal increase in the overall store count. Our focus will be on further developing the retail proposition and opening 30-40 of our new, mid-sized format stores. This should result in around 1-2% growth in average space for the year.

Our plans for the Big Box store openings will accelerate through the year and will result in start-up costs of approximately £30m, in line with the figure we indicated in October 2008. This primarily reflects the costs of the team, research and consultancy fees and the pre-opening rents on the new stores.

Best Buy Mobile is set to grow profits strongly in the coming year, enjoying a full year's trading out of all Big Box stores and further standalone store openings. Best Buy Europe's share of profits is expected to rise to £20-25m.

The impact of all of these effects is expected to result in an EBIT margin of 2.5-3.0%. The Group's share of the taxed profits of the division is anticipated to be in the £30-40m range.

Cash flow for the division will be a major focus for the year and we are targeting an operating free cash flow figure of £50m, after Big Box investments and start-up costs. Capex for the core business is set to fall with the decline in new store openings, and we aim to reduce working capital outflow materially year-on-year.

Longer term, the outlook is very positive. Tough trading conditions are effective at taking out spare capacity and our competitive position is improving. We have made significant progress in developing our retail model, and see good prospects of material profits growth from Best Buy Mobile and Best Buy Big Box stores in the UK over the next five years.

"Whilst profitability has suffered against the economic environment, we have areas of substantial progress for the Group to report."

Roger Taylor, Chief Financial Officer

Joint ventures and associates

Alongside the results of Best Buy Europe since the transaction with Best Buy, the Group's share of results of joint ventures and associates in the income statement includes our share of post-tax losses from Virgin Mobile, our French MVNO.

Virgin Mobile had a second successful year of customer growth, adding over 300,000 customers and bringing its base to over 1.1m customers, of whom 44% are subscription. Our share of losses for the year was £8m. The business continued to invest significantly in brand-building and customer recruitment, and while it will record further losses in 2009-10, broadly in line with 2008-09 levels, as it continues to invest in growth, we expect it to move to profitability at the EBITDA level on a monthly basis in the second half of this year.

Exceptional items

The disposal of 50% of the Group's retail and distribution business gave rise to a net gain after tax of £608m, which is reflected in the results of discontinued operations. Indirect costs of £6m after tax also arose as a result of the transaction. Further to the new partnership, Best Buy Europe commenced the disposal of approximately 100 stores, and accelerated a shift in its range of retail stock away from mobile phones towards laptops and other products, resulting in an exceptional charge. Exceptional costs associated with these programmes are reflected in a post-tax charge of £11m through the results of joint ventures.

Prior to the transaction with Best Buy, the Group conducted a review of its central support structures, particularly in relation to its retail and distribution business, to achieve greater divisional autonomy and efficiency. This review resulted in a reorganisation programme that is expected to yield savings of £7m per annum. Redundancy and other restructuring costs that have arisen as a result of the programme are reflected in a post-tax charge of £9m in discontinued operations.

Further to the divisionalisation process, both TalkTalk Group and Best Buy Europe have undertaken comprehensive reorganisation programmes in the second half of the year. The TalkTalk Group programme is expected to generate annualised savings of approximately £10m per annum, and has resulted in redundancy and other restructuring costs of £10m, which are reflected in exceptional operating expenses. The Best Buy Europe reorganisation is expected to yield annualised savings for the joint venture of up to £50m per annum, and has resulted in a post-tax charge through the results of joint ventures of £7m. TalkTalk Group also completed the transfer of its AOL network operations, hosting, billing and customer management from a transitional platform provided by AOL Time Warner onto the Group's own systems, at a cost of £16m, shown within exceptional operating expenses.

Additionally, an exceptional foreign exchange loss of £85m has arisen in the year following a change in the functional currency of the Group's brand company from Swiss Francs to Sterling. The transaction with Best Buy necessitated a change in the operations of the brand company, which in turn made Sterling the appropriate functional currency. As a result of the change, movements on the brand company's Swiss Franc borrowings, which would have previously been recognised through reserves, were thereafter reflected in the income statement. These borrowings were converted into Sterling before 31 March 2009. A tax credit of £24m has been recognised in respect of this loss.

The Group no longer has any material exposure to movements in the Swiss Franc.

Finally, the Group fully impaired its legacy wireless internet investments, resulting in a non-cash charge of £5m through exceptional operating expenses.

Amortisation of acquisition intangibles

The amortisation charge in respect of acquisition intangibles amounted to £71m (2008: £75m), primarily in relation to AOL.

Interest and taxation

Net interest of £4m was payable during the year, a substantial reduction in the charge for 2007-08 of £45m, as a result of the proceeds from the transaction with Best Buy. The effective tax rate on Headline profits from continuing operations excluding joint ventures was 17% (2008: 50%). The tax rate benefited from the recognition of previously unrecognised tax assets.

Earnings per share ("EPS")

Headline EPS was 12.6p, a reduction of 18% year-on-year (2008: 15.2p). Statutory EPS was 61.6p (2008: 8.1p), reflecting the gain on the transaction with Best Buy.

Group cash flow

	2009 £m	2008 £m
TalkTalk Group	**40**	(44)
Best Buy Europe		
Gross disposal proceeds	**1,041**	–
Other cash movements	**(106)**	140
Exceptionals (cash element)	**(20)**	(15)
Acquisitions (net)	**(76)**	(68)
Tax and interest	**(4)**	(45)
Dividends and shares	**(89)**	(17)
Other	**(16)**	(20)
Net cash flow	**770**	(69)
Opening net debt	**(843)**	(618)
Foreign exchange	**(86)**	(156)
Closing underlying net debt	**(159)**	(843)

The Group had underlying net debt at the year-end of £159m. In addition, the Group had used its committed facilities to provide funding of £293m to Best Buy Europe at the end of March, and total net debt including Group borrowings to fund these loans was therefore £452m. The loans were provided under a £475m revolving credit facility, half of which is guaranteed by Best Buy Co., Inc.

Best Buy Europe had net debt of £47m at the end of the year, comprising loans from the Group of £293m and net cash and other borrowings of £246m; Best Buy Europe's net cash and other borrowings are not consolidated into our Group results. The Group's effective net debt, including the Group's share of Best Buy Europe net debt, was therefore £182m.

The principal components of TalkTalk Group's operating cash flows are detailed above.

The Group received gross proceeds of £1,041m from the transaction with Best Buy. Other cash movements reflect operating cash flows prior to the transaction (shown in the Group cash flow as discontinued operations), the removal from Group debt of Best Buy Europe's cash and debt, and share capital invested in the business since June. In the prior year, other cash movements reflect Best Buy Europe's operating free cash flow, together with net disposal proceeds of £34m.

The principal acquisition cost in the year was the final deferred consideration payment of £70m for the AOL acquisition.

Tax and interest reflects a sharp reduction in year-on-year interest costs, and continuing minimal tax payments, reflecting the substantial tax losses available to TalkTalk Group.

Dividends and shares include the acquisition of 24m Group shares into our Employee Benefit Trust earlier in the year to avoid future dilution from the exercise of share options, at a cost of £53m.

Dividends

We are proposing a final dividend of 3.00p per share (2008: 3.00p), taking the total dividend for the year to 4.35p, which represents an increase of 2% on last year, and which against Headline earnings provides dividend cover of 2.9 (2008: 3.7).

Balance sheet

The transaction with Best Buy has resulted in the deconsolidation of the Best Buy Europe balance sheet and the Group's share of Best Buy Europe is now shown in interests in joint ventures and associates.

Group net assets have increased from £651m to £1,116m. Goodwill, other intangible assets, property plant and equipment, current assets and current liabilities have all reduced significantly year-on-year as a result of the deconsolidation. Loans to Best Buy Europe are shown separately in the balance sheet.

Foreign exchange

A large proportion of the Group's borrowings at the start of the year were held in Euros and Swiss Francs, as a hedge against non-Sterling assets. The part-disposal of the Euro-denominated businesses within Best Buy Europe has substantially reduced the Group's requirement for Euro hedges, although some hedges remain in respect of the Group's investment in and funding to Virgin Mobile France and on cash flow hedges for TalkTalk Group.

The further weakening of Sterling during the year caused significant currency outflows in relation to Swiss Francs. However, the change in the functional currency of the Group's brand company from Swiss Francs to Sterling during the year and redenomination of its borrowings have materially eliminated the Group's exposure to Swiss Francs by the end of the year.

Financing and treasury

The Group's operations are financed by committed bank facilities, retained profits and equity. The Group's committed bank facilities are a £550m revolving credit facility ("RCF"), which is used for working capital purposes, and a £375m term loan. The facilities mature in March 2013 and October 2012 respectively. The terms of both facilities are similar and the covenant packages are identical. The Group was in compliance with the covenant conditions of both facilities at the year end.

Most uncommitted money market loans have been terminated as a result of banks' credit constraints, although some overdraft facilities are still in use to provide working capital flexibility.

Funding of our subsidiaries is arranged centrally with an emphasis on tight cash control and efficient cash management. All funding is provided on an arm's length basis and currency risk is ordinarily hedged using foreign exchange swaps or currency borrowings. Other than intercompany loans and capital funding, balance sheet translational risk is not hedged against adverse movements in exchange rates and the results of any such movements are taken to reserves. The Group is exposed to limited cross-border transactional commitments and, where significant, these are hedged at inception using forward currency contracts.

Group committed debt facilities have been used to provide a £475m RCF to Best Buy Europe. This RCF has terms that are broadly similar to the Group's main external facilities, including a debt:EBITDA covenant, and its final maturity date is 13 March 2013. Under this RCF 50% of drawings are guaranteed by Best Buy Co., Inc.

Treasury policy permits the use of long-term derivative treasury products for the management of currency and interest rate risk and the Group's interest rate exposures are monitored regularly. More generally, the Group treasury function seeks to follow treasury best practice as recommended by the Association of Corporate Treasurers and adheres at all times to their Ethical Code. The Group does not trade or speculate in any financial instruments.

Going concern

A review of the Group's business activities, together with the factors likely to affect its future development, performance and position are set out elsewhere within this Business Review, including the Risks and Uncertainties section. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are shown in the balance sheet, cash flow statement and accompanying notes to the financial statements. Further information concerning the Group's financing arrangement and policies are set out in the Financing and treasury section above. Further details of the Group's financial risk management arrangements are provided in note 22 to the financial statements.

The Directors, in their consideration of going concern, have reviewed the Group's future cash forecasts and revenue projections, which they believe are based on prudent assumptions, and based on those forecasts and projections, that it is appropriate to prepare the financial statements of the Group on the going concern basis.

In arriving at this conclusion, they have noted that at 31 March 2009 there was substantial headroom against committed banking facilities and that these facilities do not start to mature until 2012.

Return on capital employed

Total shareholders' funds at March 2009 were £1,116m, compared to £651m at March 2008. After taking into account average net debt, excluding debt used to fund Best Buy Europe, and adjusting for the amortisation of acquisition intangibles and exceptional items, the Group generated a return on capital employed from continuing operations of 8.4% (2008: 2.2%). The return on capital employed from continuing and discontinued operations was 8.4% (2008: 12.0%).

Assuming a weighted average cost of capital for the period of 5.8% (2008: 6.5%), this represents an economic value added in respect of continuing operations of £36m (2008: -£60m) or 2.6% (2008: -4.3%). Economic value added for all operations on the same basis was £36m (2008: £76m) or 2.6% (2008: 5.5%).

Group Risk and Business Assurance functions identify, evaluate and manage the risks the Group faces on an ongoing basis. The table below summarises the more material risks to the Group, and how we seek to mitigate them in the day-to-day running of the business.

Specific risk	Potential impact	Mitigation
Going concern	Insufficient funding affects ability to continue trading.	Banking facilities currently provide substantial headroom, and do not start to mature until 2012, providing significant time before refinancing is necessary.
Competitive environment	Loss of market share and erosion of margins from increased competition.	Our strategy is to reinvest the benefits of scale into our customer proposition – to keep barriers to entry high and to maximise value for our customers. We have continued to see market share gains as a result of this strategy.
TalkTalk brand perception	Weak customer retention as a result of poor customer service.	We have continued to make significant improvements in customer service, and expect our substantial investment in new CRM systems to enhance service further in the year ahead.
Capacity and functionality of network infrastructure	Failure to provide a reliable service causes customer churn.	We focus continuously on improving network resilience and performance, and continue to invest to ensure that we keep pace with customers' growing demands.
Capacity and functionality of I.T. infrastructure	Failure to provide adequate service levels or to manage back office processes.	In addition to our substantial investment in CRM systems for TalkTalk Group, we have continued to invest to improve the functionality and resilience of our other front and back office systems.
Exchange rates	Profits adversely affected by exchange rate movements; value of assets and liabilities similarly affected.	Exchange rate exposures have been reduced significantly in the year: our exposure to Swiss Francs has been materially eliminated following the repatriation of our brand management company; our exposure to other European currencies has also reduced as a result of the sale of half of our non-Sterling businesses to Best Buy.

A proud employer and member of the community

Our primary corporate responsibilities are towards our employees, our customers and our neighbours. Our CSR activities are accordingly focused in these areas, where we can make the biggest difference.

Retail, as any shopkeeper will tell you, is detail: businesses do well because they get 1,000 little things right, as much as they do because they have a great market position or they are selling the latest hot product.

We take the same view with our CSR programme. We don't have a grand mission statement or a big budget, but are gradually looking at all aspects of our business to see how we can do things better – improve the environment, make working easier for our employees, and give something back to the community that supports us. Over the next few pages, we have highlighted some of the projects that are new or have made good progress during the year. In addition, we have started to set ourselves some targets for CSR, so our performance can be properly quantified by our stakeholders.

Charity partners

Our two businesses each have their own partner charity. Best Buy Europe supports Get Connected, and TalkTalk Group supports TreeHouse. We have chosen to back two small charities that both relate to communication, so we can help them not only with fundraising, but also with the more practical and technical support that is often harder for charities to come by.

Get Connected

Get Connected provides a first point of contact for young people who need help. Originally a telephone service, Get Connected now has a hugely successful "webchat" platform as well. Get Connected provides young people with help by:

- providing emotional support;
- advising on options available to them; and
- putting them in touch with the services they need.

In addition to raising funds for the charity, Best Buy Europe also covers all overheads for the charity, including office accommodation, IT equipment and support, telecommunications and utility bills, printing, mailing and marketing support. We also offer our employees the chance to earn additional holiday if they become a helpline volunteer for Get Connected.

In February 2009, we held our fifth annual charity auction for Get Connected. Despite the tougher economic climate, through the generosity of our guests and those who donated lots to the auction we managed to raise over £140,000 – significantly more than our expectations.

TreeHouse

TreeHouse is the national charity for autism education. Its vision is to transform through education the lives of children with autism and the lives of their families.

Established in 1997 by a group of parents, TreeHouse campaigns for better autism education nationally and runs a school for children and young people with autism. It undertakes policy and parliamentary work and research to ensure that autism is a national priority, supports parents in campaigning locally and offers training and consultancy on autism education.

Autism is a lifelong neurological condition which affects communication, social understanding and behaviour. One in 100 school age children have autism and 27% of them have been excluded from school, the majority more than once (Office of National Statistics, 2005).

In April 2009, TreeHouse launched a new website, www.talkaboutautism.org.uk, where professionals and parents are being encouraged to talk more about autism and share knowledge and experiences to achieve the best educational outcomes for autistic children.

The launch was accompanied by the publication of specially-commissioned research that highlighted that parents face a "postcode lottery" when it comes to the quality of services available to autistic children, and that over half of teachers polled had not received training to help them support children with autism.

TalkTalk Group helped to fund the development of the website and was closely involved in the launch, helping to generate significant coverage in the national and educational press.

The Carphone Warehouse Foundation

The Carphone Warehouse Foundation was set up over five years ago to support employees with their own fundraising initiatives for causes that are close to their own hearts. Small grants are awarded to charities nominated by employees; or where there is a large demand for the same charity, a larger grant will be made on behalf of the whole business.

We support our charitable activities in a number of ways, including:

- awarding extra days holiday for employees who commit to taking part in fundraising activities organised by the business;
- setting up sponsored events, which in the past have included skydiving, overseas challenges, runs and football tournaments;
- raising money via handset recycling;
- donating money saved by sending out Christmas e-cards instead of paper cards;
- holding a monthly collection in our support centres; and
- using our call centre facilities and volunteers to support major national campaigns such as Comic Relief.

Community activities

We give Community a broad definition: for us it encompasses not only our immediate geographical community, but other communities around the world and the wider social community that our services help to create and maintain. Our activities here are distinct from our charity work in that they are of a more practical nature rather than the combination of financial and skills support that we provide to our charity partners.

Business in the Community ("BITC")

This year we signed up to BITC, the primary national organisation for helping companies become better corporate citizens across all areas of their activities. We are currently undergoing their rigorous benchmarking exercise to assess how we rate in terms of corporate responsibility relative to our peers. These results will not be for publication but will enable us to see where we are doing well and where we should be looking to improve; our intention is to become part of their public benchmarking programme next year.

Business Action on Homelessness ("BAOH")

BITC runs the BAOH programme, which is a partnership between business, homeless agencies and the Government. BAOH aims to break the vicious cycle of "no job, no home, no job" by helping homeless people gain and sustain employment. Carphone Warehouse has been a partner of BAOH for a few years and has provided several work placements resulting in some participants being employed by us and some gaining employment elsewhere.

We plan to make BAOH one of our key areas of focus and are stepping up our placement programme. In addition, Carphone employees are being trained as mentors, who will be resources for homeless people as they seek ongoing advice on sustaining employment after their placements.

Innovation in the Community

The Innovation in the Community Awards were launched in 2007 to provide small cash awards and broadband connectivity to non-profit making institutions looking to develop technology-based applications to serve specific communities. We believe technology should be a social enabler, not something that creates a divide between the "haves" and the "have nots", and these awards aim to address this gap.

In 2008 the TalkTalk Innovation in the Community Awards received over 2,200 entries – over three times the number received in 2007. Winners for the year included: Screenreader, which supplies free software allowing blind people to "read" websites; Connection at St. Martin's, which provides IT training to homeless people to help them get jobs and move off the streets; and MusicLink, an arts project which gives schoolchildren in isolated areas of Cumbria a chance to experiment with music technology. Martha Lane-Fox was brought on board as a celebrity judge to provide mentoring to five overall category winners.

Community projects

We regularly organise overseas challenges in which a group of employees tackle an infrastructure project in developing countries. This work cuts across all of our key corporate responsibility areas, combining charity fundraising, practical community work and employee engagement. This year, 33 employees travelled to Morocco to build a bridge for a remote Berber tribe to prevent them being cut off from the larger cities during floods, and raised over £30,000 for our charity partners in the process.

Mobile phones and health

In 2007, the UK Mobile Telecommunications and Health Research (MTHR) programme published a detailed report to provide an update on the research work it has been undertaking since its inception in 2001. The work has been funded jointly by Government and Industry, and is run by an independent programme management committee to ensure that none of the contributors can influence the outcome of the programme. The Carphone Warehouse has been a significant contributor to research in this area.

None of the research supported by the programme and published so far demonstrates that biological or adverse health effects are produced by radiofrequency exposure from mobile phones. Specifically, no association was found between short-term mobile phone use (less than 10 years) and cancers of the brain and nervous system. Similarly, studies on electrical hypersensitivity have not supported the theory that symptoms experienced by sufferers result from exposure to signals from mobile phones and base stations.

The report proposed a further programme of work to address areas of outstanding concern, which it will report on in due course. These include whether longer-term mobile phone usage increases the risk of developing cancers of the brain and nervous system, and whether any effects of exposure to mobile phone signals are greater in children.

The Carphone Warehouse continues to take a lead in communicating health issues to customers, with leaflets in stores and the specific absorption rates for every handset we sell listed in our buyers' guide and on our website.

Environmental impact

The Group's businesses are not, by their nature, particularly high impact in terms of carbon emissions and waste, but that is not to say that we are not committed to reducing our impact. This year we have begun to take some of the many small steps needed to do business differently and make a contribution to environmental sustainability. Almost all of our projects have a real financial benefit to the business as well as an environmental benefit, so they make sense on every level.

Carbon footprint

The carbon footprint for our UK businesses is 46,000 tonnes. Our goal is to reduce this by 12% by 2012. This year we are calculating our non-UK carbon footprint and will publish combined totals and targets in the next annual report.

Mobile phone recycling

With customers typically replacing their mobile phones every two years, there is a huge number of old phones to be processed. We have been recycling mobile phones for many years, either shipping them for refurbishment and use in developing markets, or breaking them down into their constituent parts for the materials to be used in other products.

This year we recycled over 130,000 handsets, an increase of nearly 30% on last year. For every handset we receive around £10, so this has been a major contributor to our charity funds over the last few years.

In addition, we are compliant with the Waste Electrical and Electronic Equipment ("WEEE") Regulations which came into force in 2007. These regulations require us to finance the collection, treatment and recovery of waste electrical equipment, and to allow customers to return their waste equipment free of charge. Information on the correct disposal of WEEE is provided to customers with relevant products and in stores.

Environmental initiatives

New environmental initiatives over the last year include:

- Journey Share: after introducing the scheme in December 2007, we now have over 500 members sharing lifts to work;

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MEMBER

- "Bin the bin": we started a trial in March 2009 with a view to rolling it out across the business as soon as possible;
- water coolers: we have started the process of replacing spring water coolers with mains-fed units;
- lighting: support centre refits are using low intensity lighting and motion sensors; and
- store lighting: we are installing motion sensitive lighting in all back office areas of our stores.

Employees

We continue to take employee engagement very seriously. We want people to enjoy working for the Group, to feel that they are being respected and that there are genuine prospects for career and personal development, and most of all to be part of a good team.

Pulse survey

We introduced Pulse, our new employee survey, in February 2008, and now take soundings from employees on a range of issues every three months. Employee engagement, the extent to which employees are psychologically and emotionally attached to their work, positively influences customer satisfaction, sales and other measures of productivity. Employee engagement is a key performance indicator within the Group.

All managers receive data on engagement within their team and the majority have now been trained in how to improve it. As a result the Group has seen its already high levels of engagement increase. When first measured in February 2008, 75% of employees were engaged. After manager training and work amongst the majority of teams the engagement figure for the group measured 81% in February 2009. Measurement and improvement programmes continue throughout the year with a view to further increasing our performance in this metric.

