



Number  
**Carphone Warehouse**  
choice for mobile communications



# Europe's No.1

## mobile in all markets

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### Financial highlights

	53 weeks 2001 £m	52 weeks 2000 £m
Turnover	1,110.7	697.7
Gross profit	280.6	192.0
EBITDA <sup>†</sup> pre MViva	70.8	41.8
EBITDA <sup>†</sup>	66.0	41.4
Exceptional items	6.6	(5.1)
Profit before tax*	49.6	30.6
Earnings per share*	5.4p	3.8p

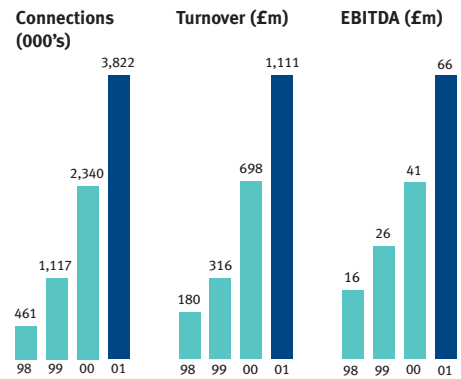
<sup>†</sup> Earnings before interest, taxation, depreciation and amortisation

\* Before exceptionals and amortisation

**The Phone House**  
CENTRE DE COMMUNICATION



- 59% growth in turnover to over £1.1bn
- EBITDA growth of 60% (69% pre MViva)
- Significant market share of high value subscription customers
- Continued investment in pan-European distribution
- Facilities management customer base of 214,000
- 220,000 registered MViva customers
- Full spectrum of mobile communication services now established





The Carphone Warehouse's success is based on our ability to offer simple, impartial advice and deliver award winning customer service through a broad range of distribution channels and after-sales care. In addition, our European scale enables us to leverage our relationships with networks and handset manufacturers; and through our operational infrastructure we are able to continue our growth and maximise future returns.

This formula has again produced very strong results. Turnover and EBITDA increased by an impressive 59% and 60% to £1,110.7 million and £66.0 million respectively. In line with previous years our results continue to reflect our business seasonality between the first and second half of the year with over 75% of earnings being achieved in the six months to March 2001.

Within our Distribution business we now have over 1,050 stores across Europe. All areas of the Distribution business including Retail, Online, Insurance and Wholesale have enjoyed considerable growth and success. Highlights include the integration of the Tandy portfolio within the UK business, the ongoing development of market leading positions in France, Spain, Belgium, The Netherlands, Ireland, Portugal and Sweden, and significant investment in other markets such as Germany. In addition, our Online channels through transactional websites and our call centres have exceeded our expectations.

The differentiating factor in our Distribution business has been our ability to attract and retain high value customers. These higher spending customers are critical to our success and to that of the

### Our proven track record in providing services that attract valuable customers positions us ideally to take advantage of the changing market environment

networks and handset manufacturers. Over the last 12 months, in a consumer market dominated by pre-pay, we have continued to perform strongly by attracting a considerably higher percentage of valuable subscription based customers than the market as a whole. We have been able to do this and will continue to do so through our focus on customer service, the strength of our brand and our operational infrastructure.

As mobile phone penetration increases and mobile internet capabilities expand, customers will increasingly replace and upgrade their existing mobile phones. The network operators in

turn will focus on attracting and retaining high value customers rather than purely on customer acquisition. Our proven track record in providing services that attract valuable customers ideally positions us to take advantage of this changing market environment.

Our commitment to customer service has always looked beyond the point of sale. We invest in our customer care services, provide Lifeline insurance products and other value-added services such as

### Our commitment to customer service has always looked beyond the point of sale and we have further strengthened our after-sales customer relationships through the establishment of our Telecoms Services division

trade-in offers, a 14 day repair pledge and ultimate price promises.

Over the last 12 months we have further strengthened our after-sales customer relationships through the successful establishment of our Telecoms Services division. Currently managing a base of over 214,000 customers, the division comprises facilities management with services such as billing and revenue management on behalf of leading network operators and our own mobile virtual network operator (MVNO). In the future we will be looking to expand this business model across Europe.

The outlook for new technologies is tremendously exciting, as is the recent launch of GPRS (always-on mobile internet services). We believe that it will be those who are able to offer innovative data and tailored content services beyond traditional voice that will succeed in this new environment.

### MViva has attracted over 220,000 customers who access customised, relevant information directly from their mobile phone

As a result during the period we have continued to develop our Wireless Data Services division, predominantly through MViva, our pan-European wireless internet portal. This division is focused on establishing the infrastructure and innovative content from which to maximise the potential from these new technologies.

To date MViva has attracted over 220,000 customers who access customised, relevant information directly from their mobile phones and PDAs (Personal Digital Assistants) on a regular basis. Over the coming months we will concentrate on offering additional data services such as text messaging, ring-tones, icons and audio text.

Through delivery of distribution, telecoms and wireless data services, we are uniquely able to offer customers the complete spectrum of mobile communications, from point of sale, after-sales support and billing processes to providing tailored content, new technologies and additional innovative services.

Clearly as retention of high value customers becomes the priority for both distributors and networks so this ability to offer a total customer solution will become increasingly important to our business.

This is demonstrated by the newly launched FT Mobile, a commercial joint venture between The Carphone Warehouse and The Financial Times to offer a customised phone package for high spending subscribers.

## Our success this year is thanks to the commitment and expertise of all our 5,500 employees

The first partnership of its kind in the UK, FT Mobile provides breaking news and tailored information from FT.com and access to real time financial information. The Carphone Warehouse in turn provides all distribution, after-sales care, billing, portal technology and marketing support. Customer interest to date has been extensive and we believe the service will be a great success.

Our continued achievement this year is thanks to the commitment and expertise of all our 5,500 employees; 23% of those eligible signed up to the SAYE programme launched in April 2001. Our success is also thanks to the strength of the management team, and the support of our investors, business partners and suppliers. It is also recognised by both the telecoms and retail industries. The Group was recently awarded Retail

Employer of the Year 2001 and Customer Service Initiative of the Year 2001 in the prestigious Retail Week awards. In addition we were recognised as Large Retailer of the Year and voted leader in Customer Service at the 2001 UK Mobile News awards. A further demonstration of our confidence in the future is that we are planning to employ an additional 1,500 employees across the Group in the next 12 months.

As these results clearly demonstrate we have continued to maximise the opportunities and potential within the environment in which we operate. Looking ahead, I believe we are perfectly positioned to continue to succeed in this ever-changing market and will retain and build our position as Europe's leading distributor of mobile communications products and services.

**Charles Dunstone**

Chairman and Chief Executive Officer

## In the pink by attracting higher value customers

The Carphone Warehouse is uniquely able to offer customers the complete spectrum of mobile communications, from point of sale, after-sales support and billing processes to providing tailored content, new technologies and additional innovative services.



### Distribution

The Distribution business enjoyed a strong performance generating total revenues of £1,079.1m against £685.8m in the previous period and contribution of £101.2m compared to £63.1m in the previous period, an impressive growth of 57% and 60% respectively. These results clearly endorse our Distribution growth strategy of building market share, expanding our store portfolio, growing our online sales and attracting high value customers.

The revenue streams for the Distribution business are divided into Retail, Online, Insurance and Wholesale and are derived from the sale of mobile handsets, accessories and other telephony products and the provision of insurance services.

Our Retail business connected over 3.6 million customers in the period, reflecting an increase of 65% on the previous period. This growth came from both high value subscription contracts where handsets are sold to customers who enter into airtime contracts and pre-pay where customers pay for airtime in advance.

Despite the significant increase in the demand for pre-pay handsets over the last 18 months, we have continued to perform strongly in the European subscription connection market. Over 43% of

our retail and online connections were to these high value customers.

The Retail business has a store portfolio of 1,059 across Europe in contrast to the 631 (excluding Tandy) stores at the same time last year, an increase of 68%.

In the UK we have now successfully integrated the Tandy portfolio and have converted over 150 stores to the Carphone Warehouse brand. In addition we have successfully opened 40 new stores, particularly in out of town retail parks and key high street locations.