One area where we scored less well was that employees do not feel that their opinion is being valued. To address this, we have introduced several listening campaigns such as Bringing Back the Magic and Every Penny Counts. These campaigns involve us actively seeking out our employees' opinions, and we had over 300 money-saving ideas in response to our Every Penny Counts campaign.

Engagement

The highlights of our employee engagement activities over the last year were:

- the Morocco project described above;
- a sponsored Skydive for 50 employees that raised over £15,000 for our charity partners;
- supporting Comic Relief, with 120 employees giving up a Friday evening to staff our call centres to take pledges from the public;
- receiving the Bronze Award for Payroll Giving by CAF for the number of employees who make regular charitable donations through payroll. We are aiming to reach the gold standard by 2010; and
- a mentoring scheme which encourages business action on homelessness.

Training and development

There has been a huge amount of change in our store proposition over the last 12 months, as we start to offer laptops, mobile broadband and other connected services more widely. We could not have done this without a highly successful training programme, which involved all of our UK retail employees attending a "wireless bootcamp" – an intensive course for 8,000 people to teach them about the new products and services we offer. All employees who passed a subsequent test were rewarded with their own laptop.

We have also continued to invest in our leaders and managers, and have engaged a specialist consultant to manage an extensive leadership development programme, designed to maximise their own potential and also bring out the best from their teams.

Employee turnover

Employee turnover can be a significant cost to a business, and given the young average age typically prevalent in retail and call centre operations, the Group is particularly sensitive to changes in leaving rates.

Charles Dunstone
Chief Executive Officer

Age 44. Founder and Chief Executive Officer of the Group since 1989. He is also responsible for new business development and strategic initiatives. He is a Non-Executive Director of The Daily Mail and General Trust PLC and Independent Media Distribution PLC. He is Chairman of The Prince's Trust Trading Board and a member of its Council. He is also a Director of Best Buy Europe Distributions Limited, the Group's joint venture with Best Buy.

Roger Taylor ACA
Chief Financial Officer

Age 44. Chief Financial Officer of the Group since January 2000. He is responsible for controlling the Group's finance function, financial reporting and procedures. He also manages the Group's investor relations and corporate finance function and is responsible for corporate development and strategic initiatives. He is also a Director of Best Buy Europe Distributions Limited, the Group's joint venture with Best Buy.

John Gildersleeve
Non-Executive Chairman

Age 64. Joined the Board in June 2000 and became Non-Executive Chairman in July 2005. He was appointed Non-Executive Director of British Land PLC in September 2008. Previously, he was an Executive Director of Tesco PLC until he retired in February 2004. He was Chairman of Gallaher Group PLC until April 2007 and Chairman of EMI Group PLC until September 2007. Prior to this he was a Non-Executive Director of Vodafone Group PLC from 1998 to 2000.

Sir Brian Pitman
Non-Executive Director

Age 77. Joined the Board in January 2001 and is the Senior Independent Director. A senior advisor to Morgan Stanley, he is also a Non-Executive Director of Singapore Airlines Limited and Virgin Atlantic Airways Limited. He retired in 2001 from Lloyds TSB Group PLC, where he was Chief Executive for 13 years and Chairman for four years. He was also Chairman of NEXT PLC from 1998 to 2002 and a Non-Executive Director of Tomkins PLC from June 2000 to June 2007. In May 2008, he retired from ITV PLC, where he served as Non-Executive Director for four years; prior to this he was a Non-Executive Director of Carlton Communications PLC from March 1998.

David Mansfield
Non-Executive Director

Age 55. Joined the Board in September 2005. He is an Executive Director of Ingenious Media PLC, a specialist media investment and advisory group. He is Chairman of Rajar Limited, the radio research company owned by the BBC and Commercial Radio, and of 1700 Group PLC, a recruitment company specialising in media. He was previously Chief Executive of Capital Radio PLC and latterly GCap Media PLC, the UK's largest commercial radio company. He is a fellow of the Radio Academy, a member of the London Business School Enterprise 100 Group and a visiting fellow of the University of Oxford.

Steven Esom
Non-Executive Director

Age 48. Joined the Board in September 2005. He was Director of Food at Marks & Spencer from June 2007 until July 2008 and previously he was Managing Director of Waitrose, the supermarket division of the John Lewis Partnership, from 2002 to April 2007. Prior to joining Waitrose, he spent the major part of his career in various buying roles with J Sainsbury PLC and also worked for the Ladbroke Group and Hilton International.

Baroness Morgan of Huyton
Non-Executive Director

Age 49. Joined the Board in November 2005. From November 2001 until May 2005, she was Director of Government Relations at 10 Downing Street. Prior to this she was Political Secretary to the Prime Minister from 1997 to 2001, and was appointed Minister for Women and Equalities in 2001. In 2006 she was appointed a Board Member of the Olympic Delivery Authority and was also appointed as a Non-Executive Director of Southern Cross Healthcare Group PLC. She is Advisor to the Board of the children's charity ARK and a member of the Lloyds Pharmacy Advisory Panel.

David Grigson ACA
Non-Executive Director

Age 54. Joined the Board in April 2007. He was Chief Financial Officer of Reuters Group PLC until May 2008. Prior to joining Reuters in 2000, he was Group Finance Director of Emap PLC and Chairman of Emap Digital.

Company Secretary
Tim Morris

Board Committees
Audit Committee:
David Grigson (Chairman)
Sir Brian Pitman
David Mansfield
Steven Esom
Baroness Morgan

Remuneration Committee:
Sir Brian Pitman (Chairman)
David Mansfield
Steven Esom
Baroness Morgan
David Grigson

Nomination Committee:
Sir Brian Pitman (Chairman)
John Gildersleeve
Baroness Morgan

Advisors
Principal Bankers:
Barclays PLC
Deutsche Bank AG
HSBC Bank plc
ING Bank NV
Royal Bank of Scotland Group PLC

Legal Advisors:
Ashurst Morris Crisp
Clyde & Co
DLA
Osborne Clarke

Corporate Brokers:
Credit Suisse
(Europe) Limited
1 Cabot Square
London E14 4QJ

UBS
1 Finsbury Avenue
London EC2M 2PP

Registrars
Equiniti Limited
Aspect House
Spencer Road, Lancing
West Sussex BN99 6GU

Auditors
Deloitte LLP, London

Registered Office
1 Portal Way
London W3 6RS
Registered number: 3253714

Introduction

The Board of Directors recognises the importance of high standards of corporate governance. This Report and the Remuneration Report set out on pages 33 to 38 explain that the Company has complied during the period with the principles contained in Section 1 of the 2006 Combined Code on Corporate Governance ("Code"). In accordance with the Listing Rules issued by the Financial Services Authority, the relevant parts of this Report have been reviewed by the auditors and their opinion is contained in the Independent Auditors' Report on page 41.

Board of Directors

Composition of the Board

There are currently two Executive Directors and six Non-Executive Directors (including the Non-Executive Chairman). Biographies of each of the Directors, their responsibilities and Board Committee memberships are set out on page 28. The following changes to the Board have taken place since last year's Annual Report:

On 31 July 2008 David Goldie and Andrew Harrison stood down as Executive Directors and Adrian Martin stood down as a Non-Executive Director. On 7 December 2008, David Ross resigned as Deputy Non-Executive Chairman.

Between the period of 30 March 2008 and 31 July 2008, the Board comprised four Executive Directors and eight Non-Executive Directors (including the Non-Executive Chairman and Non-Executive Deputy Chairman). Following David Goldie, Andrew Harrison and Adrian Martin standing down, the number of Executive Directors decreased to two and the number of Non-Executive Directors decreased to seven. Following the resignation of David Ross on 7 December 2008, the number of Non-Executive Directors reduced to six.

Between the period of 30 March 2008 and 31 July 2008, six of the Non-Executive Directors (excluding the Non-Executive Chairman and the Non-Executive Deputy Chairman) were considered to be Independent Non-Executive Directors. They were Sir Brian Pitman, Baroness Morgan, David Mansfield, Steven Esom, Adrian Martin and David Grigson.

Following Adrian Martin standing down, the number of Non-Executive Directors (excluding the Non-Executive Chairman and the Non-Executive Deputy Chairman) considered to be Independent Non-Executive Directors reduced to five.

Charles Dunstone is the Chief Executive Officer, John Gildersleeve is Non-Executive Chairman and Sir Brian Pitman is the Senior Independent Director.

All Directors are subject to election by shareholders at the first Annual General Meeting following appointment and thereafter to re-election at least every three years. Both Executive Directors have a service contract that can be terminated by either the Company or the Director on 12 months' notice or less.

The Non-Executive Directors have three year periods of appointment, the terms of which are substantially in the same format as suggested by the Code, with three month notice periods and no compensation for loss of office. Further details on each Director's remuneration, including the dates of their contracts with the Company, are set out in the Remuneration Report on pages 33 to 38.

Board meetings

The Board meets formally at least six times a year, with additional meetings as required. All Board papers are sent out on a timely basis with sufficient information for the Directors to be able to discharge their duties. The Board met formally six times during the period (including a strategy day). All Directors formally attended these meetings with the exception of Steven Esom who was absent from the meeting held on 20 May 2008 due to a prior engagement that could not be changed. The Company Secretary ensures that all Board papers are sent out to non-attending Directors and that, where possible, any comments they have are received beforehand so that they can be expressed at the meeting.

Operation of the Board

The wide range of experience and expertise of the Non-Executive Directors, combined with the skill sets of the Executive Directors, provides vast experience of retailing, mobile and fixed line telecommunications and general business experience, strong personal skills and independence of thought and perspective. The overriding responsibility of the Board is to provide entrepreneurial and responsible leadership to the Group within a framework of prudent and effective controls. These controls allow for the key issues and risks facing the business to be assessed and managed. The Board determines the overall strategic direction for the Group, reviews management performance and ensures that the necessary financial and human resources are in place to enable the Group to meet its objectives. The Board is comfortable that the necessary controls and resources exist within the Group to enable these responsibilities to be met. The Board ensures that the Directors, and in particular the Non-Executive Directors, develop an understanding of the views of major shareholders about the Company. The Company regularly communicates with major shareholders and has a dedicated internal investor relations department. Briefings on market activity, together with the views of shareholders and analysts on the Company, are also regularly provided to the Board.

There is a clear and documented division of responsibilities between the roles of the Chairman and the Chief Executive Officer. There are also documented schedules of matters reserved to the Board and matters delegated to Committees of the Board. Such reserved matters include decisions on strategic and policy issues, the approval of published financial statements and major acquisitions and disposals, authority levels for expenditure, treasury and risk management policies. Strategic and policy issues are reviewed annually at a combined Board and senior executive strategy day.

Performance evaluation

During the period the balance of skills, knowledge and experience of the Directors was reviewed. The Board, and each individual Director, also undertook performance evaluations. Using the Higgs 'Suggestions for Good Practice' as guidance, the individual Directors initially completed separate questionnaires. The results were collated for and analysed by the Chairman, the Senior Independent Director, the Chief Executive Officer and the Board as a whole. The areas covered included the roles of the Executive and Non-Executive Directors, the Board, the Board Committees, the Chairman of the

Company, preparation for and performance at meetings, the effectiveness of each Director, leadership, culture and corporate governance. The results were then considered by the Board as a specific item of business. The Board intends that these exercises or similar ones continue to be carried out each year.

Following such performance evaluation the Chairman confirms that all those Non-Executive Directors seeking re-election at the Annual General Meeting continue to be effective and demonstrate a commitment to the role, including having time to attend all necessary meetings and to carry out other appropriate duties.

The Chairman meets regularly with all the Independent Non-Executive Directors usually in the evening prior to a Board meeting. This provides the opportunity to raise any questions regarding the performance of the Executive Directors or in respect of any other matters.

The Senior Independent Director also met with the Non-Executive Directors, in the absence of the Chairman, to assess the Chairman's effectiveness, having first reviewed the results of a performance evaluation questionnaire completed by all the Directors apart from the Chairman. The Board is of the opinion that the Chairman had no other significant commitments during the period that would have affected his performance in his role.

External appointments

The Board supports Executive Directors taking up Non-Executive Directorships as part of their continued development, and the Board believes that this will ultimately benefit the Company. Further details are provided in the Remuneration Report on pages 33 to 38.

Board Committees

There are five key Board Committees: Audit, Remuneration, Nomination, Insurance Compliance and Consumer Regulation Compliance. The Committees are provided with sufficient resources via the Company Secretary and, where necessary, have direct access to independent professional advisors to undertake their duties.

Audit Committee

The Committee currently comprises the following Independent Non-Executive Directors: David Grigson (Chairman), Sir Brian Pitman, David Mansfield, Steven Esom and Baroness Morgan. David Grigson served as Chairman throughout the year. All of the Committee members have extensive commercial experience. The Committee met formally four times during the year. All members attended each meeting, with the exception of Steven Esom who was absent from the meeting on 20 May 2008 due to a prior engagement that could not be changed.

The Chairman of the Committee updates the Board on any significant issues that may have arisen at the Board meeting following each Committee meeting. During the year, all the requirements of the Code in respect of the Committee were met. The work undertaken by the Committee is described within the following sections of this Report.

The Group's Chief Financial Officer and other senior management attend Committee meetings by invitation of the Committee. Representatives of the Company's external auditors and the other senior executives from Finance, Tax, Treasury, Legal and Risk and Business Assurance also attend these meetings by invitation of the Committee. The external and internal auditors have direct access to the Committee during formal meetings and time is set aside for them to have private discussions with the Committee, in the absence of management.

The Committee's terms of reference, which are available on request from the Company Secretary and are published on the Group's website (www.cpwplc.com), comply with the Code. During the period, the formal calendar of items considered at each Audit Committee meeting within each annual cycle embraced the Code requirements to:

- monitor the integrity of the financial statements of the Company, and any formal announcements relating to the Company's financial performance, including reviewing significant financial reporting judgements contained in them;
- review the Company's internal financial controls and its internal control and risk management systems and to make recommendations to the Board;
- review the Company's arrangements by which employees may raise concerns in confidence;
- monitor and review the effectiveness of the Company's internal audit function;
- make recommendations to the Board in relation to the appointment, re-appointment and removal of external auditors and to approve their remuneration and terms of engagement;
- review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and
- review the Company's policy on the engagement of the external auditors to supply non-audit services. In this context the Committee's remit requires it to report to the Board identifying any matters in respect of which it considers that action or improvement is needed and to make recommendations as to the steps to be taken.

In light of the assessments and review undertaken, the Committee recommended to the Board that Deloitte LLP be retained as auditors of the Company. This recommendation was endorsed by the Board.

The policy relating to the provision of non-audit services by the external auditors specifies the types of work from which the external auditors are excluded; for which the external auditors can be engaged without referral to the Committee; and for which a case-by-case decision is required. In order to safeguard the auditors' objectivity and independence, the ratio of non-audit fees to audit fees is monitored by the Committee within an overall limit set by the Board on the recommendation of the Committee.

A statement of fees paid or accrued for services from the external auditors during the period is set out below:

	2009 £m	2008 £m
Audit services:		
– statutory audit*	**0.9**	1.6
Tax services	**1.1**	0.3
Other services	**0.4**	0.3
Total	**2.4**	2.2

* The Group's share of audit fees for joint ventures and associates was £0.6m in the year.

Certain non-audit services are pre-approved by the Committee depending upon the nature and size of the service. Tax services principally comprise technical advice associated with relevant UK and international fiscal laws and regulations and, in particular, assessment of the potential implications of proposed corporate transactions or restructuring. Having undertaken a review of the non-audit related work, the Committee has satisfied itself that the services undertaken during the period did not prejudice the external auditors' independence.

At each of its meetings the Committee reviewed and considered reports on Risk and Business Assurance on the status of the Group's risk management systems, findings from the internal audit function concerning internal controls, and reports on the status of any weaknesses in internal controls identified by the internal or external auditors.

Remuneration Committee

The Committee currently comprises the following independent Non-Executive Directors: Sir Brian Pitman (Chairman), David Mansfield, Steven Esom, Baroness Morgan and David Grigson.

The Committee met formally four times during the period and each member attended every meeting. Adrian Martin attended one meeting before standing down. Other Directors, the Company Secretary, the Group Director of Human Resources, and advisors attended by invitation only. A detailed description of the Committee's remit and work during the period is contained in the Remuneration Report on pages 33 to 38.

Its terms of reference comply with the Code, are available on request from the Company Secretary and are published on the Company's website. The Chairman of the Committee updates the Board following each Committee meeting.

Nomination Committee

During the period the Committee comprised the following Non-Executive Directors: Sir Brian Pitman (Chairman), John Gildersleeve and Baroness Morgan. The Committee meets as and when required to discuss succession planning and consideration of appropriate appointments to the Board. The Committee met once during the year and each member attended the meeting.

The Committee's terms of reference comply with the Code and are available from the Company Secretary on request and are published on the Group's website (www.cpwplc.com). The Committee is responsible for succession planning at Board level, overseeing the selection and appointment of Directors, regularly reviewing the structure, size and composition of the Board and making its recommendations to the Board. It assists in evaluating the commitments of individual Directors and the balance of skills, knowledge and experience on the Board.

Insurance Compliance Committee

The Committee is chaired by Baroness Morgan and is attended by senior executives. The role of the Committee is to review the Group's compliance with regulatory matters concerning the sale of insurance products to customers and to provide the Non-Executive Directors, through Baroness Morgan, with visibility of compliance issues. The Committee met formally four times during the period. The Chairman of the Committee also updates the Board following each Committee meeting.

Consumer Regulation Compliance Committee

The Committee is chaired by David Mansfield and is attended by senior executives. The role of the Committee is to review the Group's compliance with fixed line regulatory matters, consumer regulation across the fixed and mobile businesses including Trading Standards, Data Protection and Advertising Standards, and to provide the Non-Executive Directors, through David Mansfield, with visibility of these compliance issues. The Committee met formally three times during the period. The Chairman of the Committee also updates the Board following each Committee meeting.

Risk management and internal control

The Company has established a risk management programme that assists management throughout the Company to identify, assess and mitigate business, financial, operational and compliance risks. The Board views management of risk as integral to good business practice. The programme is designed to support management's decision making and to improve the reliability of business performance.

The risk management programme is supported by a dedicated team of risk specialists, including internal auditors, who comprise the Group Risk and Business Assurance function. To ensure that all parts of the Group have a good understanding of risk, members of this team have conducted risk workshops and reviews within each of the main operating divisions in the past year, culminating in an assessment of key business risks by the Executive Directors and senior management. These risk assessments have been wide-ranging, covering risks arising from the regulatory environment, strategy, counter-parties and organisational change associated both with major projects and with acquisitions. The risk management process operates throughout the Group, being applied equally to the main business divisions and corporate functions.

The output from each annual assessment is a list of key strategic, financial, operational and compliance risks. Associated action plans and controls to mitigate them are also put in place where this is possible and to the extent considered appropriate by the Board taking account of costs and benefits. Changes in the status of the key risks and changes to the risk matrix are reported regularly to the Audit Committee and at each Board Meeting.

The Directors have overall responsibility for the Group's systems of internal control and for reviewing their effectiveness. The Board delegates to executive management the responsibility for designing, operating and monitoring these systems. The systems are based on a process of identifying, evaluating and managing key risks and include the risk management processes set out above.

The systems of internal control were in place throughout the period and up to the date of approval of the Annual Report and financial statements. The effectiveness of these systems is periodically reviewed by the Audit Committee in accordance with the revised guidance in the Turnbull Report. These systems are also refined as necessary to meet changes in the Group's business and associated risks. The systems of internal control are designed to manage rather than eliminate the risk of failure to achieve business objectives. They can only provide reasonable and not absolute assurance against material errors, losses, fraud or breaches of laws and regulations.

The Board has conducted an annual review of the effectiveness of the systems of risk management and internal control in operation during the year and up to the date of the approval of the Annual Report and financial statements and this was approved by the Audit Committee and the Board.

This is supported by an ongoing process for identifying, evaluating and managing the risks faced by the Group, by the Group Risk and Business Assurance function.

Communication with investors

The Board believes it is important to explain business developments and financial results to the Company's shareholders and to understand any shareholder concerns. The principal communication media used to impart information to shareholders are news releases (including results announcements) and Company publications. In all such communications, care is taken to ensure that no price sensitive information is released.

The Chief Executive Officer and Chief Financial Officer have lead responsibility for investor relations. They are supported by a dedicated investor relations department that, amongst other matters, organises presentations for analysts and institutional investors. There is a full programme of regular dialogue with major institutional shareholders, fund managers, analysts, retail brokers and credit investors, upon which the Chairman ensures that the Board receives regular updates at Board meetings. The Board also receives periodic reports on investors' views of the performance of the Company. All the Non-Executive Directors and, in particular, the Chairman and Senior Independent Director, are available to meet with major shareholders, if such meetings are required.

The Company also communicates with shareholders through the Annual General Meeting, at which the Chairman gives an account of the progress of the business over the last year, and a review of current issues, and provides the opportunity for shareholders to ask questions.

Further financial and business information is available on the Group's website, www.cpwplc.com.

Compliance
This Remuneration Report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 ("Regulations") and the Combined Code on Corporate Governance ("Code"). The constitution and operation of the Remuneration Committee are in compliance with the Code. In framing its remuneration policy the Committee has given full consideration to the matters set out in Schedule A of the Code. As required by the Regulations, a resolution to approve this Report will be proposed at the Annual General Meeting to be held on 23 July 2009 ("AGM"). The Regulations require the Company's auditors to report to the members on the "auditable part" of this Report (marked *) and to state, in their opinion, that this part of the Report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations).

Remuneration Committee
Responsibility for the establishment of overall remuneration policy for the Group lies with the Board of Directors. The Remuneration Committee is responsible for making recommendations to the Board on the remuneration of the Chairman, Executive Directors and senior managers. The terms of reference of the Committee are available on the Group's website (www.cpwplc.com) or on request from the Company Secretary.

The Committee's current composition is Sir Brian Pitman (Chairman), Steven Esom, David Mansfield, Baroness Morgan and David Grigson, all of whom are Independent Non-Executive Directors. None of the members of the Committee has any personal financial interest, other than as shareholders, in the matters to be decided by the Committee, no potential conflicts of interest arising from cross-memberships and no day-to-day involvement in running the Group's business. The members of the Committee met four times during the year to consider matters relating to the remuneration of Executive Directors as well as the terms and conditions of their service with the Company. Adrian Martin attended the first meeting before standing down on 31 July 2008.