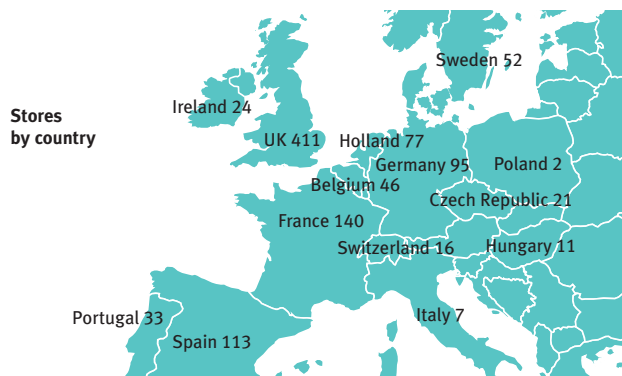
Our focus in France has been to further establish The Phone House brand and we have increased our store portfolio by 37 to 140, including the acquisition and conversion of a portfolio of stores situated in key shopping centres across France, acquired from Multiples Clothing.

In Germany we have invested significantly and grown the store portfolio from 6 to 95 ideally positioning us to develop our brand proposition in this strategically important market.

In Spain we increased the store portfolio from 84 to 113. Our focus during the period has been organic expansion and the

## Strengthening customer connections

The strong performance in our Distribution business reflects our strategy of building market share, expanding our store portfolio, growing our online sales and attracting high value customers.



# one stop shop



integration of the Viva Voce chain, acquired in February 2000.

In The Netherlands we have developed a strong position in both the business to business and consumer markets. We now have 77 stores compared to 43 last year and our focus has been to build market share and integrate the Road Phone network of 17 business stores, acquired in September 2000.

Sweden, where our store portfolio has increased from 45 to 52, continues to give us evidence of trading conditions in a highly penetrated market. Both our subscription to pre-pay mix and our turnover per store have improved from the prior period. This gives us real visibility that our proposition will continue to work well as penetration increases in other European markets.

In our other key markets our focus is to combine the experience gained elsewhere with excellent local management knowledge and expertise to generate further growth. Our opportunity lies in further developing The Phone House brand and customer proposition, identifying key retail locations and continuing to build our relationships with local network operators and manufacturers.

In certain smaller non-key markets, where the prospects of

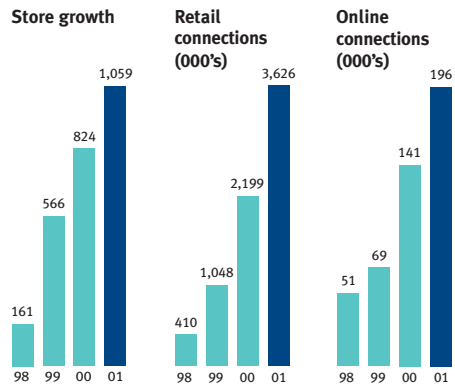
achieving acceptable financial returns are not evident, the Group has announced its intention to either restructure its operations or to withdraw its involvement.

The other Distribution channels have enjoyed considerable success in the period. Our Online business comprising the web and call centre operations has generated over 196,000 connections in the period compared to 141,000 last year.

Our transactional websites each deliver a fulfilment capability that is fully integrated with our retail sales and stock ordering systems allowing us to provide customers with equivalent choice and next day delivery.

The Insurance business continues to perform well with growth in our policyholder base of 56% to 795,000 by March 2001. This reinforces our belief in delivering after-sales services on which our customers can rely.

Other Distribution activities including our Wholesale division continue to reflect the level of handset demand, with strong performance. The growth in this area also reflects the pre-pay voucher distribution business acquired through the Cellcom operation.



## Telecoms Services

Our Telecoms Services division progressed significantly in the period with an increase in revenue of 192% from £10.5m to £30.5m and contribution of 86% from £9.7m to £18.1m. These results clearly demonstrate our success in generating telecoms revenue beyond the point of sale. It is also reflective of our ability to develop the facilities management business that we acquired during the period. In the future we will look to expand this business model across Europe.

The revenue streams for Telecoms Services are divided into both airtime revenue and facilities management services for network operators and our own virtual network.

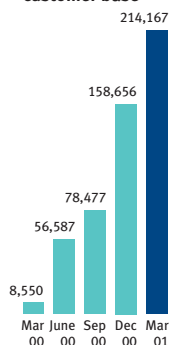
The Group generates a share of airtime revenue from subscribers introduced through our distribution network to a wide range of European mobile network operators. This income is generated as a result of our alignment with the networks in wanting to attract and retain high spending customers.

Our facilities management business is responsible for the after-sales care of over 214,000 customers. The division provides a range of services from billing, revenue management and credit control, through to customer call and messaging services. Increased ARPU (average revenue per user) levels indicate that the facilities management business has the potential for significant growth, and relationships with additional European networks are being developed.

The facilities management business is also responsible for the after-sales care and management of customers generated through content-rich partnerships and alliances such as FT Mobile.

Our MVNO business, Value Telecom, has an increasing customer base. Launched in December 1999 through an airtime agreement with One2One, Value Telecom was one of the first MVNOs operating in Europe. The packages offered are designed to recognise the gap between traditional subscription and pre-pay services and offer low monthly rental and monthly billing and airtime top-up notification by SMS.

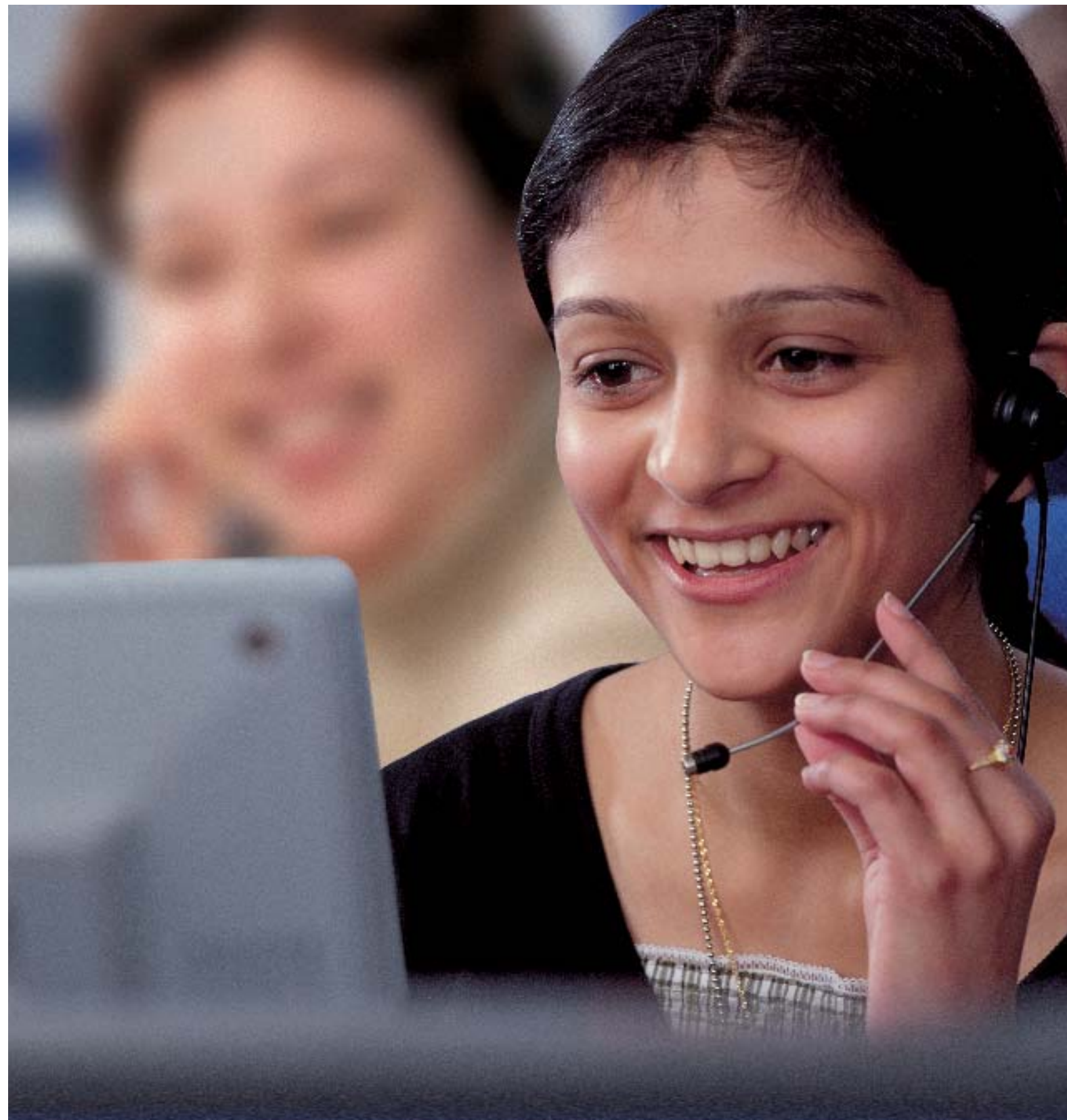
Telecoms Services customer base



# Responding to the call for service

Our success is based on generating additional revenue streams beyond the point of sale. This has been achieved through building our ongoing airtime revenue and facilities management services.





## Wireless Data Services

### Data services



# on the move

MViva continues to advance having developed functional technology in five European markets, securing joint home-page arrangements with key European networks and growing its base to over 220,000 registered customers.



The Wireless Data Services division has made considerable progress in the period. The division comprises MViva, our wireless internet portal and our interest in a wireless investment fund.

In the last 12 months MViva, partly funded by AOL, has developed a fully functional wireless portal in five European markets, has secured joint home-page arrangements with key European network operators and has over 220,000 registered customers.

Our MViva portal is multi-access, which means it is accessible via both mobile and fixed line devices, including mobile phones, PDAs, personal computers and interactive television. Customers can subscribe to the portal through the Carphone Warehouse retail network, where sales consultants can demonstrate and customise the service at the point of sale, and through [www.mviva.com](http://www.mviva.com).

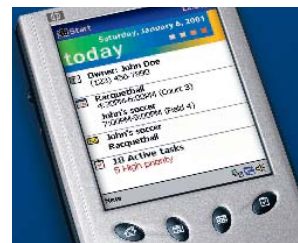
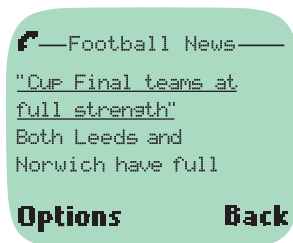
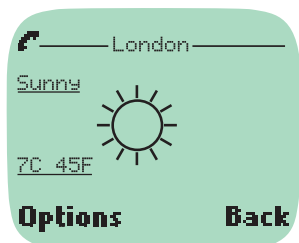
MViva offers an extensive range of content that can be personalised to customers' individual needs, from up to date news and financial information to sports results, games and shopping channels. In the coming months, with the arrival of

GPRS, the opportunity to generate additional revenue streams for the portal through new technologies and innovative data services will become a reality.

Following the success of the portal, MViva is broadening its potential to offer additional data services for mobile phone users such as credit card facilities, ring-tones, icons, targeted SMS and audio texting.

Our wireless investment fund has made a series of strategic investments in new wireless technology companies in order to strengthen our ability to capture and influence the rapid advance from these new technologies and services.

Prior to the year-end, our own investments were successfully transferred into an independently managed fund. As a result, a further \$25m was raised from new partners and we are confident that the size of the fund will increase further, along with the diversity of investors in the future. At 31 March 2001 monies under management were \$85m.



## Corporate responsibility

The Carphone Warehouse Group PLC's achievements over the last 12 months are clear evidence of our commitment to being a responsible business. By putting our customers first and through our relationship with our employees, we have developed innovative and effective ways of making positive contributions to society and the environment.

### Charitable activities

One of the year's biggest successes was the 'Challenge Yourself' programme in support of Macmillan Cancer Relief. With a commitment to raise over £1 million, the campaign, launched by David Beckham, is aimed primarily at our 5,500 employees and asks them to embark on a personal challenge to raise money. With involvement at all levels and representation from senior management through to the stores and call centres, a number of impressive challenges have already taken place. These include a 112 km trek through the Sahara desert, sky diving and walking the Three Peaks. The highlight for the campaign will be in Autumn 2001, when two employees will row across the Atlantic. To date the campaign has raised over £140,000.

The Carphone Warehouse continued its commitment to Help a

London Child through its support of the charity's Easter weekend radio phone-in pledge. For every pound that was pledged by Capital Radio listeners during the course of the weekend, The Carphone Warehouse matched it pound for pound. The campaign has to date raised over £45,000 for disadvantaged children in the capital.

During the year we continued our close relationship with The Prince's Trust, the UK's leading charity for young people. Charles Dunstone is currently Chairman of the Trading Board of the Trust and over the last five years has been heavily involved in supporting the charity. The main basis for our support has been as main sponsor and donator for Party in the Park, an annual pop festival held during the summer in Hyde Park. Outside Party in the Park, many of our employees give their time to community and training programmes organised by the Trust.

In addition to these three programmes the Group regularly supports local charities through donation of funds, mobile phones and employee time. The majority of these donations are initiated by store employees and are as a direct result of conversations with customers.

Reflecting the Group's belief in corporate citizenship, the Board has formed a Charitable Activities sub-committee under the

## Contribution through team spirit

By putting our customers first and through our relationship with our employees the business has developed innovative and effective ways of making positive contributions to society and the environment.

Below, the finishing line of the 'Challenge Yourself' Sahara trek 2001



chairmanship of Non-Executive Director Des Wilson, who has a 30 year record of achievement in the voluntary sector.

The committee will review all charitable fundraising activities. In addition it will develop the Group's relationship with the helpline charity Get Connected. This campaign will be launched in September and will be fully reported in next year's Annual Report.

### Environment

The Carphone Warehouse has a number of systems in place to ensure mobile phones and related accessories are recycled or distributed for use by developing countries. In addition the Group tries to ensure that all paper used is environmentally friendly, and each store has a requirement to ensure that all packaging and store waste is left for recycling.

### Mobile phones and health

The Carphone Warehouse has for a number of years recognised that there is clearly customer concern surrounding health and mobile phones. In May 1998 the Group launched an independent information service regarding the issue, including regularly updated fact sheets. Currently on its ninth issue the leaflet sets out all the

facts relating to health and mobile phones including new medical research, Government announcements and industry comment, allowing customers to make their own choices surrounding this issue.

In May 2000, The Carphone Warehouse was recognised by The Stewart Report, the Government appointed committee, to address the issue. It stated: "The Carphone Warehouse, an independent retailer, provided an important example of good practice in the way it makes its information readily available at mobile phone outlets."

### Diversity

As a well-known high street retailer, offering a mass-market consumer product, The Carphone Warehouse has a commitment to recruiting a diverse workforce as well as ensuring that its products, stores and information are presented in a way that is easily accessible. The company has therefore embarked on a recruitment programme to attract mixed ages and people with disabilities to work both in stores and in our telephone call centres. Over the coming 12 months the Group will be taking further steps in this area.



David Beckham in April 2000 launched Challenge Yourself, The Carphone Warehouse campaign to raise £1m for Macmillan Cancer Relief.



## Financial review

### Trading review

The Group continued to show strong growth in both turnover and profitability in the 53 week period to 31 March 2001.

Turnover of £1,110.7m was achieved reflecting growth of 59% over the 52 week period to 25 March 2000.

The Group generated EBITDA of £66.0m for the period, reflecting growth of 60%. Significant growth in earnings was generated across all aspects of our Distribution activities and through our development and investment in the Telecoms Services division. This performance was achieved after incurring losses of £4.8m in establishing our wireless internet portal, MViva.

The Group's pre-MViva EBITDA grew by 69% from £41.8m to £70.8m for the period to 31 March 2001.

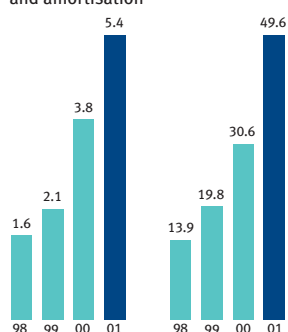
During the period the principal acquisitions were Cellcom, a provider of Telecoms based facilities management services in the UK; Road Phone, a mobile phone retailer in The Netherlands; a portfolio of 74 stores in Germany; and a portfolio of 27 stores in France, for a consideration of £9.1m, £6.9m, £6.5m, and £8.0m respectively.

Profit before tax (excluding goodwill amortisation and exceptional items) increased by 62% to £49.6m reflecting again the strength of the business performance in the period.

Turnover increased in both our UK and Continental European operations, by 41% and 119% respectively.

**Earnings per share (pence)**  
Before exceptionals and amortisation

**Profit before tax (£m)**  
Before exceptionals and amortisation



Turnover	2001 £m	2000 £m
<b>Distribution</b>	<b>1,079.1</b>	685.8
Retail	649.3	504.5
Online	32.6	23.8
Insurance	49.2	27.4
Wholesale	348.0	130.1
<b>Telecoms Services</b>	<b>30.5</b>	10.5
Wireless Data Services	1.1	1.4
<b>Total Turnover</b>	<b>1,110.7</b>	697.7

### Retail

The UK's Retail sales growth was a reflection of our improved market position, our continued ability to sell a high proportion of subscription phones compared to the market and the successful conversion of 158 Tandy stores by 31 March 2001. The total number of Carphone Warehouse stores in the UK at 31 March 2001 was 411 compared to 281 at 25 March 2000.