Mercer Ltd ("Mercer") act as lead advisors to the Committee. Advice has been sought from Mercer on matters surrounding remuneration policy design and benchmarking for individual Executive Directors and members of senior management and the design of remuneration packages and medium- and long-term incentive plans based on current market trends. Mercer has no other connection with the Group. Deloitte LLP ("Deloitte") provided advice to the Committee on employment tax and the administration of share option and SAYE schemes. Deloitte are the Group's auditors and provide other services to the Group as set out in the Corporate Governance Report on pages 29 to 32. Advice was also provided by PricewaterhouseCoopers LLP in relation to the valuation of share option schemes. The Group Director of Human Resources and the Company Secretary also provided internal advice in respect of matters raised by the Committee. No Director nor any person advising the Committee plays a part in any discussion about his or her own remuneration.

Remuneration Policy
The Committee seeks to ensure that remuneration and incentive schemes are in line with best practice, providing a strong link to individual and business performance and ensuring alignment between employees and shareholders.

Rewards are designed to attract and retain individuals of high quality who have the requisite skills and who are incentivised to achieve levels of performance that exceed those of competitor companies. This requires packages to be market-competitive and capable of rewarding exceptional performance. The approach is to set fixed remuneration at market median levels and to offer variable rewards, linked to the performance of the Group, which can provide significant overall levels of remuneration for exceptional performance and shareholder value creation.

In order to closely align the interests of Executive Directors and shareholders, the Company requires Executive Directors to build up and retain a shareholding in the Company of at least 200% of their annual salary.

Components of Remuneration
The main fixed and performance-related elements of remuneration that can be awarded to Executive Directors are as follows:

- basic salary, benefits and pension contribution (fixed);
- annual performance bonus (variable); and
- share options and performance shares (variable).

Salaries and Benefits
A pay freeze has been introduced for the forthcoming year. As a result Executive Directors will receive no increase to their basic salary this year.

Annual Performance Bonus
Bonuses are governed by performance conditions set by the Remuneration Committee to ensure that maximum variable rewards are paid only for exceptional performance. The bonus scheme for the period ended 31 March 2009 was based on Headline EPS (see notes 11 and 12 to the financial statements) before tax. The target has not been met and accordingly no bonuses will be paid to Executive Directors this year.

The bonus scheme for Executive Directors for the period ending 31 March 2010 will have targets based on improvements in Headline EPS before tax, together with specific business unit targets based on a balanced scorecard approach, with a maximum payment of 200% of annual salary.

The Remuneration Committee is satisfied that this bonus structure will provide an excellent link between reward and improved performance for all stakeholders and the creation of further shareholder value.

Medium-Term Incentive Plan
The Company has introduced a medium-term incentive plan for Executive Directors measured against a 10% to 30% increase in the total market capitalisation of the Company between June 2009 and December 2010, with a maximum payment capped at 250% of annual salary. The share price for the start of the plan will be the average closing price of the Company's shares during the 30 day period immediately prior to the announcement of the Company's preliminary results in June 2009. The share price for the end of the plan will be the average closing price of the Company's shares during the 30 day period immediately prior to the announcement of the Company's trading update in January 2011. The Remuneration Committee believes that this plan is directly related to an increase in shareholder value and is for the benefit of all stakeholders. Charles Dunstone will not participate in the plan.

Annual Deferred Bonus Plan
As bonus targets have not been met it has not been necessary to review this scheme.

Share Options
The Company has a share option scheme for Executive Directors and senior managers both in the UK and overseas. No options were granted to Executive Directors in the period ended 31 March 2009. A UK savings-related share option scheme is open to all eligible Group employees including Executive Directors. No Executive Directors are currently in this scheme.

Performance Share Plan
Awards of Performance Shares pursuant to the Performance Share Plan approved at the Annual General Meeting on 28 July 2004 were made to certain individuals in the period ended 1 April 2006. These awards were subject to a mixture of Headline EPS and Total Shareholder Return ("TSR") performance targets measured over a three or four year performance period. In December 2006 the Remuneration Committee awarded a further grant under the Performance Share Plan. This award is subject to TSR performance targets measured against an initial performance period to 4 June 2010 and a subsequent performance period to 4 June 2011. The TSR calculation is independently calculated for the Remuneration Committee by Mercer. Details of the grants to Executive Directors and the performance targets are set out in the share tables later in the Report.

No awards were made to Executive Directors during the year ended 31 March 2009.

Value Enhancement Scheme
It will be proposed at the AGM that the Company introduce two separate Value Enhancement Schemes. One is a long-term incentive scheme for Executive Directors and senior executives of the Company. Under the scheme employees will initially receive shares in the Company's two main businesses, being the TalkTalk Group businesses and the Best Buy Europe businesses, that will only vest and convert into shares of the Company if certain performance targets have been achieved. Further details of the scheme are contained in the Notice of the AGM accompanying this Report. Major institutional shareholders and the Association of British Insurers have been consulted about the proposed scheme. A similar long-term incentive scheme for senior executives of the TalkTalk Group businesses will also be proposed and further details of this scheme are also contained in the Notice of the AGM. It is the intention that relevant employees will not be granted awards under both schemes in any one year. Charles Dunstone will not participate in this scheme.

Aggregate Remuneration*
The total amounts of Directors' remuneration and other benefits (excluding pension contributions) were as follows:

Director	Basic salary/fees £000	Taxable benefits(i) £000	Annual bonuses £000	**2009 Total £000**	2008 Total £000
Executive					
J Dale	–	–	–	**–**	79
C Dunstone	588	–	–	**588**	1,117
D Goldie(ii)	96	5	–	**101**	748
A Harrison(ii)	79	4	–	**83**	603
R Taylor	388	14	–	**402**	1,064
Non-Executive					
S Esom	51	–	–	**51**	50
J Gildersleeve	400	–	–	**400**	317
D Mansfield	56	–	–	**56**	55
A Martin(ii)	3	–	–	**3**	67
Baroness Morgan	59	–	–	**59**	56
Sir B Pitman	70	–	–	**70**	67
D Ross(ii)	113	6	–	**119**	159
D Grigson	62	–	–	**62**	46
Aggregate emoluments	**1,965**	**29**	**–**	**1,994**	4,428

(i) Taxable benefits consist of a car allowance, fuel and private medical cover.

(ii) Up until the date of resignation from the Board.

Pension Contributions*

The schedule below sets out payments by the Group to defined contribution pension schemes on behalf of Executive Directors. Roger Taylor has a Self Invested Pension Plan. Under both schemes, a fixed proportion of salary is paid by the Company together with a fixed proportion by the Executive Director and both amounts are invested on behalf of the Executive Director. Pension benefits are then funded by the total investment. Levels are reviewed annually against published market data. None of the Directors was a member of a defined benefit pension scheme during the period. Pension entitlements are based on basic salary only.

Director	2009 £000	2008 £000
J Dale	–	4
D Goldie(i)	22	55
A Harrison(i)	4	11
R Taylor	19	18
Total	**45**	**88**

(i) Up until date of resignation from the Board.

Share Options*

Details of Directors' interests in options to buy shares in the Company are as follows:

Director	At 30 March 2008	Exercised during the year	Lapsed during the year	At 31 March 2009	Exercise price per share £	Exercisable from	Expiry date
R Taylor(i)	350,000	–	–	350,000	1.00	14/07/2000	01/02/2010
	200,000	–	–	200,000	1.50	19/05/2002	19/05/2010
	200,000	–	–	200,000	2.00	19/05/2002	19/05/2010
	240,000	–	–	240,000	1.25	21/05/2004	21/05/2011
	500,000	–	–	500,000	0.83	11/06/2005	11/06/2012
	444,444	–	–	444,444	0.90	06/06/2006	06/06/2013
	1,934,444	**–**	**–**	**1,934,444**			

(i) Executive Directors may only exercise share options (and Performance Shares – see below) provided they remain in employment and hold a minimum of 200% of salary in shares or unexercised vested share options up until the date of exercise.

(ii) The market price per share was 125.5p as at 31 March 2009. The market price during the year ranged between 85.0p and 299.2p.

Performance Shares*

Details of Executive Directors' conditional right to receive nil priced options in the Company are shown in the following table:

	At 30 March 2008	Granted during the period	Exercised during the period	Lapsed during the period	At 31 March 2009 or date of resignation	Exercisable from	Expiry date
A Harrison(i)	536,850	–	–	–	536,850	28/07/2007	28/07/2014
	562,500	–	–	–	562,500	28/07/2008	28/07/2015
	310,202	–	–	–	310,202	04/06/2010	04/12/2016
	310,203	–	–	–	310,203	04/06/2011	04/12/2016
	1,719,755	**–**	**–**	**–**	**1,719,755**		
D Goldie(i)	50,625	–	–	–	50,625	28/07/2007	28/07/2014
	675,000	–	–	–	675,000	28/07/2008	28/07/2015
	200,000	–	–	–	200,000	28/07/2008	28/07/2015
	379,136	–	–	–	379,136	04/06/2010	04/12/2016
	379,136	–	–	–	379,136	04/06/2011	04/12/2016
	1,683,897	**–**	**–**	**–**	**1,683,897**		
R Taylor	675,000	–	–	–	675,000	28/07/2007	28/07/2014
	675,000	–	–	–	675,000	28/07/2008	28/07/2015
	482,537	–	–	–	482,537	04/06/2010	04/12/2016
	482,538	–	–	–	482,538	04/06/2011	04/12/2016
	2,315,075	**–**	**–**	**–**	**2,315,075**		

(i) Up until date of resignation from the Board.

For awards made in July 2004 the performance conditions set out in previous annual reports have been satisfied.

For awards made in December 2006 the performance conditions are:

(i) The vesting criteria for 50% of the award is Group TSR performance relative to the constituents of the FTSE 100 index ("relative performance") measured at June 2010. The vesting criteria for the remaining 50% of the award is Group TSR performance compared to the position at December 2006 ("absolute performance") measured at June 2010 and June 2011.

(ii) Subject to these performance criteria, shares vest in two equal tranches in June 2010 and June 2011.

(iii) Specific targets for the awards are as follows:

	TSR relative performance	% of potential award vesting	TSR absolute performance increases	% of potential award vesting
Base Award	Below Median	0%	Less than 10% per annum	0%
	Median or above	100%	10% per annum	100%
Stretch Award	Between Median and Upper Quartile	0% to 50% (pro rata)	Between 10% and 15% per annum	0% to 50% (pro rata)
	Upper Quartile or above	50%	15% per annum	50%
Super Stretch Award	Between Upper Quartile and Upper Decile	0% to 50% (pro rata)	Between 15% and 20% per annum	0% to 50% (pro rata)
	Upper Decile or above	50%	20% per annum	50%

Executive Directors' Service Contracts

All Executive Directors have service contracts which are terminable by the Company or the Executive Director with 12 months' notice or less.

The dates of each contract are set out on page 37 and none specifically provides for compensation for early termination.

External Appointments

The Board supports Executive Directors holding Non-Executive Directorships of other companies and believes that such appointments are part of the continuing development of the Executive Directors from which the Company will ultimately benefit. The Board has reviewed all such appointments and those appointments that the Board believes require disclosure pursuant to the Code are set out below. The Board has also agreed that the Directors may retain their fees from such appointments.

Currently, Charles Dunstone is a Non-Executive Director of The Daily Mail and General Trust PLC and Independent Media Distribution PLC, for which the annual fees are £34,167 and £20,000 respectively. During the period he was a Non-Executive director of HBOS PLC for which he received £7,167. He does not currently intend to take on any additional responsibilities. David Goldie was a Non-Executive Director of the Cheshire Building Society during the period, for which he received £10,358.

Fees for Non-Executive Directors

The fees for each of the Non-Executive Directors are determined by the Board after considering external market research. Non-Executive Directors, other than John Gildersleeve, receive a basic fee of £43,000 plus additional fees of £15,000 for Chairing the Audit Committee and £10,000 for Chairing the Remuneration Committee. A fee of £4,000 is paid for membership of the Audit Committee, £4,000 for membership of the Remuneration Committee and £2,500 for membership of the Nomination Committee. The Senior Independent Director receives an additional fee of £7,500. A fee of £5,000 is paid for chairing each of the Nomination Committee, the Consumer Regulation Compliance Committee and the Insurance Compliance Committee.

The Non-Executive Directors do not take part in discussions on their remuneration. Each of the Non-Executive Directors has a letter of appointment substantially in the form suggested by the Code and each has a three-month notice period with no compensation for loss of office. The Company has no age limit for Directors.

The dates of each contract are set out below.

Directors' Interests in Shares and Dates of Service Contracts

	Ordinary shares of 0.1p		
Director	**31 March 2009**	29 March 2008	Date of contract
C Dunstone	**296,644,535**	297,577,535	26 June 2000
S Esom	**3,500**	3,500	29 September 2005
J Gildersleeve	**246,000**	384,026	14 April 2005
D Grigson	**10,000**	–	24 April 2007
D Mansfield	**500**	500	29 September 2005
Baroness Morgan	**1,982**	1,982	1 November 2005
Sir B Pitman	**22,882**	22,882	26 May 2005
R Taylor	**867,766**	867,766	2 March 2000

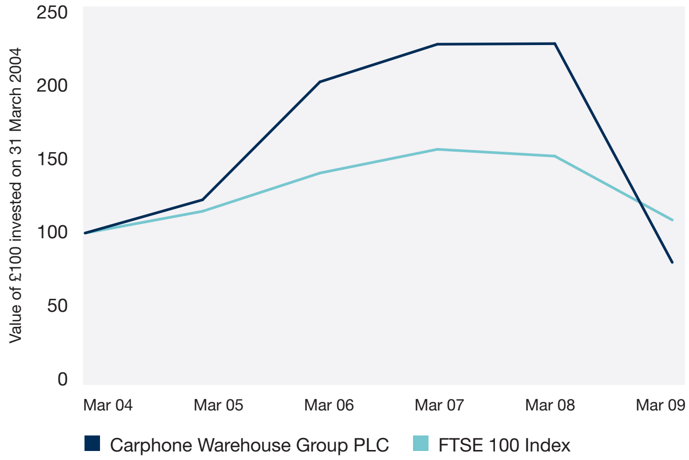
Performance graphs

Graph 1 shows the Group's performance compared to the TSR performance of the FTSE 100 Index over the last five financial years. A three month rolling average has been applied.

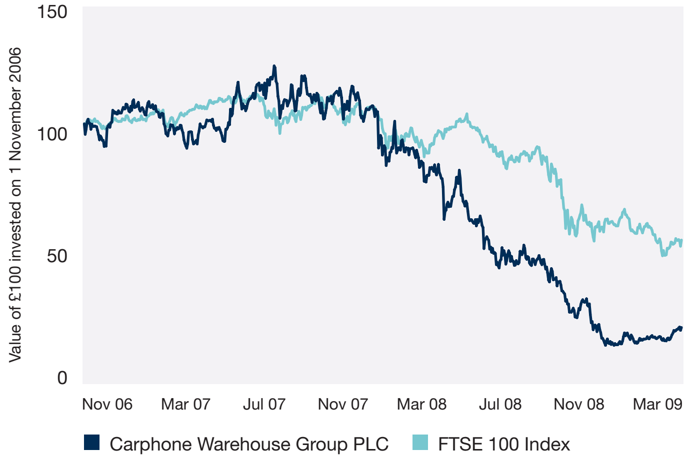
The FTSE 100 was selected as it is a broad market index, which the Group uses as a comparator for determining whether or not Performance Shares vest.

Graph 2 shows similar information to Graph 1 but measured from 1 November 2006, with TSR measured on a daily basis against the FTSE 100. This graph is provided as it reflects the TSR performance condition for the 2006 and 2007 award of Performance Shares.

Graph 1: Group TSR performance compared to the FTSE 100 Index over a 5 year period



Graph 2: Group TSR performance compared to the FTSE 100 Index



This report was approved by the Board on 4 June 2009.

Sir Brian Pitman
Chairman, Remuneration Committee

Employment of disabled people

It is the Group's policy to encourage application for employment from disabled people and to assist with their training and career development, having regard to particular aptitudes and abilities. Every endeavour is made to find suitable alternative employment and to re-train any employee who becomes disabled while serving the Group.

Employee involvement

The Group places significant emphasis on its employees' involvement in the business at all levels. Managers are remunerated according to results wherever possible and all employees are kept informed of issues affecting the Group through formal and informal meetings and through the Group's internal publications. Members of the management team regularly visit all Group locations and discuss matters of current interest and concern with employees.

Supplier payment policy

The Group's policy is to agree terms of transactions, including payment terms, with suppliers and, provided that suppliers perform in accordance with the agreed terms, it is the Group's normal practice that payment is made accordingly. Details of the average credit period taken on trade payables are provided in note 20 to the financial statements.

Donations

The Group made charitable donations of £217,000 during the year (2008: £220,000). No political donations were made during either year.

Contracts with controlling shareholders

There are no material contracts with controlling shareholders, except as disclosed in the Remuneration Report on pages 33 to 38.

Share capital

Details of the movements in authorised and issued share capital during the year are provided in notes 24 and 25 to the financial statements.

Property, plant and equipment

Movements in property, plant and equipment are set out in note 14 to the financial statements. In the opinion of the Directors the current open market value of the Group's interests in freehold land and buildings exceeds the book value by £7m at 31 March 2009 (2008: £21m). It is expected that any capital gains would either be covered by capital losses or carried forward for relief against capital expenditure.

Significant shareholdings

As at 4 June 2009, the Company had been notified, in accordance with chapter 5 of the Disclosure and Transparency Rules of the UK Financial Services Authority, of the following interests in the Company's shares:

Name	Number of shares	Percentage of share capital
D P J Ross	177,365,759	19.41%
Jupiter Asset Management	29,570,218	3.24%

The total interests of the Directors are detailed in the Directors' Remuneration Report on pages 33 to 38.

Going concern

On the basis of current financial projections and facilities available, the Directors are satisfied that the Group has adequate resources to continue in operation for the foreseeable future and consequently the financial statements continue to be prepared on the going concern basis.

Auditors

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board

The Carphone Warehouse Group PLC
1 Portal Way
London W3 6RS

T S Morris
Company Secretary
4 June 2009

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial period. The Directors are required by the International Accounting Standard ("IAS") Regulation to prepare the Group financial statements under International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU"). The financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

IAS 1 'Presentation of Financial Statements' requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Each of the persons who is a Director at the date of approval of this Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Group's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

The Directors have elected to prepare the individual company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The individual Company financial statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985 and the effective provisions of the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the corporate website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm to the best of our knowledge:

- the Group financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Business Review, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

C W Dunstone
Chief Executive Officer

R W Taylor
Chief Financial Officer

Independent Auditors' Report to the members of The Carphone Warehouse Group PLC

We have audited the Group financial statements of The Carphone Warehouse Group PLC for the year ended 31 March 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, and the related notes 1 to 33. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the individual Company financial statements of The Carphone Warehouse Group PLC for the year ended 31 March 2009.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view, whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the Directors' Remuneration Report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2009 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the part of the Directors' Remuneration Report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Group financial statements.

Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
4 June 2009

For the year ended 31 March 2009

	Notes	Before amortisation of acquisition intangibles and exceptional items 2009 £m	Amortisation of acquisition intangibles and exceptional items* 2009 £m	After amortisation of acquisition intangibles and exceptional items 2009 £m	Restated** Before amortisation of acquisition intangibles and exceptional items 2008 £m	Restated** Amortisation of acquisition intangibles and exceptional items* 2008 £m	Restated** After amortisation of acquisition intangibles 2008 £m
Continuing operations							
Revenue	2	**1,385**	**–**	**1,385**	1,424	–	1,424
Cost of sales		**(658)**	**–**	**(658)**	(792)	–	(792)
Gross profit		**727**	**–**	**727**	632	–	632
Operating expenses excluding amortisation and depreciation	3,4	**(556)**	**(31)**	**(587)**	(530)	(15)	(545)
EBITDA	2	**171**	**(31)**	**140**	102	(15)	87
Depreciation	2,3	**(41)**	**–**	**(41)**	(34)	–	(34)
Amortisation	2,3	**(16)**	**(71)**	**(87)**	(13)	(75)	(88)
Share of results of joint ventures and associates	2,4,16	**23**	**(18)**	**5**	(6)	–	(6)
Profit (loss) before interest and taxation	3	**137**	**(120)**	**17**	49	(90)	(41)
Interest expense	4,8	**(30)**	**(85)**	**(115)**	(51)	–	(51)
Interest income	8	**26**	**–**	**26**	6	–	6
Profit (loss) before taxation		**133**	**(205)**	**(72)**	4	(90)	(86)
Taxation	4,9	**(19)**	**50**	**31**	(5)	27	22
Net profit (loss) for the year from continuing operations		**114**	**(155)**	**(41)**	(1)	(63)	(64)
Net (loss) profit for the year from discontinued operations	2,4	**(2)**	**593**	**591**	138	(1)	137
Net profit for the year		**112**	**438**	**550**	137	(64)	73
Earnings per share							
Basic							
Continuing operations	12	**12.8p**		**(4.6)p**	(0.1)p		(7.1)p
Discontinued operations	12	**(0.2)p**		**66.2p**	15.3p		15.2p
Total	12	**12.6p**		**61.6p**	15.2p		8.1p
Diluted							
Continuing operations	12	**12.5p**		**(4.5)p**	(0.1)p		(6.8)p
Discontinued operations	12	**(0.2)p**		**64.8p**	14.7p		14.6p
Total	12	**12.3p**		**60.3p**	14.6p		7.8p

* A reconciliation of Headline information to statutory information is provided in note 11 to the financial statements.

** Prior year information has been restated to reclassify the results of discontinued operations (see note 5) and to reflect a change in the Group's accounting policy for subscriber acquisition costs (see note 1c). A reconciliation of restated results to the financial statements previously published is provided in note 33.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2009

	Notes	2009 £m	Restated 2008 £m
At the beginning of the year as previously reported		**735**	690
Change in accounting policy (see note 1c)		**(84)**	(35)
At the beginning of the year as restated		**651**	655
Net profit for the year		**550**	73
Currency translation and cash flow hedges	25	**25**	(68)
Net transfer to profit on disposal from equity of cumulative translation differences for discontinued activities	25	**(10)**	–
Net transfer to profit on disposal from equity of gains on available-for-sale assets for discontinued activities	25	**(2)**	–
Tax on items recognised directly in reserves	9,25	**(16)**	7
Net change in available-for-sale investments	25	**1**	(8)
Total recognised income and expense for the year		**548**	4
Issue of share capital	25	**–**	49
Net purchase of own shares	25	**(51)**	(35)
Net cost of share-based payments	7,25	**6**	9
Equity dividends	10,25	**(38)**	(31)
At the end of the year		**1,116**	651

The accompanying notes are an integral part of this consolidated statement of changes in equity.