Our European Retail sales growth was generated through our investment in 298 stores in the period and the benefits that arise from having a more mature store portfolio.

Total Retail selling space excluding Tandy increased from 37,000 sq m to 63,000 sq m and the average store maturity profile across the Group was 18 months compared to 20 months in the previous period.

### Insurance, Online and Wholesale

Insurance and Online sales showed growth of 80% and 37%

respectively. Insurance activities have grown in line with Retail activities and specifically our ability to generate a strong subscription customer mix. Online sales growth was a result of our continued investment in our call centre operations and our strengthening web and interactive television sales.

In addition, Wholesale revenue was enhanced by the further development of activities in Continental Europe and by the pre-pay voucher business acquired with Cellcom.

### Telecoms Services

Telecoms Services generated growth in sales of 192% to £30.5m as a result of the increased share of airtime from network operators, which generated turnover of £14.6m in the period, and from the development of our own Telecoms Services, which include facilities management, which generated turnover of £15.9m. Since the acquisition of Cellcom, the Group has successfully developed these facilities management activities such that 214,000 customers were under management at the period end.

A significant contributor towards the Group's growth in profitability in the period was the enhanced gross profit percentage within our Retail business. After excluding the Group's Wholesale activities (which generate a valuable return albeit at low margins) gross profit margins improved from 31.3% to 33.0%. This is a reflection of both our improved purchasing position and our ability to deliver valuable customers to the network operators and handset manufacturers alike.

### Exceptional items

The following exceptional items arose in the period to 31 March 2001:

- *Reorganisation of Tandy operations*

Following the commitment made in February 2000 the Group completed the integration of the Tandy support function and the conversion of 158 of the 268 stores acquired. The remaining stores have either been or are in the process of being sold, transferred or returned to the landlord. As a result of this fundamental reorganisation the Group has recognised exceptional charges in the periods to 25 March 2000 and 31 March 2001 of £5.5m and £4.5m respectively.

- *AOL investment in MViva*

During the year AOL Europe invested \$25m in our Wireless Data Services subsidiary MViva for a 15% stake. These monies were received in two tranches, £9.9m in June 2000 followed by £6.6m in October 2000. This investment gave rise to an exceptional profit of £16.5m.

- *Restructuring of Group activities in non-key markets*

In certain smaller non-key markets, where the prospects of achieving acceptable financial returns are not evident, the Group has announced its intention to either restructure its operations or to withdraw its involvement. As such the Group has provided £2.9m as at 31 March 2001 for the loss expected to arise on the disposal of specific fixed assets. The Group anticipates that additional restructuring costs of £3.0m will be incurred in the period to 30 March 2002.

- *Disposal of wireless internet investments*

In March 2001, the Group disposed of the individual investments in its Wireless Internet Portfolio into an independently managed fund. Although the consideration for the transfer was equal to the aggregate cost of the individual investments, in accordance with the Group's accounting policy, losses of £2.5m have been recognised in respect of the disposal of certain investments.

### Interest and tax

Net interest receivable of £2.4m was generated in the period, reflecting the Group's strong net cash position. This compared to an interest charge of £0.2m in the previous period.

The effective tax rate before amortisation and exceptionals for the Group for the period to 31 March 2001 was 20.2% compared to 31.7% in the previous period. This rate benefited from the use of prior year tax losses and the effect of the profit within the Group's offshore insurance business.

### Goodwill amortisation

Goodwill of £211.6m arose during the period, of which £169.1m was as a result of the restructuring of minority interests prior to the Group's flotation. The amortisation charge for the period was £8.8m of which £6.0m relates to the above restructuring and for which there was no charge in the prior period.

### Earnings per share (EPS)

The Group's basic EPS rose by 85% from 2.7p to 5.0p. EPS before amortisation of goodwill and exceptional items rose by 42% from 3.8p to 5.4p per share.

### Balance sheet and cash generation

At 31 March 2001, the Group had net cash and short-term investments of £103.5m. This has been due to our ability to generate cash from operating activities and the raising of £187.1m from the issue of shares in the period. In turn £109.3m has been invested in acquisitions and capital expenditure on converting stores into the Group's brand and on our operational infrastructure. Our working capital management is closely attuned to this aim of cash generation and our cash conversion ratio is monitored closely.

In addition, the Group invested a further £31.4m in the Wireless Internet fund.

Cash flow	2001 £m	2000 £m
EBITDA	66.0	41.4
Other operating cashflows	(22.3)	3.1
<b>Cash flow from operating activities</b>	<b>43.7</b>	<b>44.5</b>
Capital expenditure	(74.0)	(36.7)
Investments	(31.4)	(11.6)
Acquisitions	(35.3)	(25.2)
Tax and interest	(4.6)	(7.6)
Issue of shares	187.1	–
Other movements	(3.1)	19.7
<b>Increase (decrease) in net cash and short-term investment</b>	<b>82.4</b>	<b>(16.9)</b>

Net assets increased during the period from £43.4m to £438.4m and the Group's liquidity ratio increased from 1.0 to 1.4 reflecting the strength of the Group's financial position.

### Financing and treasury

Our business is currently financed entirely by retained profits and equity. The Group does have a multi-currency 3 year Revolving Credit facility of £150m expiring on 14 April 2003, of which £10.5m was utilised for guarantees at the period end. Funding of our subsidiaries is, apart from local overdraft facilities, arranged and monitored centrally and on an arm's length basis.

In the absence of significant debt within the Group, liquidity and interest rate management is concentrated on maximisation of in-hand funds through good day to day cash management and maximisation of our return on such monies, ensuring at all times that investments are within acceptable risk parameters.

Cash and short-term investments	2001 £m	2000 £m
Cash	67.5	25.3
Overdrafts	(10.4)	(15.4)
Bonds and FRNs	16.3	5.9
Equities	21.5	3.8
Other short-term investments	8.6	1.5
<b>Total cash and short-term investments</b>	<b>103.5</b>	<b>21.1</b>

The Group is exposed to limited cross-border foreign currency contractual commitments, and where these commitments are significant they are hedged at inception by forward currency contracts. We aim to protect overseas subsidiary reserves from foreign exchange losses by ensuring that at least 75% of total overseas net assets are hedged, by way of intra-Group borrowings in the appropriate currency and by currency swaps.

The Board's objectives for financial risk management include the use of financial instruments. Such instruments are used for risk management purposes only and the Group does not trade or speculate in any other financial instruments.

### Shareholders' funds and return on investment

Profit for the period attributable to shareholders was £38.2m resulting in total shareholders' funds of £436.8m at the period end. As in previous periods the Board has decided to retain these earnings for continued investment in the development of the Group and the future enhancement of shareholder value and is not therefore proposing a dividend for the period.

### Financial controls

The management structure of the Group ensures day-to-day financial controls are the responsibility of local operational managers whilst continued adherence is ensured by Group monitoring. Comprehensive systems of budgetary control are in place, with regular reporting to the Board. During the period the Board reviewed systems of internal control to ensure compliance with the Turnbull guidelines.

The internal audit department reports to the audit committee three times a year and reviews all key business units over a rolling 3 month cycle.

### Euro

The introduction of the Euro will affect the Group whether or not the UK participates in EMU. Our business operates in eight of the first wave countries who will themselves be transacting in Euros from 1 January 2002. The remainder of the Group will also find themselves transacting in Euros. As such the Group is taking all steps felt necessary to ensure that it is well placed to conduct relevant activities in Euros.

### Accounting standards

During the period a number of Financial Reporting Standards (FRSs) were issued. These have been implemented where required together with adherence to Urgent Issues Task Force (UITF) requirements.

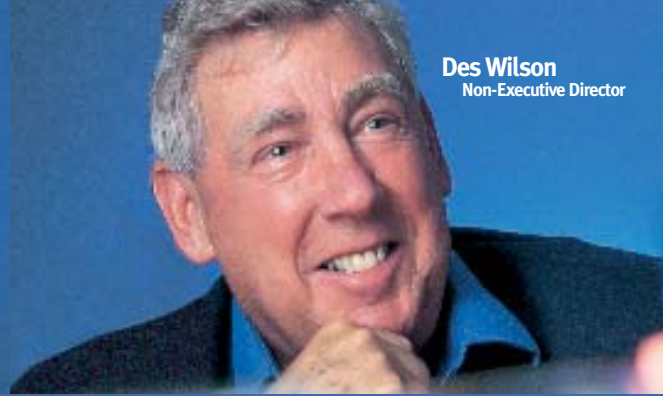
The accounting policies adopted during the period are set out on pages 30 and 31 and are consistent with those applied in the prior period.