Consolidated Balance Sheet

As at 31 March 2009

	Notes	31 March 2009 £m	Restated 29 March 2008 £m
Non-current assets			
Goodwill	13	**304**	677
Other intangible assets	13	**290**	451
Property, plant and equipment	14	**285**	448
Non-current asset investments	15	**1**	5
Interests in joint ventures and associates	16	**470**	12
Loans to joint ventures	16	**293**	–
Deferred tax assets	9	**108**	96
		1,751	1,689
Current assets			
Stock	17	**1**	212
Trade and other receivables	18	**140**	813
Current asset investments	19	**–**	2
Cash and cash equivalents	21	**6**	88
		147	1,115
Total assets		**1,898**	2,804
Current liabilities			
Trade and other payables	20	**(267)**	(1,087)
Corporation tax liabilities		**(33)**	(42)
Loans and other borrowings	21	**(33)**	(39)
Provisions	23	**(24)**	(90)
		(357)	(1,258)
Non-current liabilities			
Trade and other payables	20	**–**	(1)
Loans and other borrowings	21	**(425)**	(894)
		(425)	(895)
Total liabilities		**(782)**	(2,153)
Net assets		**1,116**	651
Equity			
Share capital	24,25	**1**	1
Share premium reserve	25	**476**	476
Translation reserve	25	**(51)**	(66)
Accumulated profits	25	**690**	240
Funds attributable to equity shareholders		**1,116**	651

The accompanying notes are an integral part of this consolidated balance sheet.

The financial statements on pages 42 to 85 were approved by the Board on 4 June 2009 and signed on its behalf by:

C W Dunstone
Chief Executive Officer

R W Taylor
Chief Financial Officer

Consolidated Cash Flow Statement

For the year ended 31 March 2009

	Notes	2009 £m	Restated 2008 £m
Operating activities			
Profit (loss) before interest and taxation		**17**	(41)
Adjustments for non-cash items:			
Share-based payments	7	**6**	9
Non-cash movements on joint ventures and associates		**(5)**	6
Depreciation		**41**	34
Amortisation		**87**	88
Impairment of non-current asset investments		**5**	–
Loss on disposal of property, plant and equipment		**–**	1
Operating cash flows before movements in working capital		**151**	97
Decrease in trade and other receivables		**4**	16
Increase in stock		**–**	(1)
Decrease in trade and other payables		**(44)**	–
Increase (decrease) in provisions		**11**	(4)
Cash flows from operating activities – continuing		**122**	108
Cash flows from operating activities – discontinued		**(153)**	202
Cash flows from operating activities		**(31)**	310
Investing activities			
Interest received		**26**	6
Disposal of subsidiaries, net of cash disposed	4	**937**	–
Acquisition of subsidiaries, net of cash acquired	15	**(76)**	(68)
Acquisition of intangible assets		**(47)**	(54)
Acquisition of property, plant and equipment		**(59)**	(126)
Acquisition of non-current asset investments		**(1)**	–
Investment in joint ventures and associates		**(47)**	(7)
Cash flows from investing activities – continuing		**733**	(249)
Cash flows from investing activities – discontinued		**(25)**	(68)
Cash flows from investing activities		**708**	(317)
Financing activities			
Proceeds from the issue of share capital		**–**	49
Net purchase of own shares		**(51)**	(35)
(Decrease) increase in borrowings	26	**(621)**	38
Financing provided to Best Buy Europe		**(28)**	–
Interest paid		**(30)**	(51)
Dividends paid	10	**(38)**	(31)
Cash flows from financing activities – continuing		**(768)**	(30)
Cash flows from financing activities – discontinued		**(3)**	6
Cash flows from financing activities		**(771)**	(24)
Net decrease in cash and cash equivalents		**(94)**	(31)
Cash and cash equivalents at the start of the year		**68**	99
Effect of exchange rate fluctuations		**(1)**	–
Cash and cash equivalents at the end of the year	26	**(27)**	68
Cash and cash equivalents for the purposes of this statement comprise:			
Cash and cash equivalents	21	**6**	88
Bank overdrafts	21	**(33)**	(20)
		(27)	68

1 Accounting policies

a) Basis of preparation

The Carphone Warehouse Group PLC ("the Company") is incorporated in the United Kingdom.

The consolidated financial statements of the Company and its subsidiaries ("the Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use in the European Union and as applied in accordance with the provisions of the Companies Act 1985 and the effective provisions of the Companies Act 2006. These financial statements therefore comply with Article 4 of the European Union International Accounting Standard regulation. The Company continues to apply United Kingdom GAAP in the preparation of its individual financial statements, which are contained on pages 88 to 92.

The financial statements have been prepared on the going concern basis. Details of the considerations undertaken by the Directors in reaching this conclusion are set out on page 22 within the Business Review.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and investments. The financial statements are presented in Sterling, rounded to the nearest million. The Group's principal accounting policies are set out below.

b) Basis of consolidation

The financial statements reflect the Group's results for the period from 30 March 2008 to 31 March 2009 ("the year"). Comparative information is provided for the 52 week period ended 29 March 2008. In prior periods, the Group reported using a weekly financial ("retail") calendar under which the financial statements were drawn up to the closest Saturday to 31 March. Following the part-disposal of the Group's retail and distribution business on 30 June 2008 the Group elected to move to a fixed period end of 31 March, which is better suited to the operating cycles of the Group's telecoms business, TalkTalk Group. From 30 June 2008 the retail and distribution business is reported as a joint venture. This business continues to report to a retail calendar and its results are drawn up to 4 April 2009.

The results of subsidiaries and joint ventures and associates acquired or sold during the year are included from or to the date on which control or significant influence passed. Intercompany transactions and balances between subsidiaries are eliminated on consolidation.

Where necessary, adjustments are made to the financial statements of subsidiaries, joint ventures and associates to bring accounting policies used into line with those used by the Group.

c) Change in accounting policy – subscriber acquisition costs

Subscriber acquisition costs comprise the direct third-party costs of recruiting and retaining customers, net of incentives from network operators and provision for in-contract churn.

In prior years these costs were capitalised as an intangible asset, to the extent that they were supported by expected future cash inflows, and amortised on a straight-line basis through amortisation expense in the income statement over the minimum subscription period. The Group has changed its policy to expense these costs in operating expenses as the costs are incurred. Having undertaken a comprehensive review of the accounting policies of other businesses operating in the telecommunications sector, the Directors believe that the change in policy will provide greater comparability with such businesses and will therefore provide reliable and more relevant information to shareholders and other users of the financial statements.

In accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' comparative information has been restated to reflect this change in policy, as detailed in note 33.

d) Foreign currency translation

Material transactions in foreign currencies are hedged using forward purchases or sales of the relevant currencies and are recognised in the financial statements at the exchange rates thus obtained. Unhedged transactions are recorded at the exchange rate on the date of the transaction. Material monetary assets and liabilities denominated in foreign currencies are hedged, mainly using forward foreign exchange contracts to create matching liabilities and assets, and are retranslated at each balance sheet date. Hedge accounting as defined by IAS 39 'Financial Instruments: Recognition and Measurement' has been applied in the current period by marking to market the relevant financial instruments at the balance sheet date and recognising the gain or loss in reserves in respect of cash flow hedges, and through the income statement in respect of fair value hedges.

Financial instruments are also used for the purposes of net investment hedging. Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges in that the gain or loss on the effective portion of the hedges is recognised in equity, while any gains or losses on any ineffective portion is recognised immediately in the income statement.

The results of overseas operations are translated at the average foreign exchange rates for the period, and their balance sheets are translated at the rates prevailing at the balance sheet date. Goodwill is held in the currency of the operations to which it relates. Exchange differences arising on the translation of opening net assets, goodwill and results of overseas operations are recognised in the translation reserve. All other exchange differences are included in the income statement.

The principal exchange rates against Sterling used in these financial statements are as follows:

	Average		Closing	
	2009	2008	**2009**	2008
Euro	**1.21**	1.41	**1.08**	1.26
South African Rand	**14.89**	14.35	**13.63**	16.08
Swedish Krona	**12.08**	13.19	**11.85**	11.85
Swiss Franc	**1.89**	2.32	**1.63**	1.99
United States Dollar	**1.73**	2.01	**1.43**	1.99

Where a foreign operation is sold, the gain or loss on disposal recognised in the income statement is determined after taking into account the cumulative currency translation differences that are attributable to the operation.

e) Revenue and supplier bonuses

Revenue is stated net of VAT and other sales-related taxes.

The following accounting policies are applied to the Group's revenue streams:

- Revenue generated from the provision of fixed and mobile network services is recognised as it is earned over the lives of the relevant customers.
- Revenue arising on the sale of mobile and other products and services is recognised when the relevant products or services are provided.
- Commission receivable on sales, being commission which is contractually committed, and for which there are no ongoing performance criteria, is recognised when the sales to which the commission relates are made, net of any provision for promotional offers and network operator performance penalties. Commission includes the Group's share of customer airtime spend, to the extent that it can be reliably measured and there are no ongoing service obligations.
- Other ongoing revenue, including customer retention and customer spend bonuses, is recognised as it is earned over the lives of the relevant customers.
- Volume bonuses receivable from network operators are recognised when the conditions on which they are earned have been met.
- Volume bonuses received from suppliers of products are recognised as an offset to product cost when the conditions on which they are earned have been met, and are recognised within cost of sales when the products to which the volume bonus relates have been sold.
- Insurance premiums are typically paid monthly or quarterly in advance. Initial administration fees, which are specified in the contract, are recognised at the point of sale; insurance premium income is recognised over the lives of the relevant policies.
- All other revenue is recognised when the relevant goods or services are provided.

f) Share-based payments

The Group issues equity settled share-based payments to certain employees. Equity settled share-based payments are measured at fair value at the date of grant, and expensed over the vesting period, based on the Group's estimate of the number of shares that will eventually vest.

Fair value is measured by use of a Binomial model for share-based payments with internal performance criteria (such as Earnings Per Share targets) and a Monte Carlo model for those with external performance criteria (such as Total Shareholder Return targets).

For schemes with internal performance criteria, the number of options expected to vest is recalculated at each balance sheet date, based on expectations of performance against target and of leavers prior to vesting. The movement in cumulative expense since the previous balance sheet is recognised in the income statement, with a corresponding entry in reserves.

For schemes with external performance criteria, the number of options expected to vest is adjusted only for expectations of leavers prior to vesting. The movement in cumulative expense since the previous balance sheet is recognised in the income statement, with a corresponding entry in reserves.

If a share-based payment scheme is cancelled, any remaining part of the fair value of the scheme is expensed through the income statement. If a share-based payment scheme is forfeited, no further expense is recognised and any charges previously recognised through the income statement are reversed.

g) Pensions

Contributions to defined contribution schemes are charged to the income statement as they become payable in accordance with the rules of the schemes.

h) Dividends

Dividend income is recognised when payment has been received. Final dividend distributions are recognised as a liability in the financial statements in the period in which they are approved by the Group's shareholders. Interim dividends are recognised in the year in which they are paid.

i) Leases

Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Lease incentives and rent-free periods are amortised through the income statement over the period of the lease.

Gains or losses from sale and leaseback transactions are deferred over the life of the new lease to the extent that the rentals are considered to be above or below market rentals. The remaining gain or loss is recognised within operating expenses in the period in which the sale is completed.

j) Taxation

Current tax, including UK corporation tax and overseas tax, is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base.

Deferred tax liabilities represent tax payable in future periods in respect of taxable temporary differences. Deferred tax assets represent tax recoverable in future periods in respect of deductible temporary differences, and the carry-forward of unused tax losses and credits. Deferred tax is determined using the tax rates that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax is provided on the unremitted earnings of overseas subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

1 Accounting policies – continued

j) Taxation – continued

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Current and deferred tax is recognised in the income statement except where it relates to an item recognised directly in reserves, in which case it is recognised directly in reserves.

Deferred tax assets and liabilities are offset where there is a legal right to do so in the relevant jurisdictions.

k) Intangible assets

Goodwill:

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is recognised initially as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. At the acquisition date, goodwill is allocated to each of the cash-generating units ("CGUs") expected to benefit from the combination and held in the currency of the operations to which the goodwill relates. Goodwill is reviewed at least annually for impairment, or more frequently where there is an indication that goodwill may be impaired. Impairment is determined by assessing the future cash flows of the CGUs to which the goodwill relates. Where the future cash flows are less than the carrying value of goodwill, an impairment charge is recognised in the income statement.

On disposal of a subsidiary undertaking, the relevant goodwill is included in the calculation of the profit or loss on disposal.

Software and licences:

Software and licences includes internal infrastructure and design costs incurred in the development of software for internal use. Internally generated software is recognised as an intangible asset only if it can be separately identified, it is probable that the asset will generate future economic benefits, and the development cost can be measured reliably. Where these conditions are not met, development expenditure is recognised as an expense in the period in which it is incurred. Software and licences are amortised on a straight-line basis over their estimated useful economic lives of up to 8 years.

Key money:

Key money paid to enter a property is stated at cost, net of amortisation and any provision for impairment. Amortisation is provided on key money at rates calculated to write off the cost, less estimated residual value, on a straight-line basis over 10 years or the lease term if less.

Acquisition intangibles:

Acquired intangible assets ("acquisition intangibles") such as customer bases, customer revenue share agreements, brands and other intangible assets acquired through a business combination are capitalised separately from goodwill and amortised over their expected useful lives of up to 6 years on a straight-line basis. The value attributed to such assets is based on the future economic benefit that is expected to be derived from them, calculated as the present value of future cash flows after a deduction for contributory assets.

l) Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life from the date it is brought into use, as follows:

Freehold buildings	2-4% per annum
Short leasehold costs	10% or the lease term if less
Network equipment and Computer hardware	12.5-50% per annum
Fixtures and fittings	20-25% per annum
Motor vehicles	25% per annum

m) Recoverable amount of non-current assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down through an accelerated amortisation charge to its recoverable amount. The recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets or groups of assets.

n) Investments

Investments, other than subsidiaries and joint ventures and associates, are initially recognised at cost, being the fair value of the consideration given plus any transaction costs associated with the acquisition.

Investments are categorised as available-for-sale and are then recorded at fair value. Changes in fair value, together with any related taxation, are taken directly to reserves, and recycled to the income statement when the investment is sold or determined to be impaired.

o) Interests in joint ventures and associates

Interests in joint ventures and associates are accounted for using the equity method. The consolidated income statement includes the Group's share of the post-tax profits or losses of the joint ventures and associates based on their financial statements for the year. In the consolidated balance sheet, the Group's interests in joint ventures and associates are shown as a non-current asset in the balance sheet, representing the Group's investment in the share capital of the joint ventures and associates, as adjusted by post-acquisition changes in the Group's share of the net assets or liabilities less provision for any impairment. Any associated goodwill is included within the carrying value of the investment and is assessed for impairment as part of that investment.

Where a joint venture has net liabilities, any loans advanced to the venture are included in the Group's equity-accounted investment in it. Where a venture has net assets, any loans advanced to it are shown separately in the balance sheet, as a receivable to the Group.

p) Stock

Stock is stated at the lower of cost and net realisable value. Cost, net of discounts and volume bonuses from product suppliers (see note 1e), includes all direct costs incurred in bringing stock to its present location and condition and represents finished goods and goods for resale. Net realisable value is based on estimated selling price, less further costs expected to be incurred to disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

q) Cash and cash equivalents

Cash and cash equivalents represent cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash.

r) Loans and other borrowings

Loans and other borrowings represent committed and uncommitted bank loans, and bank overdrafts.

Bank fees and legal costs associated with the securing of external financing are capitalised and amortised over the term of the relevant facility. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

s) Provisions

Provisions are recognised when the Group has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are discounted where the time value of money is considered to be material.

Provisions are categorised as follows:

Insurance:

Full provision is made for the estimated cost of all claims notified but not settled at the balance sheet date. Provision is also made for the estimated cost of claims incurred but not reported at the balance sheet date, based on historic experience of the value of such claims. Any differences between original claims provisions and subsequent settlements are reflected in the income statement in the relevant period.

Reorganisation:

Reorganisation provisions relate principally to redundancy costs and are only recognised where plans are demonstrably committed and where appropriate communication to those affected has been undertaken at the balance sheet date. Provisions are not recognised in respect of future operating losses.

Sales:

Sales provisions relate to “cash-back” and similar promotions, product warranties, product returns, and network operator performance penalties. The anticipated costs of these items are assessed by reference to historic trends and any other information that is considered to be relevant.

Other:

Other provisions relate to dilapidations and similar property costs, and all other provisions, principally being the anticipated costs of unresolved tax issues and legal disputes, and costs associated with onerous contracts. All such provisions are assessed by reference to the best available information at the balance sheet date.

t) Headline results

Headline results are stated before the amortisation of acquisition intangibles and goodwill expense. Headline results also exclude any exceptional items that are considered to be one-off and so material that they require separate disclosure to avoid distortion of underlying performance.

u) Discontinued operations

Further to the sale of 50% of the Group’s retail and distribution business on 30 June 2008, the income statement and cash flow statement for the year ended 29 March 2008 have been restated to reclassify profits and losses and cash flows associated with this business as discontinued operations. A reconciliation of restated results to the financial statements previously published is provided in note 33.

v) Use of critical accounting estimates and assumptions

Estimates and assumptions used in the preparation of the financial statements are continually reviewed and revised as necessary. Whilst every effort is made to ensure that such estimates and assumptions are reasonable, by their nature they are uncertain, and as such changes in estimates and assumptions may have a material impact in the financial statements.

The principal balances in the financial statements where changes in estimates and assumptions may have a material impact are as follows:

Recoverable amount of non-current assets:

All non-current assets, including goodwill and other intangible assets, are reviewed for potential impairment using estimates of the future economic benefits attributable to them. In the case of customer bases, such estimates involve assumptions in relation to future customer margins and average customer lives. Any estimates of future economic benefits made in relation to non-current assets may differ from the benefits that ultimately arise, and materially affect the recoverable value of the asset.

Trade and other receivables:

Provisions for irrecoverable receivables are based on extensive historical evidence, and the best available information in relation to specific issues, but are unavoidably dependent on future events.

Commission receivable within Best Buy Europe depends for certain transactions on customer behaviour after the point of sale. Assumptions are therefore required, particularly in relation to levels of customer default within the contract period, and minimum levels of customer spend. Such assumptions are based on extensive historical evidence, and provision is made for the risk of potential changes in customer behaviour, but they are nevertheless inherently uncertain.

Current taxation:

The complex nature of tax legislation across the tax jurisdictions in which the Group operates necessitates the use of many estimates and assumptions, where the outcome may differ from that assumed.

Deferred taxation:

The extent to which tax losses can be utilised depends on the extent to which taxable profits are generated in the relevant jurisdictions in the foreseeable future, and on the tax legislation then in force, and as such the value of associated deferred tax assets is uncertain.

Provisions:

The Group’s reorganisation provisions are based on the best information available to management at the balance sheet date. However, the future costs assumed are inevitably only estimates, which may differ from those ultimately incurred.

1 Accounting policies – continued

v) Use of critical accounting estimates and assumptions – continued

Sales provisions are based on historical patterns: of redemption for promotions, product return rates for returns and warranties, and penalty rates from network operators. The Group has extensive data in all areas; however, if the historical patterns on which the provisions are based change significantly in the future, the financial statements may be materially impacted.

w) Recent accounting developments

The only standard or interpretation which has become effective during the year ended 31 March 2009 is as follows:

- IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions' states that when an entity buys its own instruments to settle a share-based payment obligation it should be accounted for as an equity-settled award.

At the date of authorisation of these financial statements, the following standards, amendments and interpretations (none of which is expected to have a material impact on the Group's results or financial statements except where noted) had been adopted by the European Union but have not been applied by the Group:

- IFRS 1 (Amendment) 'First-time Adoption of International Financial Reporting Standards' and IAS 27 (Amendment) 'Consolidated and separate financial statements' on the 'Cost of an investment in a subsidiary, jointly controlled entity or associate'. The Group will adopt the amendments for the period ending 31 March 2011.
- IFRS 2 (Amendment) 'Share-based Payment' clarifies the treatment of certain conditions when accounting for share-based payments. The Group will adopt the amendments for the year ending 31 March 2010.
- IFRS 8 'Operating Segments' updates segmental reporting requirements but is expected to have little impact on the Group's future disclosures, results or financial position. The Group will adopt the standard for the year ending 31 March 2010.
- IAS 1 (Amendment) 'Presentation of Financial Statements' affects certain disclosures within the financial statements especially in relation to the income statement and statement of changes in equity but will have no effect on the financial results of the Group. The Group will adopt the amendments for the year ending 31 March 2010.
- IAS 23 (Amendment) 'Borrowing Costs' requires the Group to capitalise borrowing costs directly attributable to a qualifying asset as part of the cost of that asset. The Group will adopt the amendments for the year ending 31 March 2010.
- IAS 32 (Amendment) 'Financial Instruments: Presentation' and IAS 1 (Amendment) 'Presentation of financial statements' on 'Puttable financial instruments and obligations arising on liquidation'. The Group will adopt the amendments for the year ending 31 March 2010.
- IAS 39 (Amendment) 'Financial Instruments: Recognition and Measurement', and IFRS 7 (Amendment) 'Financial Instruments: Disclosures', on the 'Reclassification of financial assets' allows the reclassification of certain financial assets previously classified as 'held-for-trading' or 'available-for-sale' to another category under limited circumstances. The Group will adopt the amendment for the year ending 31 March 2010.
- IFRIC 12 'Service Concession Arrangements' applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services and will have no impact on the Group.
- IFRIC 13 'Customer Loyalty Programmes' requires that where goods or services are sold with a customer loyalty incentive, the consideration receivable from the customer should be allocated between the components of the arrangement in proportion to their fair values. The Group will adopt the amendments for the year ending 31 March 2010.
- IFRIC 14 'IAS 19 – The limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction' will have no impact on the Group as it does not operate any defined benefit pension schemes. The Group will adopt the interpretation for the year ending 31 March 2010.
- 'Improvements to IFRSs 2008' amends existing standards resulting in changes to presentation, recognition and measurement plus terminology and editorial changes. The Group will adopt the amendment for the year ending 31 March 2010.

Standards, amendments and interpretations which have not yet been approved by the European Union and as such cannot be early adopted by the Group are as follows:

- IFRS 1 (Revised) 'First-time Adoption of International Financial Reporting Standards' effective for the year ending 31 March 2011.
- IFRS 3 (Revised) 'Business Combinations' effective for the year ending 31 March 2011.
- IFRS 7 (Amendment) 'Financial Instruments: Disclosures' effective for the year ending 31 March 2010.
- IAS 27 (Revised), 'Consolidated and Separate Financial Statements' effective for the year ending 31 March 2011.
- IAS 39 (Amendment) 'Financial Instruments: Recognition and Measurement' on 'Eligible hedged items' effective for the year ending 31 March 2011.
- IFRIC 9 (Amendment) 'Reassessment of Embedded Derivatives' and IAS 39, 'Financial Instruments: Recognition and Measurement' on 'embedded derivatives' effective for the year ending 31 March 2010.
- IFRIC 15 'Agreements for Construction of Real Estate' effective for the year ending 31 March 2010.
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation' effective for the year ending 31 March 2010.
- IFRIC 17 'Distributions of Non-cash Assets to Owners' effective for the year ending March 2011.
- IFRIC 18 'Transfer of Assets from Customers' effective for the year ending March 2011.
- 'Improvements to IFRSs 2009' effective for the year ending 31 March 2010.

2 Segmental reporting

Continuing operations are analysed as follows:

2009

	TalkTalk Group £m	**Best Buy Europe £m**	**Virgin Mobile France £m**	**PLC costs £m**	**Group £m**
Revenue	**1,385**	**–**	**–**	**–**	**1,385**
Headline EBITDA	**181**	**–**	**–**	**(10)**	**171**
Depreciation	**(41)**	**–**	**–**		**(41)**
Amortisation of operating intangibles	**(16)**	**–**	**–**	**–**	**(16)**
Share of results of joint ventures and associates (post-tax)	**–**	**31**	**(8)**	**–**	**23**
Headline EBIT	**124**	**31**	**(8)**	**(10)**	**137**
Amortisation of acquisition intangibles	**(71)**	**–**	**–**	**–**	**(71)**
Exceptional items (see note 4)	**(26)**	**(18)**	**–**	**(5)**	**(49)**
Statutory EBIT (segment results)	**27**	**13**	**(8)**	**(15)**	**17**

2008 (restated)

	TalkTalk Group £m	Best Buy Europe £m	Virgin Mobile France £m	PLC costs £m	Group £m
Revenue	1,424	–	–	–	1,424
Headline EBITDA	116	–	–	(14)	102
Depreciation	(34)	–	–	–	(34)
Amortisation of operating intangibles	(13)	–	–	–	(13)
Share of results of joint ventures and associates (post-tax)	–	–	(6)	–	(6)
Headline EBIT	69	–	(6)	(14)	49
Amortisation of acquisition intangibles	(75)	–	–	–	(75)
Exceptional items (see note 4)	(15)	–	–	–	(15)
Statutory EBIT (segment results)	(21)	–	(6)	(14)	(41)

The Group's segmental information for the year ended 29 March 2008 has been restated to reflect the ongoing structure of the Group's operations, as detailed in note 33.

A description of the business segments set out above is included in the Business Review on pages 4 to 27. PLC costs represent central costs that are not attributable to TalkTalk Group, Best Buy Europe or Virgin Mobile France. Transactions between segments are on an arm's length basis.

2 Segmental reporting – continued

Retail and Distribution (Best Buy Europe)

Prior to its part-disposal on 30 June 2008, the results of the Group's retail and distribution business are reflected in the income statement, net of interest and taxation, within discontinued operations. After the transaction, the Group's share of its results are reflected within joint ventures and associates as part of continuing operations, as Best Buy Europe.

The Headline results of the retail and distribution business are further analysed as follows:

	2009 Pre-disposal £m	**2009 Post-disposal £m**	**2009 Total £m**	Restated 2008 Total £m
Revenue	**729**	**2,834**	**3,563**	3,091
Headline EBITDA	**15**	**173**	**188**	217
Depreciation	**(13)**	**(39)**	**(52)**	(47)
Amortisation of operating intangibles	**(4)**	**(31)**	**(35)**	(18)
Share of results of joint ventures and associates	**–**	**–**	**–**	(1)
Headline EBIT	**(2)**	**103**	**101**	151
Net interest (expense) income	**(2)**	**(10)**	**(12)**	3
Taxation on Headline results	**2**	**(31)**	**(29)**	(16)
Headline profit after taxation	**(2)**	**62**	**60**	138
Goodwill expense	**–**	**–**	**–**	(1)
Exceptional items (see note 4)	**(12)**	**(45)**	**(57)**	–
Taxation on exceptional items	**3**	**8**	**11**	–
	(11)	**25**	**14**	137
Percentage attributable to the Group	**100%**	**50%**		100%
Presented in:				
Headline				
Net (loss) profit for the year from discontinued operations	**(2)**	**–**	**(2)**	138
Share of results of joint ventures and associates	**–**	**31**	**31**	–
Statutory				
Net (loss) profit for the year from discontinued operations	**(11)**	**–**	**(11)**	137
Share of results of joint ventures and associates	**–**	**13**	**13**	–

Segmental assets, liabilities and capital expenditure are analysed as follows:

2009

	TalkTalk Group £m	Best Buy Europe £m	Virgin Mobile France £m	Unallocated £m	Group £m
Assets	**961**	**757**	**6**	**174**	**1,898**
Liabilities	**(299)**	**–**	**–**	**(483)**	**(782)**
Net assets	**662**	**757**	**6**	**(309)**	**1,116**
Capital expenditure	**106**	**23**	–	**1**	**130**

2008 (restated)

	TalkTalk Group £m	Best Buy Europe £m	Virgin Mobile France £m	Unallocated £m	Group £m
Assets	993	1,617	3	191	2,804
Liabilities	(455)	(749)	–	(949)	(2,153)
Net assets	538	868	3	(758)	651
Capital expenditure	172	112	–	7	291

Capital expenditure includes expenditure on property, plant and equipment and intangible assets, excluding goodwill and acquisition intangibles.

Segmental assets and liabilities exclude intercompany funding within the Group.

Unallocated assets and liabilities relate principally to deferred tax and current tax associated with the Company and its subsidiaries, loans and other borrowings, and freehold properties.

Segmental revenue, capital expenditure and total assets are analysed by geographical location as follows:

	Revenue		**Capital expenditure**		**Total assets**	
	2009 £m	Restated 2008 £m	**2009 £m**	Restated 2008 £m	**2009 £m**	Restated 2008 £m
United Kingdom	**1,365**	1,399	**124**	249	**1,896**	1,978
France	**–**	–	**1**	11	**–**	206
Germany	**–**	–	**1**	7	**–**	187
Spain	**–**	–	**1**	9	**–**	173
Other	**20**	25	**3**	15	**2**	260
Total Group	**1,385**	1,424	**130**	291	**1,898**	2,804

Capital expenditure includes expenditure on property, plant and equipment and intangible assets, excluding goodwill and acquisition intangibles.

Revenue, capital expenditure and total assets are allocated based on where customers and assets are located.

3 Profit (loss) before interest and taxation

a) Group profit (loss) before interest and taxation for continuing operations is stated after charging:

	2009 £m	Restated 2008 £m
Depreciation of property, plant and equipment	**41**	34
Amortisation of acquisition intangibles	**71**	75
Amortisation of other intangible fixed assets	**16**	13
Impairment of trade receivables	**16**	15
Impairment of non-current asset investments	**5**	–
Share-based payments (see note 7)	**6**	9
Other employee costs (see note 6)	**122**	140
Other stock costs	**14**	14
Rentals under operating leases – property	**2**	2
Rentals under operating leases – non-property	**29**	29
Auditors' remuneration (including discontinued operations – see below)	**2**	2

b) Analysis of operating expenses for continuing operations:

	2009 £m	Restated 2008 £m
Operating expenses excluding depreciation and amortisation	**587**	545
Depreciation	**41**	34
Amortisation	**87**	88
Total operating expenses	**715**	667

c) Auditors' remuneration (including discontinued operations):

	2009 £m	Restated 2008 £m
Statutory services:		
– Audit of Company's accounts	**0.1**	0.2
– Audit of accounts of the Company's subsidiaries	**0.8**	1.4
	0.9	1.6
Tax services:		
– Compliance services	**0.1**	0.1
– Advisory services	**1.0**	0.2
	1.1	0.3
Other services:	**0.4**	0.3
Total fees	**2.4**	2.2

Fees for the audit of the Company's accounts represent fees payable to Deloitte LLP in respect of the audit of the Company's financial statements prepared in accordance with UK GAAP and the Group's consolidated financial statements prepared in accordance with IFRS.

Tax advisory services relate mainly to assessing the tax implications of significant corporate transactions, the most substantial of which during the year was the transaction with Best Buy (see note 4). Other services also relate primarily to the transaction with Best Buy.

The Group's share of audit fees for Best Buy Europe and Virgin Mobile France was £0.6m in the year.

4 Exceptional items

The following items have been disclosed separately in the year given their size and one-off nature:

2009

	Note	Income statement presentation	Pre-tax gain (loss) £m	Taxation (charge) credit £m	Post-tax gain (loss) £m	Group share %	Group share £m
Part-disposal of retail and distribution business							
Net gain on disposal	a	Discontinued operations	648	(40)	608	100%	608
Indirect costs of the transaction	a	Discontinued operations	(7)	1	(6)	100%	(6)
Other costs arising from the transaction	b	Results of joint ventures and associates	(27)	4	(23)	50%	(11)
Reorganisation costs							
Divisionalisation costs	c	Discontinued operations	(12)	3	(9)	100%	(9)
AOL integration	d	Operating expenses and taxation	(16)	4	(12)	100%	(12)
TalkTalk Group reorganisation	e	Operating expenses and taxation	(10)	3	(7)	100%	(7)
Best Buy Europe reorganisation	f	Results of joint ventures and associates	(18)	4	(14)	50%	(7)
Other exceptional items							
Foreign exchange losses	g	Interest expense and taxation	(85)	24	(61)	100%	(61)
Impairment of non-current asset investments	h	Operating expenses	(5)	–	(5)	100%	(5)

2008

	Note	Income statement presentation	Pre-tax loss £m	Taxation credit £m	Post-tax loss £m	Group share %	Group share £m
AOL integration	d	Operating expenses and taxation	(15)	5	(10)	100%	(10)

The presentation of these items within the income statement is summarised as follows:

		2009 £m	2008 £m
Operating expenses excluding amortisation and depreciation	AOL integration (pre-tax)	**(16)**	(15)
	TalkTalk Group reorganisation (pre-tax)	**(10)**	–
	Impairment of non-current asset investments (pre-tax)	**(5)**	–
		(31)	(15)
Share of results of joint ventures and associates	Other costs arising from the transaction (post-tax Group share)	**(11)**	–
	Best Buy Europe reorganisation (post-tax Group share)	**(7)**	–
		(18)	–
Interest expense	Foreign exchange losses (pre-tax)	**(85)**	–
		(85)	–
Taxation	AOL integration (taxation)	**4**	5
	TalkTalk Group reorganisation (taxation)	**3**	–
	Foreign exchange losses (taxation)	**24**	–
	Taxation credit on amortisation of acquisition intangibles	**19**	22
		50	27
Net (loss) profit for the year from discontinued operations	Net gain on disposal (post-tax)	**608**	–
	Indirect costs of the transaction (post-tax)	**(6)**	–
	Divisionalisation costs (post-tax)	**(9)**	–
		593	–

4 Exceptional items – continued

a) Net gain on disposal and indirect costs of the transaction

On 30 June 2008, the Group completed the disposal of 50% of its retail and distribution business to Best Buy Co., Inc. ("Best Buy").

The net assets of the business at the date of disposal were as follows:

	£m
Goodwill	383
Other intangible assets	128
Property, plant and equipment	182
Stock	272
Trade and other receivables	745
Cash	104
Other	15
Total assets	1,829
Trade and other payables	(717)
Taxation	(45)
Loans and other borrowings	(216)
Provisions	(68)
Total liabilities	(1,046)
Net assets	783
Net assets disposed of (50%)	391

The gain on disposal was as follows:

	£m
Cash consideration, net of costs	1,041
Net assets disposed of	(391)
Liabilities retained	(14)
Cumulative reserves recycled on disposal	12
Gain on disposal	648
Taxation	(40)
Net gain on disposal after taxation	608

Cash flows associated with the disposal were as follows:

	£m
Cash consideration, net of costs	1,041
Cash disposed of	(104)
	937

Other costs arising indirectly from the transaction principally comprise £3m in relation to the accelerated vesting of a retail share option scheme that was of no value to option-holders, and £3m arising on the write-down of unamortised bank facility fees.

b) Other costs arising from the transaction
Further to the transaction with Best Buy, Best Buy Europe commenced the disposal of approximately 100 stores, primarily in the UK and France. Costs of £19m have been recognised in the year in relation to the disposal programme, comprising fixed asset write downs of £7m and provision for disposal costs of £12m.

Also as a result of the transaction, Best Buy Europe accelerated a shift in its range of retail stock away from mobile phones towards laptops and other non-mobile products, resulting in an exceptional clearance exercise. Losses of £8m have been incurred in disposing of the products that have been de-ranged.

A tax credit of £4m has been recognised in respect of these charges.

c) Divisionalisation costs
Prior to the transaction with Best Buy, the Group conducted a comprehensive reorganisation of its central support structures, particularly in relation to its retail and distribution business, to achieve greater divisional autonomy and efficiency. This reorganisation resulted in redundancy and other restructuring costs of £12m. These costs are expected to attract tax relief at 28% and a tax credit of £3m has been recognised against them.

d) AOL integration
The Group acquired AOL's UK internet access business in December 2006. Since this time the Group has been working on the reorganisation of the business through a programme to transfer network operations, hosting, billing and customer management away from a transitional platform provided by AOL Time Warner onto the Group's own systems and infrastructure. The transition has been completed during the year at a cost of £16m, against which a tax credit of £4m has been recognised.

e) TalkTalk Group reorganisation
Further to the divisionalisation process detailed in note c above, TalkTalk Group has undertaken a comprehensive reorganisation of its structure and operations, which resulted in redundancy and other restructuring costs of £10m. These costs are expected to attract tax relief at 28% and a tax credit of £3m has been recognised against them.

f) Best Buy Europe reorganisation
At the same time, Best Buy Europe has undertaken a similar comprehensive reorganisation of its structure and operations, which resulted in redundancy and other restructuring costs of £18m, against which a tax credit of £4m has been recognised.

g) Foreign exchange losses
An exceptional foreign exchange loss of £85m has arisen in the year following a change in the functional currency of the Group's brand company from Swiss Francs to Sterling. The transaction with Best Buy necessitated a change in the operations of the brand company, which in turn made Sterling the appropriate functional currency. As a result of the change, movements on the brand company's Swiss Franc borrowings, which would previously have been recognised through reserves, were thereafter reflected in the income statement. These borrowings were converted into Sterling before 31 March 2009. A tax credit of £24m has been recognised in respect of this loss.

h) Impairment of non-current asset investments
The Group has fully impaired its legacy wireless internet investments, resulting in a charge of £5m through exceptional operating expenses.

5 Discontinued operations
Discontinued operations reflect the results of the Group's retail and distribution business prior to its part-disposal to Best Buy on 30 June 2008 (see note 4). Prior year results have been restated to present the results of the retail and distribution business on the same basis.

A reconciliation of reclassifications made from previously reported results is provided in note 33.

The results of the retail and distribution business for the full year, together with comparatives for the prior year as presented in the income statement, are provided in note 2.

6 Employee costs
The average number of employees (including Executive Directors) for continuing operations was:

	2009 Number	2008 Number
Administration	**1,693**	1,745
Sales and customer management	**2,362**	2,524
	4,055	4,269

6 Employee costs – continued

The aggregate remuneration recognised in respect of these employees in the income statement comprised:

	2009 £m	2008 £m
Wages and salaries	**105**	115
Social security costs	**9**	12
Other pension costs	**2**	2
	116	129
Share-based payments (see note 7)	**6**	9
	122	138

The average number of employees (including Executive Directors) for discontinued operations was:

	2009 Number	2008 Number
Administration	**3,206**	3,416
Sales and customer management	**13,078**	13,695
	16,284	17,111

The aggregate remuneration recognised in respect of the employees of discontinued operations in the income statement comprised:

	2009 £m	2008 £m
Wages and salaries	**94**	383
Social security costs	**16**	59
Other pension costs	**1**	3
	111	445

In addition to the costs recognised in the income statement, employee costs of £12m (2008: £30m) were capitalised during the year in relation to internally generated intangible assets and network equipment.

Compensation earned by the Key Management of continuing operations, comprising the Group Board and operating directors, and the TalkTalk Group Executive Board, was as follows:

	2009 £m	2008 £m
Salaries and fees	**4.0**	3.6
Performance bonuses	**2.5**	2.4
Benefits	**0.1**	0.1
Pension costs	**0.1**	0.2
Share-based payments	**0.9**	2.0
	7.6	8.3

Compensation earned by the Key Management of discontinued operations, comprising the retail and distribution Executive Committee, was as follows:

	2009 £m	2008 £m
Salaries and fees	**0.3**	0.8
Performance bonuses	**0.1**	0.7
Benefits	**–**	0.1
Pension costs	**–**	0.1
Share-based payments	**0.2**	0.8
	0.6	2.5

Details of Directors' remuneration are provided in the Remuneration Report on pages 33 to 38.

Amounts of £0.9m were paid to HMRC during the year on behalf of a number of Key Management; these amounts were outstanding at 31 March 2009. Interest is charged on these loans at a market rate, and the loans are repayable in the year ending 31 March 2011. There were no loans outstanding from Group executives at 29 March 2008.

7 Share-based payments

The Group issues equity settled share-based payments to certain employees, through the following schemes:

a) Performance Share Plan:

The Group has a Performance Share Plan ("PSP") which uses share options to provide long-term incentives to senior management. Awards made under the PSP in the years ended 31 March 2007 and 29 March 2008 are subject to Total Shareholder Return ("TSR") performance targets and are measured over an initial performance period to 4 June 2010 and a subsequent performance period to 4 June 2011. Details of performance targets are provided in the Remuneration Report on pages 33 to 38. Options are forfeited if the employee leaves the Group before the options vest.

Awards made in earlier years were subject to a mixture of Headline earnings per share (see note 12) and TSR performance targets measured over a three or four year performance period. The performance period for all such awards has been completed and where targets have been met the relevant share options have vested. If the options remain unexercised after a period of ten years from the date of grant, the options expire.

Following the transaction with Best Buy, employees of the Group's retail and distribution business were deemed to have left the Group, and any unvested PSP share options were therefore forfeited under the rules of the scheme. At the discretion of the Company's Remuneration Committee, share options that were due to vest in July 2008 were not forfeited.

The following table summarises the number and weighted average exercise prices ("WAEP") of share options for the scheme:

		2009		2008
	Number million	**WAEP £**	Number million	WAEP £
Outstanding at the beginning of the year	**43**	**–**	52	–
Granted during the year	**–**	**–**	2	–
Forfeited during the year	**(15)**	**–**	(6)	–
Exercised during the year	**(6)**	**–**	(5)	–
Outstanding at the end of the year	**22**	**–**	43	–
Exercisable at the end of the year	**13**	**–**	6	–

The options outstanding at 31 March 2009 had a weighted average remaining contractual life of 7.3 years (2008: 8.3 years). The options exercised during the year were exercised at a weighted average market price of £1.54 (2008: £3.51).

Within options outstanding at 31 March 2009 were 8m options (2008: 25m) held by employees of discontinued operations, of which 8m (2008: 3m) were exercisable at the end of the year.

b) Executive Share Option Scheme:

The Group has an Executive Share Option Scheme ("ESOS") under which share options have been issued at market value in previous years. All ESOS options have already vested. If the options remain unexercised after a period of ten years from the date of grant, the options expire.

The following table summarises the number and WAEP of share options for the scheme:

		2009		2008
	Number million	**WAEP £**	Number million	WAEP £
Outstanding at the beginning of the year	**9**	**1.02**	21	1.11
Exercised during the year	**(1)**	**0.89**	(12)	1.17
Outstanding at the end of the year	**8**	**1.04**	9	1.02
Exercisable at the end of the year	**8**	**1.04**	9	1.02

The options outstanding at 31 March 2009 had a weighted average remaining contractual life of 2.5 years (2008: 3.6 years). The options exercised during the year were exercised at a weighted average market price of £1.64 (2008: £3.31).

Within options outstanding at 31 March 2009 were 4m options (2008: 4m) held by employees of discontinued operations, of which 4m (2008: 4m) were exercisable at the end of the year.

The summary above includes 5m (2008: 5m) options that were granted before 7 November 2002. In accordance with IFRS 2 'Share-based Payment', no cost has been recognised in respect of these options.

7 Share-based payments – continued

c) Retail Share Option Scheme:

Prior to the transaction with Best Buy, the Group operated a Retail Share Option Scheme, which provided market price share options to senior employees in the UK retail and distribution business. Following the transaction, all unvested options were allowed by the Company's Remuneration Committee to vest early and the scheme was terminated. The expiry dates of these options were changed to the later of three years from the last date of exercise, where an option-holder had previously exercised under the scheme, and 31 December 2008.

The following table summarises the number and WAEP of share options for the scheme:

		2009		2008
	Number million	**WAEP £**	Number million	WAEP £
Outstanding at the beginning of the year	**6**	**2.90**	4	1.82
Granted during the year	**–**	**–**	3	3.56
Forfeited during the year	**(4)**	**3.03**	–	2.14
Exercised during the year	**–**	**1.72**	(1)	1.53
Outstanding at the end of the year	**2**	**2.73**	6	2.90
Exercisable at the end of the year	**2**	**2.73**	2	1.61

The options outstanding at 31 March 2009 had a weighted average remaining contractual life of 2.4 years (2008: 8.5 years).