### Roger Taylor

Chief Financial Officer



**Sir Brian Pitman**  
Non-Executive Director



**Des Wilson**  
Non-Executive Director



**Geoffroy Roux de Bezieux**  
Managing Director - Southern European Operations



**Charles Dunstone**  
Chairman and Chief Executive Officer



**John Gildersleeve**  
Non-Executive Director

## Directors

### Executive Directors

#### Charles Dunstone

Age 36. Founder and Managing Director of the business since 1989. He now serves as Group Chairman and Chief Executive Officer. Together with David Ross he is responsible for new business development and strategic initiatives. Non-Executive Director of The Halifax Group PLC, he is also Chairman of the Prince's Trust Trading Board and a member of its Council.

#### David Ross ACA

Age 35. Chief Operating Officer of the business since 1990. Prior to joining the Group, he qualified as a chartered accountant with Arthur Andersen. He is responsible for all aspects of European operations and together with Charles Dunstone is responsible for new business development and strategic initiatives. Non-Executive Director of National Express Group PLC, ITIS Holdings PLC, Intrinsic Value PLC, Big Yellow Group PLC and member of the Institute of Directors and English Sports Council.

#### Guy Johnson

Age 37. Joined the Group in 1989 as Purchasing and Logistics Director. He is responsible for all product sourcing, distribution and logistics in the UK operation and acts in an advisory capacity in these areas throughout Europe.

#### Roger Taylor ACA

Age 36. Chief Financial Officer of the Group since January 2000. Prior to joining the Group, he worked for BDO Stoy Hayward where he was a Corporate Finance Partner. He is responsible for controlling the Group's finance function and financial reporting and procedures. He also manages the Group's corporate finance function and has a direct involvement in strategic decisions and the appraisal process.

#### Geoffroy Roux de Bezieux ESSEC (MBA)

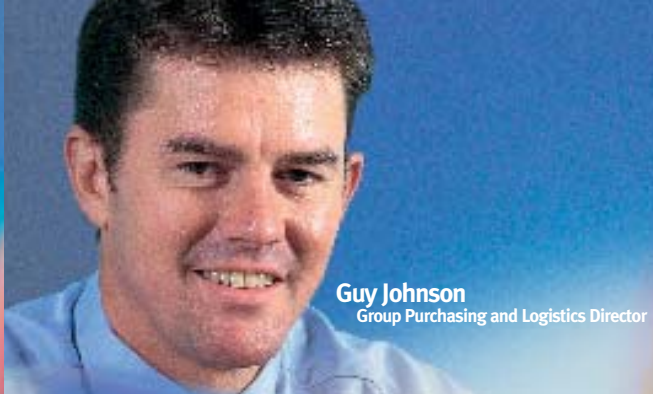
Age 38. Joined the Group in 1996 and was appointed to the Board on 2 June 2000. He is currently Managing Director of South European Operations, having previously set up and developed the Group's business in France. Prior to joining the Group he was an officer in the French Navy, UK Marketing Director for L'Oreal and Managing Director of their Polish operations between 1994 and 1996.

#### James Dale FCA

Age 61. Joined the Board as an Executive Director on 30 March 2001. He joined the Group in January 1997 and is Executive Chairman of Carphone Warehouse Insurance, responsible for the management of the Group's Insurance operations.



**James Dale**  
Chairman - Carphone Warehouse  
Insurance



**Guy Johnson**  
Group Purchasing and Logistics Director



## Non-Executive Directors

### Sir Brian Pitman

Age 69. Joined the Board on 17 January 2001. He is currently Chairman of Next PLC and retired as Chairman of Lloyds TSB Group PLC in April 2001. He is also Non-Executive Director of Carlton Communications PLC and Tomkins Group PLC.

### John Gildersleeve

Age 56. Joined the Board on 2 June 2000. He is currently an Executive Director of Tesco PLC and Non-Executive Director of Gallaher PLC. Prior to this he was a Non-Executive Director of Lloyds TSB Bank PLC from 1994 to 1997 and Vodafone PLC from 1998 to 2000.

### Des Wilson

Age 60. Joined the Board on 2 June 2000. He has since become Chairman of the Group's Charitable Activities Committee. He retired on 30 June 2000 from BAA PLC where he was Director of Corporate and Public Affairs and remains a consultant to the company. He is currently Non-Executive Director of Ingenious Media PLC. He is also a board member of the British Tourist Authority, Senior Vice Chairman of the English Sports Council and a board member of the UK Sports Council.

### Adrian Martin

Age 51. Joined the Board on 30 November 2000 from BDO Stoy Hayward, where he was UK Managing Partner and Chairman of its International Policy Board; he remains a consultant to the firm.

## Board Committees

### Audit Committee

Adrian Martin (Chairman)  
John Gildersleeve  
Sir Brian Pitman  
Des Wilson

### Remuneration Committee

John Gildersleeve (Chairman)  
Sir Brian Pitman  
Des Wilson

### Nomination Committee

Des Wilson (Chairman)  
John Gildersleeve  
David Ross

## Directors and advisors

### Executive Directors

C W Dunstone  
D P J Ross  
C G Johnson  
R W Taylor  
J H Dale  
G Roux de Bezieux

### Non-Executive Directors

D Wilson  
Sir Brian Pitman  
A Martin  
J Gildersleeve

### Secretary

T S Morris

### Bankers

HSBC Bank PLC  
Poultry  
London EC2P 2BX

Lloyds TSB Bank PLC  
6-8 Eastcheap  
London EC3M 1AE

### Registrars

Lloyds TSB Registrars  
The Causeway  
Worthing  
West Sussex  
BN99 6DA

### Legal advisors

Olswang  
90 Long Acre  
London WC2E 9TT

Ashurst Morris Crisp  
5 Appold Street  
London EC2A 2HA

### Auditors

Arthur Andersen  
1 Surrey Street  
London WC2R 2PS

### Corporate brokers

Credit Suisse First Boston (Europe) Limited  
1 Cabot Square  
London E14 4QJ

Morgan Stanley & Co. International Limited  
25 Cabot Square  
London E14 4QA

### Registered office

North Acton Business Park  
Wales Farm Road  
London W3 6RS  
Registered number: 3253714

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## Corporate governance

### Introduction

The Board recognises the importance of high standards of corporate governance. This report and the Remuneration Report set out on pages 19 to 21 explain how the Company complies with the key corporate guidance set out in the Combined Code appended to the Listing Rules.

### Compliance with the Combined Code

The Company has been in compliance with the requirements of the Combined Code and the Turnbull Report since listing on the London Stock Exchange except in the following areas:

As Chairman, Chief Executive Officer and largest shareholder, Charles Dunstone is responsible for running both the Board and the Group's business. However, the Board includes four Non-Executive Directors and it is the Board's view that they have the ability and authority to ensure that the combination of his roles and his shareholding does not work to the disadvantage of the Company and its shareholders.

Up until 30 November 2000, the Board comprised two Non-Executive and six Executive Directors, being a lower number of Non-Executives than is recommended under the Combined Code. This was addressed by the appointment of Adrian Martin on 30 November 2000 and the appointment of Sir Brian Pitman on 17 January 2001.

On his appointment, Adrian Martin was also appointed to the Audit Committee which had until that date consisted of two Non-Executive Directors and as such did not comply with the Combined Code.

These periods of non-compliance with the Combined Code reflect the time spent by the Board endeavouring to find additional Non-Executive Directors of sufficient calibre for their views to carry significant weight in the Board's decisions.

### Board

The Company has a well balanced Board. There are six Executive Directors and four Non-Executive Directors. Directors' names and brief biographies are set out on pages 14 and 15.

Charles Dunstone is the Chairman and Chief Executive Officer and Sir Brian Pitman has been the Senior Independent Director since his appointment on 17 January 2001. Prior to this date John Gildersleeve was the Senior Independent Director.

The Board considers that each of the Non-Executive Directors is independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

The Board meets at least 10 times a year, receiving key briefing papers before each meeting. The Board is responsible to the shareholders for the proper management of the Company and its subsidiaries. It sets out and monitors the Group's strategy, reviews its trading performance, examines major capital expenditure, formulates policy on key issues, ensures adequate funding and reports to shareholders where appropriate.

The Board has underlined its commitment to internal control in the Group by setting clear operating guidelines for all of its businesses, and monitoring key performance indicators and risks on a monthly basis.

### Board Committees

The Board has established three principal committees to consider various aspects of the Group's operations in more detail than would be the case within full Board meetings. Details of the members of each committee are given on page 15.

#### I Audit Committee

The Audit Committee comprises four Non-Executive Directors and is chaired by Adrian Martin. The Committee meets at least three times a year together with the Group's internal audit and risk management team and the Group's external auditors. Terms of reference for the Committee include reviewing the annual accounts and interim statements, ensuring compliance with generally accepted accounting principles and satisfying itself as to the adequacy and effectiveness of the Group's internal control procedures. It receives reports from both internal and external auditors on a regular basis.

#### II Remuneration Committee

The Remuneration Committee comprises three Non-Executive Directors and is chaired by John Gildersleeve. The Committee meets at least twice a year. Terms of reference include making recommendations to the Board on the Group's framework of executive remuneration and determining on behalf of the Board specific remuneration packages for the Executive Directors and senior management. It also approves contractual terms and incentives including executive share option awards for the Executive Directors and other senior management. The Board's Remuneration report is set out on pages 19 to 21.

#### III Nomination Committee

The Nomination Committee comprises two Non-Executive Directors and David Ross and is chaired by Des Wilson. It has advised on the appointments of Adrian Martin, Sir Brian Pitman and Jim Dale in the period and generally advises on Board appointments as required and the composition of the Board.

### Relations with Shareholders

The Company maintains a regular dialogue with institutional shareholders primarily in the periods following announcements of results. The importance of maintaining a regular dialogue with shareholders is recognised in order to ensure that the Group's strategy is understood and that concerns are addressed in a constructive way.

The Annual General Meeting will be used as a forum to communicate with individual investors and is an opportunity to raise with the Directors issues concerning the Group's operations and performance. Investor information including financial results, press releases and management presentations are available on The Carphone Warehouse website, [www.carphonewarehouse.com](http://www.carphonewarehouse.com).

### **Accountability and Audit**

#### *Internal control*

The Board of Directors has overall responsibility for systems of internal control throughout the Group and for reviewing their effectiveness. These include controls over financial, operating, management and risk management systems, and are designed to provide reasonable and not absolute assurance against misstatement or loss. They are also designed to manage rather than eliminate the risk of failure to achieve business objectives.

Among the principal features of the Group's systems of internal control is a planning process within which the Board approves strategy and a Group business plan. Managers prepare business plans at individual business levels, showing specific plans and budgets for the following 12 months with longer term aspirations over a two year period. Plans are challenged and approved at Executive management level.

The Board receives comprehensive monthly information including financial and business performance showing variances against budgets and consideration of key performance indicators. There is also a regular reforecasting process in place.

Capital expenditure is subject to the disciplines of appraisal and approval and an annual budget is set subject to this process and incorporates the appropriate levels of authority at individual business levels.

The Audit Committee acts under delegated authority from the Board and meets three times a year. It is responsible for reviewing the adequacy and effectiveness of the systems of internal control throughout the Group. During the period it was assisted in this work by the risk management team covering systems of internal control in the Group's substantive business units and issues relating to the central support functions.

There is a continuous process for identifying, evaluating and managing the significant risks faced by the Group which has been in place for the period under review and up to the date of approval of the Annual Report and Accounts. This process is reviewed annually by the Board.

The process used by the Board through the Audit Committee and risk management team includes the following:

- Review of the external and internal audit workplans;
- Review at each Board meeting of a management risk report;
- Consideration of reports from management and internal audit on the systems of internal control and any material control weaknesses;
- Discussions with management on the actions taken on areas identified either by Board members or in internal/external audit or risk reports;
- Consideration of the performance of internal audit or the risk management team together with an annual review of its resourcing, skills and terms of reference; and
- Consideration of the appropriate Audit Committee minutes and reporting of significant issues through the Audit Committee Chairman to the Board.

## Remuneration report

### Remuneration Committee

The Committee is responsible for making recommendations to the Board on remuneration policy for Executive Directors and senior management. For the Group's first financial period as a listed company, the Committee reviewed the current remuneration policy and made recommendations on bonuses and share options in respect of the period.

### Remuneration policy

Responsibility for the establishment of the overall remuneration policy lies with the full Board. The Committee advises the Board on total remuneration plans that will attract, retain and motivate the highest calibre of people who will maintain and enhance the performance of the Group and shareholder value. The primary aim of the Committee is to ensure that remuneration aligns the interests of management and shareholders and to reinforce behaviour which will lead to the continued long-term development of the business.

The Committee determines remuneration by taking account of all relevant information including general external comparisons, the requirements of the Group and details of remuneration received by senior management of the Group not at Board level.

The Committee works within agreed terms of reference to make recommendations to the Board on the Group's framework for executive remuneration.

Direct benchmarking is difficult due to the specialised nature of the Group. The Committee therefore makes its recommendations by taking into account:

- The experience of Executive Directors and other senior management;
- Information obtained from published surveys;
- The Group's competitiveness in the market place;
- The move towards performance based remuneration plans.

### Salaries

Salary benchmarks are reviewed annually taking into account companies of comparable size and complexity and the abilities, responsibilities and performance of individual Directors. Salaries can be reviewed at any time and there is no automatic annual salary increase.

### Annual bonus and share options

Remuneration packages for the period included a small variable element by way of bonus. The Group intends to increase the proportion of performance related remuneration, with the introduction of appropriate performance related schemes for all Executive Directors and senior management.

The Group will also use its Inland Revenue approved executive share option scheme to motivate and retain key individuals and align their performance to the longer term performance of the Group.

In accordance with best practice, it is the Committee's intention that grants are made on an annual award basis appropriate to the market place at that time.

### Benefits

Each Executive Director is provided with benefits which principally comprise a pension, car allowance, permanent health insurance and family healthcare cover. Pension entitlements are based on basic salary only.

### Fees for Non-Executive Directors

The fees for each of the Non-Executive Directors are determined by the Board. The Non-Executive Directors do not take part in discussions on their remuneration. During the period ended 31 March 2001, Des Wilson received further fees from the Group amounting to £8,500 in relation to his work with the Group on public relations, corporate citizenship and charitable activities. The Board considers that his assistance with such matters does not interfere with the exercise of his independent judgement as a Non-Executive Director.

## Remuneration report continued

### Aggregate remuneration

The total amounts of Directors' remuneration and other benefits were as follows:

#### Directors' emoluments

Name of Director	Fees/Basic salary £'000	Taxable benefits £'000	Annual bonuses £'000	2001 Total £'000	2000 Total £'000
<b>Executive</b>					
C W Dunstone	300	10	–	310	310
D P J Ross	300	9	–	309	310
C G Johnson	300	11	–	311	309
R W Taylor	150	29	50	229	28
G Roux De Bezieux	120	7	23	150	–
N R Spray	180	10	20	210	–
<b>Non-Executive</b>					
Sir Brian Pitman	5	–	–	5	–
J Gildersleeve	19	–	–	19	–
A Martin	8	–	–	8	–
D Wilson	19	–	–	19	–
<b>Aggregate emoluments</b>	<b>1,401</b>	<b>76</b>	<b>93</b>	<b>1,570</b>	<b>957</b>

J H Dale joined the Board on 30 March 2001 and as such received no remuneration in his capacity as a Group Board Director in the period.

### Share options

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

Director	25 March 2000*	Granted during the period	Exercised during the period	31 March 2001	Exercise price per share £	Exercisable from	Expiry date	Gains on exercises during the period £
R W Taylor	500,000		(250,000)	250,000	0.80	14/07/00	29/01/10	300,000
	500,000			500,000	1.00	14/07/00	29/01/10	
		200,000		200,000	1.50	19/05/02	19/05/10	
		200,000		200,000	2.00	19/05/02	19/05/10	
	<b>1,000,000</b>	<b>400,000</b>	<b>(250,000)</b>	<b>1,150,000</b>				<b>300,000</b>
N R Spray	500,000		(250,000)	250,000	0.80	14/07/00	29/01/10	300,000
	500,000			500,000	1.00	14/07/00	29/01/10	
		200,000		200,000	1.50	19/05/02	19/05/10	
		200,000		200,000	2.00	19/05/02	19/05/10	
	<b>1,000,000</b>	<b>400,000</b>	<b>(250,000)</b>	<b>1,150,000</b>				<b>300,000</b>
G Roux De Bezieux		3,500,000		3,500,000	1.50	19/05/02	19/05/10	
		<b>3,500,000</b>		<b>3,500,000</b>				
J H Dale	200,000			200,000	0.50	14/07/00	03/10/09	
	200,000			200,000	1.50	19/02/02	19/05/10	
	200,000			200,000	2.00	19/02/02	19/05/10	
	<b>600,000</b>			<b>600,000</b>				

\*Date of appointment if later

In addition to the above share options, R W Taylor, G Roux de Bezieux and J H Dale received 240,000, 120,000 and 96,000 options respectively on 21 May 2001. These options have an exercise price of £1.25 per share and are exercisable between 21 May 2004 and 21 May 2011. The options granted to G Roux de Bezieux on 19 May 2000 related to his pending appointment to the Board and his additional responsibilities for the Group's Southern European operations.