During the year 0.1m options with a WAEP of £1.72 were exercised. These options were exercised at a weighted average market price of £2.41 (2008: £3.07).

Within options outstanding at 31 March 2009 were 2m options (2008: 6m) held by employees of discontinued operations, of which 2m (2008: 2m) were exercisable at the end of the year.

Of the 2m (2008: 6m) options that were outstanding at 31 March 2009, there were none (2008: 1m) with an option price between £1.00 and £2.00, 1m (2008: 1m) between £2.01 and £3.00 and 1m (2008: 4m) above £3.01.

d) Share gift:

In December 2008, 3.6 million shares were gifted by the Group's Employee Share Ownership Trust to certain senior employees within the Group and Best Buy Europe. The shares are restricted until 30 June 2010, and will be forfeited if various internal performance conditions, principally in relation to earnings and cash generation, are not met.

e) Other employee share option schemes:

The Group has a savings-related share option scheme which permits the grant to employees of options linked to a bank save-as-you-earn contract for a term of three or five years with contributions from employees of between £5 and £250 per month. Options may be exercised at the end of the three or five year period at a subscription price not less than 80% of the middle market quotation on the date of grant.

After the transaction with Best Buy all employees of the retail and distribution business were required to leave the scheme and all unvested options were allowed to vest immediately. The expiry date on all vested options was changed to the later of three years from the last date of exercise, where an option-holder had previously exercised under the scheme, and 31 December 2008.

In addition, options were granted to UK employees at the time of the Group's admission to the London Stock Exchange.

Market priced options were also granted during the current year to certain senior employees within the Group and Best Buy Europe. These awards are subject to internal performance conditions, principally in relation to earnings and cash generation, over a period to June 2010.

The following table summarises the number and WAEP of share options for the scheme:

		2009		2008
	Number million	**WAEP £**	Number million	WAEP £
Outstanding at the beginning of the year	**8**	**2.00**	9	1.60
Granted during the year	**7**	**0.88**	3	2.59
Forfeited during the year	**(4)**	**2.38**	(2)	2.26
Exercised during the year	**(2)**	**1.24**	(2)	1.07
Outstanding at the end of the year	**9**	**1.08**	8	2.00
Exercisable at the end of the year	**1**	**0.92**	1	0.88

The options outstanding at 31 March 2009 had a weighted average remaining contractual life of 8.2 years (2008: 2.1 years). The options exercised during the year were exercised at a weighted average market price of £1.87 (2008: £3.33).

The summary above includes 0.6m (2008: 0.6m) options that were granted before 7 November 2002. In accordance with IFRS 2, no cost has been recognised in respect of these options.

Within options outstanding at 31 March 2009 were 4m options (2008: 4m) held by employees of discontinued operations, of which none (2008: none) were exercisable at the end of the year.

f) Fair value models:

Nil cost options with internal performance targets were valued using the market price of a share at the date of grant, discounted for expected future dividends to the date of exercise. The fair values of other options with internal performance targets have been estimated at the date of grant using a Binomial model. The inputs into the Binomial model were as follows:

	2009	2008
Expected volatility (%)	**35.0**	29.2
Risk free rate (%)	**3.1**	5.8
Dividend yield (%)	**2.0**	2.0

Expected volatility has been arrived at by using the historical volatility of the Group's share price, and the volatility of the share price of similar companies, whose shares have been listed for longer than those of the Group, over a period comparable with the expected lives of the options. The assumptions made in relation to the timing of exercises are based on historical exercise patterns for each option scheme.

The fair values of options with external performance targets were estimated at the date of grant using a Monte Carlo model. The model combines the market price of a share at the date of grant with the probability of meeting performance criteria, based on the historical performance of the Group's shares. The historical performance period reflects a volatility of 27.4%. A dividend yield of 2.0% was assumed in the model.

g) Charge to income statement:

During the year the Group recognised a charge of £6m (2008: £9m) within continuing operations in respect of equity settled share-based payments. The net charge in the year for share-based payments in relation to discontinued operations was £nil (2008: £nil).

8 Interest expense and income (finance costs)

Interest expense for continuing operations is analysed as follows:

	2009 £m	Restated 2008 £m
Interest on bank loans and overdrafts	**29**	49
Amortisation of facility fees and similar charges	**1**	2
Foreign exchange losses (see note 4)	**85**	–
	115	51

Interest income for continuing operations is analysed as follows:

	2009 £m	Restated 2008 £m
Interest on cash and cash equivalents	**7**	4
Interest element of forward currency contracts	**–**	1
Interest on loans to joint ventures and associates	**13**	1
Other interest receivable	**6**	–
	26	6

9 Taxation

The tax credit for continuing operations comprises:

	2009 £m	Restated 2008 £m
Current tax:		
UK corporation tax	**7**	1
Overseas tax	**1**	1
	8	2
Adjustments in respect of prior years:		
UK corporation tax	**3**	–
Total current tax	**11**	2
Deferred tax:		
Origination and reversal of timing differences	**(23)**	(24)
Adjustments in respect of prior years	**(19)**	–
Total deferred tax	**(42)**	(24)
Total tax credit	**(31)**	(22)

The tax charge relating to Headline earnings (see note 11) for the year is £19m (2008: £5m) representing an effective tax rate on pre-tax profits or losses before share of results of joint ventures and associates of 17% (2008: 50%). The tax credit relating to statutory earnings for the year is £31m (2008: £22m).

The principal differences between the tax credit shown above and the amount calculated by applying the standard rate of UK corporation tax of 28% (2008: 30%) to loss before taxation are as follows:

	2009 £m	Restated 2008 £m
Loss before taxation	**(72)**	(86)
Loss before taxation at 28% (2008: 30%)	**(20)**	(26)
Items attracting no tax relief or liability	**5**	–
Adjustments in respect of prior years	**(16)**	–
Impact of change in UK tax rate (see below)	**–**	4
Total tax credit	**(31)**	(22)

Tax on items recognised directly in reserves is as follows:

	2009 £m	2008 £m
Current tax credit on share-based payments	**–**	(9)
Deferred tax debit on share-based payments	**16**	3
Deferred tax credit on available-for-sale investments	**–**	(1)
	16	(7)

The deferred tax assets recognised by the Group and movements thereon during the year are as follows:

	Share-based payments £m	Timing differences on capitalised costs £m	Tax losses £m	Other timing differences £m	Total £m
Opening balance (restated)	23	8	65	–	96
Credit (charge) to the income statement	(2)	24	18	2	42
Charge to reserves	(16)	–	–	–	(16)
Disposal of subsidiaries	(3)	(3)	(9)	1	(14)
Closing balance	**2**	**29**	**74**	**3**	**108**

No deferred tax assets and liabilities have been offset in either year, except where there is a legal right to do so in the relevant jurisdictions.

From 1 April 2008, the UK statutory rate of corporation tax reduced from 30% to 28%. The impact of this change on the value of deferred tax assets was recognised at 29 March 2008.

At 31 March 2009 the Group had unused tax losses of £307m (2008: £357m) available for offset against future taxable profits. A deferred tax asset of £74m (2008: £65m) has been recognised in respect of £263m (2008: £216m) of such losses, based on expectations of recovery in the foreseeable future.

No deferred tax asset has been recognised in respect of the remaining £44m (2008: £141m) as there is insufficient evidence that there will be suitable taxable profits against which these losses can be recovered. All losses may be carried forward indefinitely.

At 31 March 2009 the Group has unrecognised deferred tax liabilities of £20m (2008: £46m) in respect of temporary differences associated with the undistributed earnings of subsidiaries of £78m (2008: £240m). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of their reversal and it is probable that they will not reverse in the foreseeable future.

10 Equity dividends

	2009 £m	2008 £m
Final dividend for the year ended 31 March 2007 of 2.25p per ordinary share	**–**	20
Interim dividend for the year ended 29 March 2008 of 1.25p per ordinary share	**–**	11
Final dividend for the year ended 29 March 2008 of 3.00p per ordinary share	**26**	–
Interim dividend for the year ended 31 March 2009 of 1.35p per ordinary share	**12**	–
	38	31
Proposed final dividend for the year ended 31 March 2009 of 3.00p per ordinary share	**27**	

The proposed final dividend for the year ended 31 March 2009 is subject to shareholders' approval at the Annual General Meeting and has not been included as a liability in these financial statements.

The expected cost of this dividend reflects the fact that the Group's Employee Share Ownership Trust has agreed to waive its rights to receive dividends (see note 25).

11 Reconciliation of Headline information to statutory information

2009

	EBITDA £m	**Profit before interest and taxation £m**	**Profit (loss) before taxation £m**	**Net profit (loss) from continuing operations £m**	**Net (loss) profit from discontinued operations £m**	**Net profit for the year £m**
Headline results	171	137	133	114	(2)	112
Exceptional items (see note 4)	(31)	(49)	(134)	(134)	593	459
Amortisation of acquisition intangibles (see note 13)	–	(71)	(71)	(71)	–	(71)
Taxation on exceptional items (see note 4)	–	–	–	31	–	31
Taxation on amortisation of acquisition intangibles	–	–	–	19	–	19
Statutory results	**140**	**17**	**(72)**	**(41)**	**591**	**550**

2008 (restated)

	EBITDA £m	Profit (loss) before interest and taxation £m	Profit (loss) before taxation £m	Net loss from continuing operations £m	Net profit from discontinued operations £m	Net profit for the year £m
Headline results	102	49	4	(1)	138	137
Exceptional items (see note 4)	(15)	(15)	(15)	(15)	–	(15)
Amortisation of acquisition intangibles (see note 13)	–	(75)	(75)	(75)	–	(75)
Goodwill expense (see note 13)	–	–	–	–	(1)	(1)
Taxation on exceptional items (see note 4)	–	–	–	5	–	5
Taxation on amortisation of acquisition intangibles	–	–	–	22	–	22
Statutory results	87	(41)	(86)	(64)	137	73

EBITDA represents earnings before interest, taxation, depreciation, amortisation and goodwill expense. EBIT represents earnings before interest and taxation.

Headline information is provided because the Directors consider that it provides assistance in understanding underlying performance.

12 Earnings per share

	2009 £m	Restated 2008 £m
Headline earnings (see note 11)		
Continuing operations	**114**	(1)
Discontinued operations	**(2)**	138
Total	**112**	137
Statutory earnings		
Continuing operations	**(41)**	(64)
Discontinued operations	**591**	137
Total	**550**	73

	2009 Number of shares million	2008 Number of shares million
Weighted average number of shares:		
Average shares in issue	**914**	906
Less average holding by Group ESOT	**(22)**	(6)
For basic earnings per share	**892**	900
Dilutive effect of share options	**20**	40
For diluted earnings per share	**912**	940

The number of shares that could be issued but that are not considered to be dilutive at 31 March 2009 was 21m (2008: 26m).

	Basic pence per share		Diluted pence per share	
	2009	2008	2009	2008
Headline				
Continuing operations	**12.8**	(0.1)	**12.5**	(0.1)
Discontinued operations	**(0.2)**	15.3	**(0.2)**	14.7
Total	**12.6**	15.2	**12.3**	14.6
Statutory				
Continuing operations	**(4.6)**	(7.1)	**(4.5)**	(6.8)
Discontinued operations	**66.2**	15.2	**64.8**	14.6
Total	**61.6**	8.1	**60.3**	7.8

Headline earnings per share is provided because the Directors consider that it provides assistance in understanding underlying performance.

13 Goodwill and other intangible assets

a) Goodwill

	2009 £m	2008 £m
Opening net book value	**677**	626
Acquisition of subsidiaries (see note 15)	**11**	11
Adjustments to contingent consideration	**–**	4
Disposal of subsidiaries (see notes 4 and 15)	**(383)**	(14)
Goodwill expense	**–**	(1)
Foreign exchange	**(1)**	51
Closing net book value	**304**	677
Closing		
Cost (gross carrying amount)	**304**	681
Accumulated goodwill expense	**–**	(4)
Net carrying amount	**304**	677

Following the disposal of 50% of the Group's retail and distribution business the Group's goodwill is associated with only two CGUs, being TalkTalk Group and Best Buy Europe. Goodwill relating to Best Buy Europe is included in the Group's interests in joint ventures and associates (see note 16).

The cash flows of TalkTalk Group are not separable into individual CGUs as its cash flows are derived from shared assets and infrastructure.

	2009 £m	2008 £m
UK TalkTalk Group	**304**	299
UK retail and distribution	**–**	39
France	**–**	95
Germany	**–**	83
Spain	**–**	69
Other	**–**	92
Total	**304**	677

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next three years and extrapolates cash flows in perpetuity based on a country-specific growth rate for the UK, where all goodwill is now located, of 1.8%. The average pre-tax rate used to discount the forecast cash flows is 9.7% (2008: 10.0%).

The key assumptions for the value in use calculations are those in relation to the discount rates, growth rates and expected changes to selling prices and direct costs during the period, all of which are based on historical patterns and expectations of future market developments. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs.

Due to the substantial headroom provided by TalkTalk Group's cash flow forecasts, the Directors do not consider it likely that key assumptions may change to such an extent that it would lead to a significant impairment loss.

b) Other intangible assets

Other intangible fixed assets are analysed as follows:

2009

	Operating intangibles			
	Software and licences £m	**Key money £m**	**Acquisition intangibles £m**	**Total other intangibles £m**
Opening balance	171	35	245	451
Acquisition of subsidiaries	–	–	3	3
Disposal of subsidiaries	(92)	(35)	(1)	(128)
Additions	54	1	–	55
Amortisation	(19)	(1)	(71)	(91)
Closing balance	**114**	–	**176**	**290**
At 31 March 2009				
Cost (gross carrying amount)	139	–	325	464
Accumulated amortisation	(25)	–	(149)	(174)
Net carrying amount	**114**	**–**	**176**	**290**

2008 (restated)

	Operating intangibles			
	Software and licences £m	Key money £m	Acquisition intangibles £m	Total other intangibles £m
Opening balance	115	26	318	459
Acquisition of subsidiaries	–	–	2	2
Additions	85	8	–	93
Disposals	(1)	–	–	(1)
Amortisation	(28)	(3)	(75)	(106)
Foreign exchange	–	4	–	4
Closing balance	171	35	245	451
At 29 March 2008				
Cost (gross carrying amount)	251	45	364	660
Accumulated amortisation	(80)	(10)	(119)	(209)
Net carrying amount	171	35	245	451

The analysis above includes amortisation of £4m (2008: £18m) in relation to discontinued activities.

At 29 March 2008, software and licences included assets with a cost of £60m on which amortisation had not yet been charged as the assets had not yet been brought into use. There were no such assets at 31 March 2009.

Acquisition intangibles are removed from cost in the analysis above once fully amortised.

13 Goodwill and other intangible assets – continued

Acquisition intangibles are analysed as follows:

	2009				2008			
	Customer bases £m	**Customer revenue share agreements £m**	**Other £m**	**Total £m**	Customer bases £m	Customer revenue share agreements £m	Other £m	Total £m
Opening balance	**218**	**21**	**6**	**245**	274	32	12	318
Acquisition of subsidiaries	**3**	**–**	**–**	**3**	2	–	–	2
Disposal of subsidiaries	**(1)**	**–**	**–**	**(1)**	–	–	–	–
Amortisation	**(56)**	**(12)**	**(3)**	**(71)**	(58)	(11)	(6)	(75)
Closing balance	**164**	**9**	**3**	**176**	218	21	6	245
Cost (gross carrying amount)	**283**	**35**	**7**	**325**	315	35	14	364
Accumulated amortisation	**(119)**	**(26)**	**(4)**	**(149)**	(97)	(14)	(8)	(119)
Closing balance	**164**	**9**	**3**	**176**	218	21	6	245

Customer bases relate primarily to AOL's UK internet access business which was acquired in December 2006. The valuation of customer bases is derived from the discounted future cash flows expected from them, after a deduction for contributory assets.

Customer revenue share agreements again arose on the acquisition of AOL's UK internet access business, and represent rights, subject to performance criteria, to a share of transactional revenues generated by AOL access customers and TalkTalk customers on AOL sites. The valuation of these rights was again derived from the discounted future cash flows expected from the agreement, after a deduction for contributory assets.

Other acquisition intangibles primarily represent a licence to continue to use the AOL brand for a limited time period, valued using the relief from royalty method.

14 Property, plant and equipment

2009

	Freehold land and buildings £m	**Short leasehold costs £m**	**Network equipment and computer hardware £m**	**Fixtures and fittings £m**	**Motor vehicles £m**	**Total £m**
Opening balance	66	68	235	78	1	448
Disposal of subsidiaries	–	(64)	(39)	(78)	(1)	(182)
Additions	1	2	64	8	–	75
Disposals	(1)	–	(1)	–	–	(2)
Depreciation	(1)	(3)	(43)	(7)	–	(54)
Closing balance	**65**	**3**	**216**	**1**	**–**	**285**
At 31 March 2009						
Cost (gross carrying amount)	68	3	311	1	–	383
Accumulated depreciation	(3)	–	(95)	–	–	(98)
Net carrying amount	**65**	**3**	**216**	**1**	**–**	**285**

2008

	Freehold land and buildings £m	Short leasehold costs £m	Network equipment and computer hardware £m	Fixtures and fittings £m	Motor vehicles £m	Total £m
Opening balance	68	48	149	71	2	338
Acquisition of subsidiaries	–	1	–	–	–	1
Additions	8	27	131	32	–	198
Disposals	(10)	(1)	(1)	(7)	–	(19)
Depreciation	(1)	(10)	(46)	(23)	(1)	(81)
Foreign exchange	1	3	4	5	–	13
Closing balance	66	68	235	78	1	448
As at 29 March 2008						
Cost (gross carrying amount)	68	108	400	196	3	775
Accumulated amortisation	(2)	(40)	(165)	(118)	(2)	(327)
Net carrying amount	66	68	235	78	1	448

The analysis above includes depreciation of £13m (2008: £47m) in relation to discontinued operations.

15 Non-current asset investments

	2009 £m	2008 £m
Opening balance	**5**	15
Reclassification to current asset investments	**–**	(8)
Additions	**1**	–
Changes in fair value	**(5)**	(2)
Closing balance	**1**	5

Non-current asset investments at 31 March 2009 and additions in the year relate to a 15% stake in Shared Band Limited, a telecommunications technology provider. The Group's interest in Frontiers Capital II LP, an independently managed wireless investment fund, has been fully impaired during the year.

During the year ended 29 March 2008, the Group transferred its shareholding in Spinvox Limited, a provider of mobile communication services, to current asset investments, and subsequently disposed of 72% of its investment.

a) Principal Group investments

The Group has investments in the following subsidiary undertakings, which principally affected the profits or losses or net assets of the Group. To avoid a statement of excessive length, details of investments which are not significant have been omitted. All holdings are in equity share capital and give the Group an effective holding of 100% on consolidation.

Name	Country of incorporation or registration	Nature of business
CPW Broadband Services (UK) Limited*	England and Wales	Telecommunications
Onetel Telecommunications Limited*	England and Wales	Telecommunications
Opal Telecom Limited*	England and Wales	Telecommunications
TalkTalk Telecom Limited*	England and Wales	Telecommunications
TalkTalk Direct Limited*	England and Wales	Telecommunications
TalkTalk UK Communication Services Limited*	England and Wales	Telecommunications
GIS Telecoms Limited	England and Wales	Telecommunications
CPW Network Services Limited	England and Wales	Telecommunications
TPH Services Sarl	Luxembourg	Telecommunications
Cooch 1020 Limited	Isle of Man	Property holding company

*Held directly by the Company.

15 Non-current asset investments – continued

b) Acquisitions

The final deferred consideration payment of £70m in relation to AOL's UK internet access business was made during the year.

Additionally, the Group acquired a number of subsidiaries during the year for a net cash consideration of £10m, £4m of which relates to discontinued operations, together with contingent deferred consideration of £2m. These acquisitions resulted in provisional goodwill of £11m.

c) Disposals

The Group sold 50% of its retail and distribution business during the year. Details of the transaction and the profits and losses and cash flows associated with it are provided in note 4.

16 Interests in joint ventures and associates

2009

	Net assets £m	**Goodwill £m**	**Loans £m**	**Net investment £m**
Opening balance	(9)	4	17	12
Initial recognition of investment	295	96	–	391
Additions	39	–	–	39
Loans provided (net)	–	–	8	8
Share of results	5	–	–	5
Disposal of business	–	(4)	(4)	(8)
Foreign exchange	9	13	1	23
Closing balance	**339**	**109**	**22**	**470**

2008

	Net assets £m	Goodwill £m	Loans £m	Net investment £m
Opening balance	(5)	–	6	1
Initial recognition of investment	2	3	–	5
Additions	2	–	–	2
Loans provided (net)	–	–	10	10
Share of results	(6)	–	–	(6)
Foreign exchange	(2)	1	1	–
Closing balance	(9)	4	17	12

Following the part-disposal of its retail and distribution operations on 30 June 2008, the Group's remaining share in the business is presented as a joint venture, Best Buy Europe. The Group's initial investment in the joint venture was £391m. As explained in note 1, loans to Best Buy Europe are shown separately in the Group balance sheet. Disposals relate to Geek Squad UK and The Phone House Services Telecoms SAS, both of which were transferred to the retail and distribution business.

Group committed debt facilities have been used to fund loans at a floating rate to Best Buy Europe under a £475m revolving credit facility ("RCF"). The RCF has terms that are broadly similar to the Group's own committed facilities, including a debt:EBITDA covenant, and its final maturity date is 13 March 2013. Under the RCF, 50% of drawings are guaranteed by Best Buy Co., Inc.

Loans are provided to Virgin Mobile France under a shareholder agreement that matures in April 2010; funding requirements are agreed between the shareholders on a regular basis and are provided equally between the shareholders.

Interests in joint ventures and associates are as follows:

Business	Principal activities	**2009 interest**	2008 interest
Best Buy Europe	Retail, distribution, insurance, MVNO	**50.0%**	100.0%*
Virgin Mobile France	MVNO	**48.5%**	48.5%
Geek Squad UK	Home technology support services	**–**	50.0%
The Phone House Services Telecoms SAS	Facilities management	**–**	38.0%

* The Best Buy Europe group of companies were subsidiaries in the prior year.

All joint ventures and associates, with the exception of The Phone House Services Telecoms SAS, which is registered in France, are registered in England and Wales.