The market price of ordinary shares on 31 March 2001 was £1.25 and the range during the period was from £1.20 to £2.23.

### *Pensions*

None of the Directors were members of defined benefit pension schemes. Pension contributions were paid into defined contribution schemes as follows:

Director	2001 £'000	2000 £'000
C W Dunstone	39	38
D P J Ross	39	38
C G Johnson	39	38
R W Taylor	8	–
N R Spray	–	–
G Roux De Bezieux	–	–
	<b>125</b>	<b>114</b>

### **Directors' interests in shares**

Director	Ordinary shares of 0.1 pence	
	31 March 2001	25 March 2000
C W Dunstone	309,028,535	331,673,100
D P J Ross	216,590,759	142,055,400
C G Johnson	92,758,611	94,703,600
R W Taylor	38,000	–
G Roux De Bezieux	13,038,670	–
J H Dale	150,500	–
Sir Brian Pitman	5,000	–
J Gildersleeve	45,000	–
A Martin	12,461	–
D Wilson	50,000	–

There was no movement in the above shareholdings between 31 March 2001 and 21 May 2001. In addition to the above, R W Taylor holds a 40% interest in Papertimes Limited, a company which is entitled to receive 15% of the future uplift of certain investments within the Wireless Internet fund.

### *Employee Benefit Trust*

In 1995, the Group established The Carphone Warehouse Employee Benefits Trust ('the Trust'), the primary purpose of which is to provide discretionary benefits to the Group's employees, their spouses and dependants.

No contributions were made to the Trust during the period ended 31 March 2001 or the prior period.

During the period ended 25 March 2000, C W Dunstone, D P J Ross and C G Johnson received loans bearing interest at a market rate of £900,000, £700,000 and £400,000 respectively. During the period ended 31 March 2001 and prior to the Group's flotation the above loans and all previous loans to the Directors, in aggregate £5,059,000, were forgiven by the Trust.

## Directors' report

For the 53 weeks ended 31 March 2001

The Directors have pleasure in presenting the Annual Report and financial statements of The Carphone Warehouse Group PLC for the 53 weeks ended 31 March 2001.

### Principal activities

The principal activity of the Group continues to be the provision of mobile communication products and services. For the purposes of segmental reporting, operations are classified into three divisions, being Distribution, Telecoms Services and Wireless Data Services. The subsidiary undertakings principally affecting the profits or net assets of the Group in the period are listed in note 12 to the financial statements.

### Results

The profit before tax for the financial period increased from £25.1 million in the prior period to £47.4 million. No dividend was paid in the period (2000 – £nil) and the Directors do not recommend the payment of a final dividend. Details of significant events since the balance sheet date are contained in note 29 to the financial statements.

### Directors

The names and brief biographical details of the Directors are shown on pages 14 and 15. Particulars of Directors' remuneration, interests in the shares of the Company and its subsidiary companies and interests in share options are given in the Remuneration report on pages 19 to 21.

The following changes to the composition of the Board occurred in the period:

#### *Executive Directors*

G Roux De Bezieux	appointed 2 June 2000
J H Dale	appointed 30 March 2001
N R Spray	appointed 27 April 2000; resigned 30 March 2001

#### *Non-Executive Directors*

D Wilson	appointed 2 June 2000
J Gildersleeve	appointed 2 June 2000
Sir Brian Pitman	appointed 17 January 2001
A Martin	appointed 30 November 2000

The appointments of A Martin, Sir Brian Pitman and J Dale, having been made after 13 July 2000, require approval in accordance with the Company's articles of association at the Annual General Meeting on 28 June 2001. No other Directors are currently eligible for re-election by rotation. J Dale's service agreement can be terminated on 6 months notice by the Company. The Company's agreements with A Martin and Sir Brian Pitman can be terminated with immediate effect by the Company without any compensation for loss of office if they are not re-appointed at the Annual General Meeting.

### Employment of disabled persons

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 suppliers perform in accordance with the agreed terms, it is the Group's normal practice that payment is made accordingly. The number of days outstanding between receipt of invoices and date of payment calculated by reference to the amount owed to trade creditors at the period end as a proportion of the amounts invoiced by suppliers during the period, was 53 days (2000 – 45 days). The Company did not have any trade creditors at 31 March 2001 or 25 March 2000.

**Donations**

The Group made charitable donations of £173,000 during the period (2000 – £33,000). No political donations were made in either period.

**Economic and monetary union**

The Group has interests in eight markets which will be transacting in Euros from 1 January 2002 and the Board is taking steps to ensure that the Group is prepared for this. The costs for this preparation are not expected to be material.

**Contracts with controlling shareholders**

There are no material contracts with controlling shareholders. Details of related party transactions are provided within note 28 to the financial statements.

**Share capital**

Details of the movements in authorised and issued share capital during the period are provided in note 20 to the financial statements. During the period, shares were acquired by the Company through an Employee Share Ownership Trust, as disclosed in note 12 to the financial statements.

**Tangible fixed assets**

Movements in tangible fixed assets are set out in note 11 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 £4.6m. The Group's liability to taxation if such assets were sold at that value would be approximately £1.4m.

**Significant shareholdings**

As at 21 May 2001 no disclosable interest in the issued share capital has been notified to the Company in accordance with sections 198 to 208 of the Companies Act 1985, other than C W Dunstone, D P J Ross and C G Johnson, whose interests are detailed in the Remuneration report on pages 19 to 21.

**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**

The Directors will place a resolution before the Annual General Meeting to re-appoint Arthur Andersen as auditors of the Company for the ensuing period.

By order of the Board,  
The Carphone Warehouse Group PLC  
North Acton Business Park  
Wales Farm Road  
London  
W3 6RS

**T S Morris**

Company Secretary  
29 May 2001

## Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of its profit or loss for that period. In preparing those 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 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 Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

## Auditors' report

### To the shareholders of The Carphone Warehouse Group PLC

We have audited the financial statements on pages 26 to 51 which have been prepared under the historical cost convention and the accounting policies set out on pages 30 to 31. We have also examined the amounts disclosed relating to the emoluments, share options and pension benefits of the Directors which form part of the Remuneration report on pages 19 to 21.

### Respective responsibilities of directors and auditors

The Directors are responsible for preparing the Annual Report including, as described on page 24, preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Group 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 or the Listing Rules regarding Directors' remuneration and transactions with the Company and the Group is not disclosed.

We review whether the Corporate governance statement on pages 17 and 18 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by 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 Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the Corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the financial statements.

### Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, 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 financial statements are free from material mis-statement, 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 financial statements.

### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 31 March 2001 and of the Group's profit and cash flows for the financial period then ended and have been properly prepared in accordance with the Companies Act 1985.

### Arthur Andersen

#### Chartered Accountants and Registered Auditors

1 Surrey Street  
London  
WC2R 2PS  
29 May 2001

## Consolidated profit and loss account

For the 53 weeks ended 31 March 2001

	Notes	53 weeks ended 31 March 2001 £'000	52 weeks ended 25 March 2000 £'000
<b>Turnover</b>	2		
Existing operations		991,690	697,720
Acquisitions	2	118,988	–
		<b>1,110,678</b>	697,720
Cost of sales	3	(830,126)	(505,738)
<b>Gross profit</b>	3	<b>280,552</b>	191,982
Operating expenses excluding amortisation and depreciation	3	(214,536)	(150,593)
<b>EBITDA pre-MViva</b>		<b>70,787</b>	41,838
MViva losses		(4,771)	(449)
<b>EBITDA</b>	2	<b>66,016</b>	41,389
Depreciation	3,4	(18,788)	(10,617)
Amortisation	3,4	(8,771)	(340)
<b>Operating profit</b>	2,3	<b>38,457</b>	30,432
Existing operations	3	37,700	30,432
Acquisitions	3	757	–
<b>Exceptional items:</b>			
Net profit (loss) on disposal of subsidiary undertakings	6	16,514	(1,613)
(Loss) profit on disposal of fixed assets	6	(5,429)	1,981
Cost of fundamental reorganisation	6	(4,530)	(5,500)
Profit before interest and taxation		45,012	25,300
Net interest receivable (payable)	7	2,385	(196)
<b>Profit on ordinary activities before taxation</b>		<b>47,397</b>	25,104
Tax on profit on ordinary activities	8	(8,675)	(8,831)
<b>Profit on ordinary activities after taxation</b>		<b>38,722</b>	16,273
Equity minority interests	23	(563)	54
<b>Profit for the financial period</b>	21	<b>38,159</b>	16,327
<b>Earnings per share</b>			
Basic	9	5.0p	2.7p
Diluted	9	4.9p	2.6p
<b>Headline earnings per share (basic)</b>			
Earnings before amortisation of goodwill	9	6.2p	2.8p
Earnings before amortisation of goodwill and exceptional items	9	5.4p	3.8p

## Consolidated statement of total recognised gains and losses

For the 53 weeks ended 31 March 2001

	Notes	53 weeks ended 31 March 2001 £'000	52 weeks ended 25 March 2000 £'000
Profit for the financial period	21	38,159	16,327
Loss on foreign currency translation	21	(383)	(543)
<b>Total recognised gains and losses relating to the period</b>		<b>37,776</b>	15,784

The accompanying notes are an integral part of this consolidated profit and loss account and statement of total recognised gains and losses.