The Group's share of the results, assets and liabilities of its joint ventures and associates are as follows:

	Best Buy Europe £m	Virgin Mobile France £m	Other* £m	2009 Total £m	Virgin Mobile France £m	Other* £m	2008 Total £m
Results of joint ventures and associates							
Revenue	**2,834**	**210**	**4**		147	33	
Expenses	**(2,786)**	**(234)**	**(5)**		(165)	(34)	
Profit (loss) before taxation	**48**	**(24)**	**(1)**		(18)	(1)	
Taxation	**(23)**	**7**	**–**		6	–	
Profit (loss) after taxation	**25**	**(17)**	**(1)**		(12)	(1)	
Group share of results of joint ventures and associates							
Revenue	**1,417**	**102**	**2**		71	13	
Expenses	**(1,393)**	**(113)**	**(2)**		(80)	(14)	
Profit (loss) before taxation	**24**	**(11)**	**–**		(9)	(1)	
Taxation	**(11)**	**3**	**–**		3	1	
Profit (loss) after taxation	**13**	**(8)**	**–**	**5**	(6)	–	(6)
Net assets (liabilities) of joint ventures and associates							
Non-current assets	**583**	**36**	**–**		23	7	
Cash and overdrafts (net)	**246**	**16**	**–**		9	1	
Other current assets	**1,018**	**51**	**–**		56	14	
Loans from the Group	**(293)**	**(22)**	**–**		(12)	(5)	
Other liabilities	**(844)**	**(114)**	**–**		(96)	(15)	
Net assets (liabilities)	**710**	**(33)**	**–**		(20)	2	
Group share of net assets (liabilities) of joint ventures and associates							
Non-current assets	**292**	**17**	**–**		12	3	
Cash and overdrafts (net)	**123**	**8**	**–**		4	–	
Other current assets	**509**	**25**	**–**		27	6	
Loans from the Group	**(147)**	**(11)**	**–**		(6)	(1)	
Other liabilities	**(422)**	**(55)**	**–**		(46)	(8)	
Net assets (liabilities)	**355**	**(16)**	**–**	**339**	(9)	–	(9)

* Other joint ventures and associates are reflected in discontinued activities in the income statement.

There are no material contingent liabilities in relation to the Group's joint ventures and associates. Best Buy Europe has capital commitments at 4 April 2009 of £8m.

Within cash and overdrafts of Best Buy Europe, £108m (2008: £42m) is held by its insurance business to cover regulatory reserve requirements; these funds are not available to offset other Best Buy Europe borrowings.

17 Stock

	2009 £m	2008 £m
Finished goods and goods for resale	**1**	212

The difference between the balance sheet value of stock and its replacement cost is not material.

18 Trade and other receivables

	2009 £m	2008 £m
Trade receivables – gross	**141**	820
Less provision for impairment	**(19)**	(70)
Trade receivables – net	**122**	750
Other receivables	**7**	11
Prepayments and accrued income	**11**	52
	140	813

The average credit period taken on trade receivables, calculated by reference to the amount owed at the period end as a proportion of total revenue in the period, adjusted to take account of the timing of acquisitions, was 33 days (2008: 61 days).

Included within trade receivable at 29 March 2008 were £21m of receivables that fell due after more than one year. Trade and other receivables are discounted where the time value of money is considered to be material.

The Group's trade and other receivables are denominated in the following currencies:

	2009 £m	2008 £m
Sterling	**139**	605
Euro	**2**	197
Other	**–**	18
	141	820

The ageing of gross trade receivables is as follows:

	2009 £m	2008 £m
Not yet due	**86**	607
0 to 2 months	**33**	99
2 to 4 months	**9**	43
Over 4 months	**13**	71
	141	820

The ageing of Group provisions for impairment of trade receivables is as follows:

	2009 £m	2008 £m
Not yet due	**(1)**	(5)
0 to 2 months	**(4)**	(8)
2 to 4 months	**(5)**	(16)
Over 4 months	**(9)**	(41)
	(19)	(70)

Movements in Group provisions for impairment of trade receivables are as follows:

	2009 £m	2008 £m
Opening balance	**(70)**	(50)
Charge to the income statement	**(32)**	(78)
Receivables written off as irrecoverable	**26**	61
Disposal of subsidiaries	**57**	–
Foreign exchange	**–**	(3)
Closing balance	**(19)**	(70)

At 31 March 2009, trade receivables of £37m (2008: £148m) were past due but not impaired. These balances primarily relate to residential and corporate fixed line customers. The Group has made provision based on historic rates of recoverability and all unprovided amounts are considered to be recoverable. The ageing analysis of these trade receivables is as follows:

	2009 £m	2008 £m
0 to 2 months	**29**	91
2 to 4 months	**4**	27
Over 4 months	**4**	30
	37	148

19 Current asset investments

	2009 £m	2008 £m
Available-for-sale investments	**–**	2

Current asset investments were disposed of within the part-disposal of the retail and distribution business.

20 Trade and other payables

Current	2009 £m	2008 £m
Trade payables	**77**	520
Other taxes and social security costs	**18**	117
Other payables	**13**	111
Accruals and deferred income	**159**	335
Forward currency contracts (see note 22)	**–**	4
	267	1,087

Non-current		
Other payables	**–**	1

The average credit period taken on trade payables, calculated by reference to the amounts owed at the period end as a proportion of the amounts invoiced by suppliers in the period, adjusted to take account of the timing of acquisitions, was 21 days (2008: 48 days).

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

21 Cash and cash equivalents, loans and other borrowings

Cash and cash equivalents comprise:

	2009 £m	2008 £m
Cash at bank and in hand	**6**	60
Short-term bank deposits and money market funds	**–**	28
	6	88

The effective interest rate on bank deposits and money market funds was 3.5% (2008: 5.1%).

Loans and other borrowings comprise:

Current	Maturity	2009 £m	2008 £m
Bank overdrafts	On demand	**33**	20
Other uncommitted bank loans	On demand	**–**	19
		33	39

Non-current	Maturity	2009 £m	2008 £m
£50m term loan	Cancelled	**–**	50
£225m term loan	Cancelled	**–**	228
£375m term loan	2012	**375**	381
£550m revolving credit facility	2013	**50**	235
		425	894

Details of the current and non-current borrowing facilities of the Group are set out below.

Bank overdrafts and other uncommitted bank loans:

Overdraft facilities (some multi-currency) are held at a variety of UK banks to assist in short-term cash management. These facilities bear interest based on a margin over base rate or LIBOR for the relevant currency.

£550m revolving credit facility ("RCF"):

The Group has a committed RCF of £550m, which matures in March 2013. The interest rate payable in respect of drawings under this facility is at a margin over LIBOR for the relevant currency and for the appropriate period. The actual margin applicable to any drawing depends on the ratio of debt to EBITDA calculated in respect of the most recent accounting period. A non-utilisation fee is payable in respect of amounts available but undrawn under this facility. Covenants are included in this facility that limit the ratio of debt to EBITDA, interest cover and fixed charges (interest and operating lease expenditure) cover. The Group was in compliance with these covenants at the year end.

£375m term loan:

The Group also has a term loan facility of £375m, which matures in October 2012. The terms of this facility are similar to the Group's RCF, with an identical covenant package. This facility was fully drawn in Sterling at 31 March 2009, and was fully drawn in Swiss Francs at 29 March 2008.

The average maturity of all non-current borrowings is 3.5 years (2008: 4.0 years) and the weighted average interest cost was 3.8% (2008: 4.5%).

Borrowing facilities:

The Group had undrawn committed borrowing facilities at 31 March 2009, in respect of which all conditions precedent had been met, as follows:

	2009 £m	2008 £m
Maturing in 2009	**–**	200
Maturing in 2013	**500**	315
	500	515

The undrawn committed facilities at 31 March 2009 are the undrawn portion of the £550m RCF maturing in 2013.

Loans to joint ventures:

The Group provides loan facilities to Best Buy Europe and Virgin Mobile France. The terms of these loans are set out in note 16.

Debt maturity profile:
The maturity of the Group's borrowings is as follows:

	2009 £m	2008 £m
Less than 1 year	**33**	39
2 to 3 years	**–**	278
3 to 4 years	**425**	381
4 to 5 years	**–**	235
Total	**458**	933

Currency profile of borrowings:
The currency profile of the Group's borrowings is as follows:

	2009					2008				
By instrument	**Sterling £m**	**Euro £m**	**Swiss Franc £m**	**Other £m**	**Total £m**	Sterling £m	Euro £m	Swiss Franc £m	Other £m	Total £m
Bank loans and overdrafts	**458**	**–**	**–**	**–**	**458**	321	230	381	1	933

Fair value of financial liabilities:
The book value and fair value of the Group's loans and other borrowings are as follow:

	2009		2008	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Bank overdrafts	**33**	**33**	20	20
Other uncommitted bank loans	**–**	**–**	19	19
Committed bank loans	**425**	**425**	894	894
Total	**458**	**458**	933	933

Securities and guarantees:
None of the borrowings are secured over Group assets. Although some guarantees are given by Group companies, these guarantees are to cover commercial obligations and, as such, create no additional credit risk.

Functional currency:
At the end of the year, all of the Group's subsidiaries prepared accounts in either Sterling or Euro, further to the change in the functional currency of the Group's brand company detailed notes 4 and 22 and the disposal of the Group's South African subsidiary. Prior to the disposal of Best Buy Europe, the Group also had subsidiaries that prepared accounts in Swiss Francs and Swedish Krona.

22 Financial risk management and derivative financial instruments
The book value and fair value of the Group's financial assets, liabilities and derivative financial instruments, excluding the Group's loans and other borrowings shown above, are as follows:

	2009		2008	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Cash and cash equivalents	**6**	**6**	88	88
Trade and other receivables	**140**	**140**	813	813
Loans to joint ventures	**293**	**293**	–	–
Non-current asset investments	**1**	**1**	5	5
Available-for-sale investments	**–**	**–**	2	2
Forward currency contracts – fair value hedges	**–**	**–**	(3)	(3)
Forward currency contracts – cash flow hedges	**–**	**–**	(1)	(1)
Trade and other payables	**(267)**	**(267)**	(1,088)	(1,088)

The fair value of available-for-sale investments at 29 March 2008 was provided by third-party fund managers. Other fair values have been arrived at by discounting future cash flows, assuming no early redemption, or by revaluing forward currency contracts to year-end market rates or rates as appropriate to the instrument.

22 Financial risk management and derivative financial instruments – continued

Forward currency contracts – net investment hedges:

The Group uses forward currency contracts to hedge balance sheet assets and liabilities and also for short-term liquidity management. The Group currently holds no currency option contracts.

Forward currency contracts – cash flow hedges:

The Group also uses forward currency contracts to hedge transactional exposures. These contracts are mainly denominated in Euros, South African Rand and US Dollars and primarily cover costs of sales and operating expenses.

At 31 March 2009, the total notional principal amount of outstanding currency contracts was £344m (2008: £333m). Within this balance, £17m (2008: £31m) is held in relation to cash flow hedges, for which the associated fair value gains and losses will be transferred to the income statement when the transactions occur over the next 12 months. The remainder of the outstanding currency contracts relates to investments in and loans to the Group's non-Sterling operations. An expense of £3m was transferred to income in respect of forward currency contracts in the year ended 29 March 2008, which was offset by the foreign exchange movements of the financial instruments that they hedged. All cash flow hedges will reverse within the next financial year.

Embedded derivatives:

No contracts with embedded derivatives have been identified and accordingly no such derivatives have been accounted for separately.

The Group's activities expose it to a variety of financial risks including market risk (such as currency risk and interest rate risk), credit risk and liquidity risk. The Group Treasury function, which operates under approved treasury policies, uses certain financial instruments to mitigate potential adverse effects on the Group's financial performance from these risks. These financial instruments primarily consist of bank loans and deposits, spot and forward foreign exchange contracts, and foreign exchange swaps. Other products, such as interest rate swaps and currency options, can also be used depending on the risks to be covered. The Group does not trade or speculate in any financial instruments.

Foreign exchange risk:

The Group is exposed to limited cross-border transactional commitments and, where significant, these are hedged at inception using forward currency contracts. These exposures arise mainly through costs of sales and operating expenses. The Group's foreign exchange position is calculated daily and any positions are closed out immediately unless the exposure is immaterial. In some circumstances, the Group also hedges future currency commitments, which are accounted for as cash flow hedges. Group policy permits the use of long-term derivative treasury products (such as cross-currency swaps) for the management of currency risk although none are currently held. The principal currency in which Group exposures arise is the Euro.

Translational currency risk (for example, investments in overseas assets or the funding of subsidiaries) is ordinarily hedged using foreign exchange swaps or currency borrowings. The translation risk on converting overseas currency profit is not hedged and such profits are converted into Sterling at average exchange rates throughout the year.

Funding to Group subsidiaries is ordinarily denominated in the functional currency of each subsidiary. As detailed in note 4, the functional currency of CPW Brands Limited changed during the year from Swiss Francs to Sterling. As a result, foreign exchange movements arose in CPW Brands Limited on its Swiss Franc borrowings, prior to their redenomination to Sterling. These movements are reflected in the profit and loss account of CPW Brands Limited.

Currency loans and deposits and foreign exchange contracts are sensitive to movements in foreign exchange rates; this sensitivity can be analysed in comparison to year-end rates (assuming all other variables remain constant) as follows:

		2009		2008
	Income statement movement £m	**Equity movement £m**	Income statement movement £m	Equity movement £m
10% movement in the Sterling/Euro exchange rate	**–**	**3**	–	43

Changes in the value of currency loans and foreign exchange contracts would not be expected to have an impact in the income statement, as they match currency assets, the value of which would rise or fall correspondingly, with net investment hedges assumed to remain fully effective.

The impact on equity of revaluations would be partially offset on consolidation by the revaluation of any net assets that are hedged by these borrowings and derivatives.

The effect of foreign exchange derivatives on borrowings at the year end was as follows:

					2009					2008
By instrument	**Sterling £m**	**Euro £m**	**Swiss Franc £m**	**Other £m**	**Total £m**	Sterling £m	Euro £m	Swiss Franc £m	Other £m	Total £m
Borrowings before derivatives	**458**	**–**	**–**	**–**	**458**	321	230	381	1	933
Derivatives	**(44)**	**45**	**–**	**(1)**	**–**	(302)	203	66	33	–
Total	**414**	**45**	**–**	**(1)**	**458**	19	433	447	34	933

Interest rate risk:

The Group's interest rate risk arises primarily from cash, cash equivalents and borrowings, all of which are at floating rates of interest and thus expose the Group to cash flow interest rate risk. These floating rates are linked to LIBOR and other interest rate bases as appropriate to the instrument and currency. Future cash flows arising from these financial instruments depend on interest periods agreed at the time of rollover. Group policy permits the use of long-term interest rate derivatives in managing the risks associated with movements in interest rates although the Group holds none of these products at present.

Since all cash, cash equivalents and borrowings are at floating rates of interest, no further disclosure on the effect of interest rate derivative products has been provided.

Cash and borrowings, as well as some foreign exchange products, are sensitive to movements in interest rates and such movements have been analysed in the chart below by calculating the effect on the income statement and equity of 1% movements in the interest rate for the currencies in which most Group cash and borrowings are denominated. Funding to joint ventures and associates has been offset against gross borrowings in calculating these sensitivities. This analysis has been prepared on the assumption that the year-end positions prevail throughout the year, and therefore may not be representative of fluctuations in levels of borrowings.

		2009		2008
	Income statement movement £m	**Equity movement £m**	Income statement movement £m	Equity movement £m
1% movement in the Sterling interest rate	**2**	**–**	–	–
1% movement in the Euro interest rate	**–**	**–**	4	–

Liquidity risk:

The Group manages its exposure to liquidity risk by regularly reviewing the long- and short-term cash flow projections for the business against facilities and other resources available to it. Regular reports are made to the Audit Committee assessing current facilities and debt and, in the shorter-term, weekly reports are circulated to senior management showing variances against the Group's cash flow budget. Headroom is assessed based on historical experience as well as by assessing current business risks, including foreign exchange movements. Existing facilities do not expire for more than three years; it is Group policy to refinance debt maturities significantly ahead of maturity dates.

The table below analyses the Group's financial liabilities into relevant maturity groupings. The amounts disclosed in the table are the contractual undiscounted cash flows assuming interest rates remain constant and that borrowings are paid in full in the year of maturity.

2009

	Less than 1 year £m	**1 to 2 years £m**	**2 to 3 years £m**	**3 to 4 years £m**	**4 to 5 years £m**	**More than 5 years £m**	**Total £m**
Borrowings	**(49)**	**(13)**	**(15)**	**(442)**	**–**	**–**	**(519)**
Derivative financial instruments – payable	**(344)**	**–**	**–**	**–**	**–**	**–**	**(344)**
Derivative financial instruments – receivable	**344**	**–**	**–**	**–**	**–**	**–**	**344**
Trade and other payables	**(305)**	**–**	**–**	**–**	**–**	**–**	**(305)**

2008

	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	More than 5 years £m	Total £m
Borrowings	(79)	(41)	(317)	(27)	(262)	(388)	(1,114)
Derivative financial instruments – payable	(302)	–	–	–	–	–	(302)
Derivative financial instruments – receivable	302	–	–	–	–	–	302
Trade and other payables	(1,087)	(1)	–	–	–	–	(1,088)

22 Financial risk management and derivative financial instruments – continued

Credit risk:

The Group's exposure to credit risk is regularly monitored and the Group's policy updated as appropriate. Debt, investments, foreign exchange and derivative transactions are all spread amongst a number of banks all of which have short- or long-term credit ratings appropriate to the Group's policies and exposures. Trade receivables primarily comprise balances due from residential and corporate fixed line customers, and provision is made for any receivables that are considered to be irrecoverable.

23 Provisions

2009

	Insurance £m	Reorganisation £m	Sales £m	Other £m	Total £m
Opening balance	7	12	57	14	90
Charge to income statement	10	10	9	14	43
Utilised in the year	(11)	(5)	(15)	(10)	(41)
Disposal of subsidiaries	(6)	(11)	(51)	–	(68)
Closing balance	**–**	**6**	**–**	**18**	**24**

2008

	Insurance £m	Reorganisation £m	Sales £m	Other £m	Total £m
Opening balance	10	9	68	22	109
Acquisition of subsidiaries	–	–	1	1	2
Charge to income statement	39	5	79	1	124
Released in the year	–	–	–	(2)	(2)
Utilised in the year	(42)	(2)	(93)	(9)	(146)
Foreign exchange	–	–	2	1	3
Closing balance	7	12	57	14	90

Provisions are categorised as follows:

Insurance:

Insurance provisions represent the anticipated costs of all policyholder claims notified but not settled and claims incurred but not reported at the balance sheet date. Insurance provisions relate to the retail and distribution business which was part-disposed during the year.

Reorganisation:

Reorganisation provisions at the start of the year relate principally to reorganisation programmes initiated in relation to business acquisitions or disposals. Increases in the provision at 31 March 2009 relate to the reorganisation programmes set out in note 4. Costs have only been charged to provisions where such programmes have not been completed by the balance sheet date. Reorganisation provisions are expected to be utilised over the next 12 months.

Sales:

Sales provisions relate to "cash-back" and similar promotions, product warranties, product returns, and network operator performance penalties. Sales provisions relate to the retail and distribution business which was part-disposed during the year.

Other:

Other provisions relate principally to the anticipated costs of unresolved tax issues and legal disputes, and costs associated with onerous contracts. The charge to the income statement during the year includes provision for warranties given in the sale agreement with Best Buy.

24 Share capital

	2009 million	2008 million	2009 £m	2008 £m
Authorised				
Ordinary shares of 0.1p each	**1,500**	1,500	**2**	2
Allotted, called-up and fully paid				
Ordinary shares of 0.1p each	**914**	914	**1**	1

25 Reserves and accumulated profits

2009

	Share capital £m	Share premium reserve £m	Translation reserve £m	Accumulated profits £m	Total £m
Opening balance	1	476	(66)	240	651
Net profit for the year	–	–	–	550	550
Currency translation and cash flow hedges	–	–	25	–	25
Net transfer to profit on disposal from equity of cumulative translation differences for discontinued activities	–	–	(10)	–	(10)
Net transfer to profit on disposal from equity of gains on available-for-sale assets for discontinued activities	–	–	–	(2)	(2)
Tax on items recognised directly in reserves (see note 9)	–	–	–	(16)	(16)
Net change in available-for-sale investments	–	–	–	1	1
Net purchase of own shares (see below)	–	–	–	(51)	(51)
Net cost of share-based payments (see note 7)	–	–	–	6	6
Equity dividends (see note 10)	–	–	–	(38)	(38)
Closing balance	**1**	**476**	**(51)**	**690**	**1,116**

2008 (restated)

	Share capital £m	Share premium reserve £m	Translation reserve £m	Accumulated profits £m	Total £m
Opening balance	1	427	2	225	655
Net profit for the year	–	–	–	73	73
Currency translation and cash flow hedges	–	–	(68)	–	(68)
Tax on items recognised directly in reserves (see note 9)	–	–	–	7	7
Net change in available-for-sale investments	–	–	–	(8)	(8)
Issue of share capital	–	49	–	–	49
Net purchase of own shares (see below)	–	–	–	(35)	(35)
Net cost of share-based payments (see note 7)	–	–	–	9	9
Equity dividends (see note 10)	–	–	–	(31)	(31)
Closing balance	1	476	(66)	240	651

Net purchase of own shares:

The Group has an Employee Share Ownership Trust (“ESOT”) which holds 22m shares (2008: 7m) in the Company for the benefit of the Group’s employees. The ESOT has waived its rights to receive dividends and none of its shares has been allocated to specific schemes. At 31 March 2009 the shares had a market value of £28m (2008: £19m).

26 Analysis of changes in net debt

2009

	At 30 March 2008 £m	Cash flows £m	Exchange movements £m	Non-cash movements £m	At 31 March 2009 £m
Cash and cash equivalents	88	(81)	(1)	–	6
Bank overdrafts	(20)	(13)	–	–	(33)
	68	(94)	(1)	–	(27)
Current loans and other borrowings	(19)	19	–	–	–
Non-current loans and other borrowings	(894)	602	(133)	–	(425)
	(913)	621	(133)	–	(425)
Current asset investments	2	–	–	(2)	–
Net debt	**(843)**	**527**	**(134)**	**(2)**	**(452)**
Loans to Best Buy Europe					293
Underlying net debt					**(159)**

2008

	At 1 April 2007 £m	Cash flows £m	Exchange movements £m	Non-cash movements £m	At 29 March 2008 £m
Cash and cash equivalents	111	(23)	–	–	88
Bank overdrafts	(12)	(8)	–	–	(20)
	99	(31)	–	–	68
Current loans and other borrowings	(11)	(8)	–	–	(19)
Non-current loans and other borrowings	(708)	(30)	(156)	–	(894)
	(719)	(38)	(156)	–	(913)
Current asset investments	2	(8)	–	8	2
Net debt	(618)	(77)	(156)	8	(843)

Movements on loans to Best Buy Europe in the period since 30 June 2008 include exchange movements of £48m on non-Sterling loans. These exchange movements are also reflected in the Group borrowings that were used to fund them.

27 Commitments under operating leases

The Group leases network infrastructure and offices under non-cancellable operating leases. The leases have varying terms, purchase options, escalation clauses and renewal rights.

The Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2009 £m	2008 £m
Within one year	**11**	134
In two to five years	**17**	331
After five years	**23**	275
	51	740

Commitments at 29 March 2008 included £691m in relation to discontinued operations.

28 Capital commitments

	2009 £m	2008 £m
Expenditure contracted, but not provided for in the financial statements	**8**	18

Commitments at 29 March 2008 included £15m in relation to discontinued operations.

29 Pension arrangements

The Group provides various defined contribution pension schemes for the benefit of a significant number of its employees, the cost of which for continuing operations for the year was £2m (2008: £2m). The cost of pension schemes in relation to discontinued operations was £1m (2008: £3m).

30 Contingent liabilities

European VAT authorities continue to investigate the recovery of VAT in the industry for trading activities conducted prior to April 2003. Having undertaken a detailed internal investigation and taken advice, the Directors continue to believe that there is no financial exposure to this issue within the financial statements.

31 Related party transactions

During the year, the Group had the following disclosable transactions with its joint ventures and associates (see note 16):

2009

	Best Buy Europe £m	Virgin Mobile France £m	Geek Squad UK £m	The Phone House Services Telecoms SAS £m
Revenue for services provided	**9**	**4**	**–**	**–**
Expenses for services received	**(31)**	**–**	**–**	**(1)**
Interest income (net)	**12**	**1**	**–**	**–**
Loans owed to the Group	**293**	**22**	**–**	**–**
Other amounts owed to the Group	**13**	**–**	**–**	**–**
Amounts owed by the Group	**(24)**	**–**	**–**	**–**

2008

	Virgin Mobile France £m	Geek Squad UK £m	The Phone House Services Telecoms SAS £m
Revenue for services provided	11	2	1
Expenses for services received	–	(1)	(3)
Sale of stock	8	–	–
Interest income (net)	1	–	–
Loans owed to the Group	12	5	–
Other amounts owed to the Group	1	1	–

The terms of loans owed to the Group are set out in note 16. Transactions with The Geek Squad UK and The Phone House Services Telecoms SAS have been disclosed as a related party transaction until 30 June 2008, from which date they were subsumed within Best Buy Europe.

Revenue for services provided during the year principally relates to telecommunications services. Expenses for services received relate primarily to IT services and commissions on product sales.

All products and services were provided at market rates.

During the year, no consortium relief (2008: £3m) was claimed on the losses of the Virgin Mobile France joint venture.
The Group has procured services from a company controlled by a relative of one of the members of Key Management totalling £0.7m (2008: £0.5m) during the year. No amounts were owed to this Company at 31 March 2009 (2008: £0.1m).

In December 2008, 1.6m shares in the Company were gifted by the Group's Employee Share Ownership Trust to certain senior employees of Best Buy Europe. The shares are restricted until 30 June 2010 and will be forfeited if various internal performance conditions are not met.

32 Post balance sheet events

On 8 May 2009, the Group announced that it had agreed for TalkTalk Group to acquire Tiscali's UK operations for a total cash consideration of £236 million, funded entirely from existing Group debt facilities. Completion is subject only to EU competition authority clearance and Tiscali S.p.A. obtaining formal approval pursuant to its debt restructuring plan. Completion is currently expected in June 2009.

33 Restatement of comparative information

Comparative information has been restated to present the results of Best Buy Europe as discontinued operations and to reflect a change in the Group's accounting policy for subscriber acquisition costs ("SAC").

	As previously reported £m	Discontinued operations (see note 5) £m	Change in accounting policy** (see note 1) £m	Restated £m
Income statement for the year ended 29 March 2008				
Continuing operations				
Revenue*	**4,474**	**(3,050)**	**–**	**1,424**
Cost of sales	(2,860)	2,068	–	(792)
Gross profit	**1,614**	**(982)**	**–**	**632**
Operating expenses excluding amortisation and depreciation	(1,163)	725	(107)	(545)
EBITDA	**451**	**(257)**	**(107)**	**87**
Depreciation	(81)	47	–	(34)
Amortisation and goodwill expense	(197)	55	54	(88)
Share of results of joint ventures and associates	(6)	1	(1)	(6)
Profit (loss) before interest and taxation	**167**	**(154)**	**(54)**	**(41)**
Interest expense	(53)	2	–	(51)
Interest income	11	(5)	–	6
Profit (loss) before taxation	**125**	**(157)**	**(54)**	**(86)**
Taxation	(7)	14	15	22
Net profit (loss) for the year from continuing operations	**118**	**(143)**	**(39)**	**(64)**
Net profit for the year from discontinued operations	–	143	(6)	137
Net profit for the year	**118**	**–**	**(45)**	**73**

* Revenue reclassified as discontinued operations comprises retail and distribution revenue of £3,091m, less eliminations of £41m which are not relevant for continuing operations.

** The effect of the change in accounting policy is to show SAC that had previously been capitalised as an operating expense and to reverse the amortisation of SAC that had previously been capitalised.

	As previously reported £m	Discontinued operations (see note 5) £m	Change in accounting policy (see note 1) £m	Restated £m
Balance sheet as at 29 March 2008				
Other intangible assets	569	–	(118)	451
Interests in joint ventures and associates	13	–	(1)	12
Deferred tax assets	61	–	35	96
Other non-current assets	1,130	–	–	1,130
Non-current assets	**1,773**	**–**	**(84)**	**1,689**
Current assets	**1,115**	**–**	**–**	**1,115**
Total assets	**2,888**	**–**	**(84)**	**2,804**
Total liabilities	**(2,153)**	**–**	**–**	**(2,153)**
Net assets	**735**	**–**	**(84)**	**651**
Share capital and premium	477	–	–	477
Accumulated profits	320	–	(80)	240
Translation reserve	(62)	–	(4)	(66)
Funds attributable to equity shareholders	**735**	**–**	**(84)**	**651**

Balance sheet as at 31 March 2007				
Other intangible assets	514	–	(55)	459
Deferred tax assets	62	–	20	82
Other non-current assets	980	–	–	980
Non-current assets	**1,556**	**–**	**(35)**	**1,521**
Current assets	**1,019**	**–**	**–**	**1,019**
Total assets	**2,575**	**–**	**(35)**	**2,540**
Total liabilities	**(1,885)**	**–**	**–**	**(1,885)**
Net assets	**690**	**–**	**(35)**	**655**
Share capital and premium	428	–	–	428
Accumulated profits	260	–	(35)	225
Translation reserve	2	–	–	2
Funds attributable to equity shareholders	**690**	**–**	**(35)**	**655**

33 Restatement of comparative information – continued

	As previously reported £m	Discontinued operations (see note 5) £m	Change in accounting policy (see note 1) £m	Restated £m
Consolidated cash flow statement for the year ended 29 March 2008				
Operating activities				
Profit (loss) before interest and taxation	167	(154)	(54)	(41)
Adjustments for non-cash items:				
Share-based payments	9	–	–	9
Non-cash movements on joint ventures and associates	4	1	1	6
Depreciation	81	(47)	–	34
Amortisation and goodwill expense	197	(55)	(54)	88
(Profit) loss on disposal of property, plant and equipment, investments and intangible assets	(5)	6	–	1
Operating cash flows before movements in working capital	**453**	**(249)**	**(107)**	**97**
(Increase) decrease in trade and other receivables	(95)	111	–	16
Increase in stock	(59)	58	–	(1)
Increase in trade and other payables	191	(191)	–	–
Decrease in provisions	(22)	18	–	(4)
Cash generated from operations	**468**	**(253)**	**(107)**	**108**
Taxation paid	(11)	11	–	–
Cash flows from operating activities – continuing	**457**	**(242)**	**(107)**	**108**
Cash flows from operating activities – discontinued	**–**	**242**	**(40)**	**202**
Cash flows from operating activities	**457**	**–**	**(147)**	**310**
Investing activities				
Interest received	9	(3)		6
Proceeds from sale of property, plant and equipment and intangible assets	27	(27)	–	–
Disposal of subsidiaries, net of cash disposed	11	(11)	–	–
Acquisition of subsidiaries, net of cash acquired	(73)	5	–	(68)
Acquisition of intangible assets	(229)	68	107	(54)
Acquisition of property, plant and equipment	(197)	71	–	(126)
Investment in joint ventures and associates	(12)	5	–	(7)
Cash flows from investing activities – continuing	**(464)**	**108**	**107**	**(249)**
Cash flows from investing activities – discontinued	**–**	**(108)**	**40**	**(68)**
Cash flows from investing activities	**(464)**	**–**	**147**	**(317)**
Financing activities				
Proceeds from the issue of share capital	49	–	–	49
Net purchase of own shares	(35)	–	–	(35)
Increase in borrowings	38	–	–	38
Interest paid	(53)	2	–	(51)
Receipts from current asset investments	8	(8)	–	–
Dividends paid	(31)	–	–	(31)
Cash flows from financing activities – continuing	**(24)**	**(6)**	**–**	**(30)**
Cash flows from financing activities – discontinued	**–**	**6**	**–**	**6**
Cash flows from financing activities	**(24)**	**–**	**–**	**(24)**
Net decrease in cash and cash equivalents	**(31)**	**–**	**–**	**(31)**
Cash and cash equivalents at the start of the year	99	–	–	99
Cash and cash equivalents at the end of the year	**68**	**–**	**–**	**68**

The impact of restatements on segmental results for the year ended 29 March 2008 is as follows:

	Revenue £m	EBITDA £m	EBIT £m
TalkTalk Group			
Previously reported	1,399	226	125
Business transfers	25	–	–
Reallocation of PLC costs	–	(3)	(3)
Change in accounting policy	–	(107)	(53)
As restated	1,424	116	69
Best Buy Europe			
Previously reported	3,116	276	175
Business transfers	(25)	–	(1)
Reallocation of PLC costs	–	(19)	(19)
Change in accounting policy	–	(40)	(4)
As restated	3,091	217	151
PLC costs			
Previously reported	–	(36)	(36)
Reallocation of PLC costs	–	22	22
As restated	–	(14)	(14)
Joint ventures and associates			
Previously reported	–	–	(6)
Business transfers	–	–	1
Change in accounting policy	–	–	(1)
As restated	–	–	(6)

	2009 £m	Restated 2008 £m	Restated 2007 £m	Restated 2006 £m	Restated 2005 £m
Headline results					
Revenue*	**1,385**	1,424	1,116	604	368
Net profit for the year	**112**	137	90	99	78
Net assets employed					
Non-current assets	**1,751**	1,689	1,520	994	719
Net current (liabilities) assets before provisions	**(186)**	(53)	23	54	(17)
Provisions	**(24)**	(90)	(110)	(123)	(58)
Non-current liabilities	**(425)**	(895)	(779)	(327)	(107)
Net assets	**1,116**	651	654	598	537
Headline earnings per share					
Basic	**12.6p**	15.2p	10.2p	11.3p	9.0p
Diluted	**12.3p**	14.6p	9.7p	10.7p	8.6p

* Continuing operations only.

Independent Auditors' Report to the members of The Carphone Warehouse Group PLC ("the Company")

We have audited the Company financial statements for the year ended 31 March 2009 which comprise the balance sheet and the related notes 1 to 14. These financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements for the year ended 31 March 2009 and on the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 40.

Our responsibility is to audit the Company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Company financial statements give a true and fair view and whether the Company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the Directors' Report is consistent with the Company financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited Company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Company financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Company financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Company financial statements.

Opinion

In our opinion:

- the Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2009;
- the Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Company financial statements.

Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
4 June 2009

As at 31 March 2009

	Notes	31 March 2009 £m	29 March 2008 £m
Non-current assets			
Investments	4	**1,453**	913
Loans to joint ventures and associates	6	**315**	17
		1,768	930
Current assets			
Current asset investments	5	**–**	2
Trade and other receivables	6	**1,239**	1,656
		1,239	1,658
Trade and other payables: amounts falling due within one year	7	**(267)**	(968)
Net current assets		**972**	690
Total assets less current liabilities		**2,740**	1,620
Trade and other payables: amounts falling due after more than one year	8	**(425)**	(895)
Provisions	9	**(14)**	–
Net assets		**2,301**	725
Capital and reserves			
Called-up share capital	11	**1**	1
Share premium	12	**476**	476
Profit and loss account	12	**1,824**	248
Total capital employed	13	**2,301**	725

The accompanying notes are an integral part of this balance sheet.

The financial statements on pages 88 to 92 were approved by the Board on 4 June 2009 and signed on its behalf by:

C W Dunstone
Chief Executive Officer

R W Taylor
Chief Financial Officer

1 Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards under the historical cost convention, as modified by FRS 26 'Financial Instruments: Measurement'. The following principal accounting policies have been applied consistently throughout the current and preceding year.

The financial statements have been prepared on the going concern basis. Details of the considerations undertaken by the Directors in reaching this conclusion are set out on page 22 within the Business Review.

The Carphone Warehouse Group PLC consolidated financial statements for the year ended 31 March 2009 contain a consolidated statement of cash flows. Consequently, the Company has applied the exemption in FRS 1 'Cash Flow Statements' not to present its own cash flow statement.

Investments

Investments in subsidiaries and joint ventures are recognised at cost, being the fair value of consideration, acquisition charges associated with the investment and capital contributions by way of share-based payments, less any provision for permanent diminution in value.

Investments held in non-Group companies are treated as available-for-sale and recorded at fair value. Changes in fair value, together with any related deferred taxation, are taken directly to reserves, and recycled to the profit and loss account when the investment is sold or is determined to be impaired.

Share-based payments

The Company issues equity settled share-based payments to certain employees. Equity settled share-based payments are measured at fair value at the date of grant, and expensed over the vesting period, based on the Company's estimate of the number of shares that will eventually vest.

Fair value is measured by use of a Binomial model for share-based payments with internal performance criteria (such as Earnings Per Share targets) and a Monte Carlo model for those with external performance criteria (such as Total Shareholder Return targets).

For schemes with internal performance criteria, the number of options expected to vest is recalculated at each balance sheet date, based on expectations of performance against target and of leavers prior to vesting. The movement in cumulative expense since the previous balance sheet is recognised in the profit and loss account, with a corresponding entry in reserves.

For schemes with external performance criteria, the number of options expected to vest is adjusted only for expectations of leavers prior to vesting. The movement in cumulative expense since the previous balance sheet is recognised in the profit and loss account, with a corresponding entry in reserves.

Share-based payments issued by the Company to its subsidiary undertakings are treated as additions to investments based on the fair value of the grant, spread over the relevant vesting period, with a corresponding credit to reserves. Where the Company recharges the cost of share-based payments to its subsidiary undertakings the investment is reduced accordingly.

Dividends

Dividends receivable from the Company's subsidiaries and joint venture investments are recognised only when they are approved by shareholders.

Final dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recognised in the period in which they are paid.

Foreign currency translation

Material transactions in foreign currencies are hedged using forward purchases or sales of the relevant currencies and are recognised in the financial statements at the exchange rates thus obtained. Unhedged transactions are recorded at the exchange rate on the date of the transaction. Material monetary assets and liabilities denominated in foreign currencies are hedged, mainly using forward foreign exchange contracts to create matching liabilities and assets, and are retranslated at each balance sheet date. Hedge accounting as defined by FRS 26 has been applied in the year.

Loans and other borrowings

Loans and other borrowings represent committed and uncommitted bank loans, and bank overdrafts.

Bank fees and legal costs associated with the securing of external financing are capitalised and amortised over the term of the relevant facility. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Provisions

Provisions are recognised when the Company has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are discounted where the time value of money is considered to be material.

2 Profit and loss account

In accordance with the exemption permitted by section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented separately. The profit recognised for the year was £1,607m (2008: £15m).

Audit fees for the audit of the Company financial statements are £10,000 (2008: £10,000).

3 Equity dividends

	2009 £m	2008 £m
Final dividend for the year ended 31 March 2007 of 2.25p per ordinary share	**–**	20
Interim dividend for the year ended 29 March 2008 of 1.25p per ordinary share	**–**	11
Final dividend for the year ended 29 March 2008 of 3.00p per ordinary share	**26**	–
Interim dividend for the year ended 31 March 2009 of 1.35p per ordinary share	**12**	–
	38	31

Proposed final dividend for the year ended 31 March 2009 of 3.00p per ordinary share	**27**	

The proposed final dividend for the year ended 31 March 2009 is subject to shareholders' approval at the Annual General Meeting and has not been included as a liability in these financial statements.

The expected cost of this dividend reflects the fact that the Group's Employee Share Ownership Trust has agreed to waive its rights to receive dividends.

4 Non-current asset investments

	£m
At 30 March 2008	913
Additions	1,196
Impairments	(8)
Disposals	(657)
Foreign exchange	9
At 31 March 2009	**1,453**

	£m
At 1 April 2007	875
Additions	16
Impairments	(10)
Foreign exchange	42
Reclassification to current asset investments	(8)
Changes in fair value	(2)
At 29 March 2008	913

Fixed asset investments at 31 March 2009 comprise £319m in relation to subsidiary undertakings and £1,134m in relation to joint ventures and associates.

During the year the Company impaired in full its investment in Frontiers Capital II LP, an independently managed wireless investment fund. During the year a dividend was received from one of the Group's subsidiaries. As a result of this dividend the investment held in the subsidiary became impaired by £4m, being the amount of the dividend received.

Additions and disposals relate primarily to the reorganisation of the Group in preparation for the sale of 50% of its retail and distribution business.

Additions include £5m (2008: £4m) of capital contributions to subsidiary undertakings, joint ventures and associates by way of share-based payments in accordance with UITF 44 'FRS 20 – Group and Treasury Share Transactions'.

Details of the Company's investments in material subsidiary undertakings are provided in note 15 to the Group's financial statements.

5 Current asset investments

	2009 £m	2008 £m
Available-for-sale investments	–	2

6 Trade and other receivables

Non-current	2009 £m	2008 £m
Loans to joint ventures and associates	**315**	17
	315	17

Current	2009 £m	2008 £m
Amounts owed by Group undertakings	**1,235**	1,652
Other debtors	**3**	1
Prepayments and accrued income	**1**	3
	1,239	1,656

Loans to joint ventures and associates are repayable in more than one year.

Amounts owed by Group undertakings are repayable within 12 months of the balance sheet date.

7 Trade and other payables: amounts falling due within one year

	2009 £m	2008 £m
Loans and overdrafts	**19**	32
Amounts owed to Group undertakings	**231**	916
Other payables	**9**	6
Forward currency contracts	–	3
Accruals and deferred income	**8**	11
	267	968

8 Trade and other payables: amounts falling due after more than one year

	2009 £m	2008 £m
Loans	**425**	894
Other payables	–	1
	425	895

9 Provisions

	£m
At 30 March 2008	–
Amounts charged to the profit and loss account	14
At 31 March 2009	**14**

The charge to the profit and loss account during the year relates to provisions for warranties given in the sale agreement with Best Buy.

10 Financial instruments

The Company has applied the exemption under FRS 25 'Financial Instruments: Disclosure and Presentation' not to disclose details of financial instruments held by the Company. Full disclosure of the Group's financial instruments under FRS 29 (IFRS 7) 'Financial Instruments: Disclosures' and IAS 39 'Financial Instruments: Recognition and Measurement' is provided in notes 21 and 22 to the Group financial statements.

11 Share capital

	2009 million	2008 million	2009 £m	2008 £m
Authorised				
Ordinary shares of 0.1p each	**1,500**	1,500	**2**	2
Allotted, called-up and fully paid				
Ordinary shares of 0.1p each	**914**	914	**1**	1

12 Reserves

	Share capital £m	Share premium £m	Profit and loss account £m	Total £m
At 30 March 2008	1	476	248	725
Retained profit for the year	–	–	1,569	1,569
Net change in available-for-sale investments	–	–	1	1
Net cost of share-based payments	–	–	6	6
At 31 March 2009	**1**	**476**	**1,824**	**2,301**

	Share capital £m	Share premium £m	Profit and loss account £m	Total £m
At 1 April 2007	1	427	261	689
Retained loss for the year	–	–	(16)	(16)
Net change in available-for-sale investments	–	–	(6)	(6)
Issue of share capital	–	49	–	49
Net cost of share-based payments	–	–	9	9
At 29 March 2008	1	476	248	725

Included in the profit for the year is a share-based payments charge of £1m (2008: £5m) representing the cost of share-based payments granted to Group employees whose costs are borne by the Company.

13 Reconciliation of movements in shareholders' funds

	2009 £m	2008 £m
Profit for the year	**1,607**	15
Equity dividends	**(38)**	(31)
Retained profit (loss) for the year	**1,569**	(16)
Net change in available-for-sale investments	**1**	(6)
Issue of share capital	**–**	49
Net cost of share-based payments	**6**	9
Net movement in shareholders' funds	**1,576**	36
Opening shareholders' funds	**725**	689
Closing shareholders' funds	**2,301**	725

14 Related party transactions

The Company has taken advantage of the exemption under FRS 8 'Related Party Disclosures' not to provide details of related party transactions with other Group companies, as the Company financial statements are presented together with the consolidated Group financial statements.

The Company has provided the following loans to joint ventures and associates:

	Loans outstanding		Interest charged	
	31 March 2009 £m	29 March 2008 £m	2009 £m	2008 £m
Best Buy Europe	**293**	–	**12**	–
Virgin Mobile France	**22**	12	**1**	1
Geek Squad UK	**–**	5	**–**	–

Financial Calendar

Results announcement	5 June 2009
Ex-dividend date	8 July 2009
Record date	10 July 2009
Dividend payment date	7 August 2009
Interim results announcement	19 November 2009

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