## Consolidated balance sheet

As at 31 March 2001

	Notes	31 March 2001 £'000	25 March 2000 £'000
<b>Fixed assets</b>			
Intangible assets			
Positive goodwill	10	231,471	28,361
Negative goodwill	10	–	(1,428)
		<b>231,471</b>	<b>26,933</b>
Tangible assets	11	120,278	63,190
Investments	12	44,426	11,584
		<b>396,175</b>	<b>101,707</b>
<b>Current assets</b>			
Stock	13	52,437	51,842
Debtors due within one year	14	149,200	82,826
Short-term investments	15	46,374	11,144
Cash at bank and in hand		67,517	25,348
		<b>315,528</b>	<b>171,160</b>
<b>Creditors: Amounts falling due within one year</b>	16	<b>(222,348)</b>	<b>(173,820)</b>
<b>Net current assets (liabilities)</b>		<b>93,180</b>	<b>(2,660)</b>
<b>Total assets less current liabilities</b>			
		<b>489,355</b>	<b>99,047</b>
<b>Creditors: Amounts falling due after more than one year</b>	17	<b>(14,107)</b>	<b>(21,033)</b>
<b>Provisions for liabilities and charges</b>	19	<b>(36,803)</b>	<b>(34,594)</b>
<b>Net assets</b>		<b>438,445</b>	<b>43,420</b>
<b>Capital and reserves</b>			
Called-up share capital	20	833	600
Share premium	21	356,235	–
Capital redemption reserve	21	30	30
Profit and loss account	21	79,660	43,560
<b>Equity shareholders' funds</b>	22	<b>436,758</b>	<b>44,190</b>
<b>Minority interests</b>	23	<b>1,687</b>	<b>(770)</b>
<b>Total capital employed</b>		<b>438,445</b>	<b>43,420</b>

The financial statements on pages 26 to 51 were approved by the Board on 29 May 2001 and signed on its behalf by:

C W Dunstone  
Chairman

R W Taylor  
Chief Financial Officer

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

## Company balance sheet

As at 31 March 2001

	Notes	31 March 2001 £'000	25 March 2000 £'000
<b>Fixed assets</b>			
Investments	12	234,278	594
		<b>234,278</b>	594
<b>Current assets</b>			
Debtors due within one year	14	1,525	294
Debtors due after more than one year	14	131,555	9,077
Cash at bank and in hand		–	171
		<b>133,080</b>	9,542
<b>Creditors: Amounts falling due within one year</b>	16	<b>(9,610)</b>	(263)
<b>Net current assets</b>		<b>123,470</b>	9,279
<b>Total assets less current liabilities</b>			
		<b>357,748</b>	9,873
<b>Creditors: Amounts falling due after more than one year</b>	17	–	(8,789)
<b>Net assets</b>		<b>357,748</b>	1,084
<b>Capital and reserves</b>			
Called-up share capital	20	833	600
Share premium	21	356,235	–
Profit and loss account	21	680	484
<b>Total capital employed</b>		<b>357,748</b>	1,084

The financial statements on pages 26 to 51 were approved by the Board on 29 May 2001 and signed on its behalf by:

C W Dunstone  
*Chairman*

R W Taylor  
*Chief Financial Officer*

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

## Consolidated cash flow statement

For the 53 weeks ended 31 March 2001

	Notes	53 weeks ended 31 March 2001 £'000	52 weeks ended 25 March 2000 £'000
<b>Net cash inflow from operating activities</b>		<b>43,663</b>	<b>44,475</b>
Net cash inflow (outflow) from returns on investments and servicing of finance	24a	2,385	(196)
Net cash outflow from taxation	24b	(6,991)	(7,412)
Net cash outflow from capital expenditure and financial investment	24c	(141,687)	(46,990)
Net cash outflow from acquisitions and disposals	24d	(18,818)	(17,107)
<b>Net cash outflow before management of liquid resources and financing</b>		<b>(121,448)</b>	<b>(27,230)</b>
Net cash inflow from management of liquid resources	24e	196	7,296
Net cash inflow from financing	24f	168,608	11,201
<b>Increase (decrease) in cash in the period</b>		<b>47,356</b>	<b>(8,733)</b>

## Reconciliation of net cash inflow from operating activities to operating profit

	2001 £'000	2000 £'000
<b>Operating profit</b>	<b>38,457</b>	<b>30,432</b>
Depreciation of tangible fixed assets	18,788	10,617
Amortisation of goodwill	8,771	340
<b>EBITDA</b>	<b>66,016</b>	<b>41,389</b>
Loss (profit) on disposal of tangible fixed assets	31	(254)
(Decrease) increase in provisions	(11,256)	7,233
Decrease (increase) in stock	5,187	(14,446)
Increase in debtors	(54,248)	(36,661)
Increase in creditors	37,933	47,214
<b>Net cash inflow from operating activities</b>	<b>43,663</b>	<b>44,475</b>

The accompanying notes are an integral part of this consolidated cash flow statement.

## Notes to the financial statements

### 1 Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost convention. The following principal accounting policies have been applied consistently throughout the period and the preceding period.

#### a) Turnover

Turnover is stated net of VAT and other sales related taxes. The following accounting policies are applied in each business segment:

- Distribution – comprises turnover generated from the sale of mobile telephony products and services, commissions receivable on sales and insurance premiums receivable.
- Telecoms Services – comprises revenue from network operators in respect of facilities management services, share of customer airtime spend and loyalty income, and revenue from virtual mobile network services.
- Wireless Data Services – comprises turnover generated by the Group's wireless internet portal business and data services.

#### b) Insurance premium income

Insurance premium income is credited to the profit and loss account over the period of the underlying policies.

#### c) Basis of consolidation

The consolidated financial statements incorporate the results of The Carphone Warehouse Group PLC and its subsidiary undertakings drawn up to 31 March 2001. The results of subsidiaries acquired or sold during the period are included from or to the date on which control passed. Acquisitions are accounted for under the acquisition method.

#### d) Intangible assets – goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life of 20 years. Provision is made for any impairment.

Negative goodwill is similarly included in the balance sheet and is credited to the profit and loss account in the periods in which the acquired non-monetary assets are recovered through depreciation or disposal. Negative goodwill in excess of the fair values of the non-monetary assets acquired is credited to the profit and loss account over the period that such goodwill is expected to apply.

Goodwill arising on acquisitions up to and including the period ended 28 March 1998 was written off to reserves in accordance with the accounting standard then in force. As permitted by the current accounting standard the goodwill previously written off to reserves has not been reinstated in the balance sheet. On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

#### e) Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets 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:

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

#### f) Stock

Stock is stated at the lower of cost and net realisable value. Cost 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.

#### g) Investments

Fixed asset investments are shown at cost less provision for permanent diminution in value. Investments which are independently managed within an external fund are evaluated on a portfolio basis at the end of the period.

Current asset investments are stated at the lower of cost and net realisable value.

*h) Leased assets*

Assets held under finance leases and hire purchase contracts are treated as if they had been purchased outright at the present value of the rentals payable, less finance charges, over the primary period of the leases. The corresponding obligations under these leases are shown as creditors. The interest charge element of rentals payable is charged to the profit and loss account so as to produce a constant rate of charge on the outstanding balance in each period.

Rental payments under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

*i) 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 substantially enacted by the balance sheet date.

Deferred taxation is provided at appropriate rates on all timing differences using the liability method only to the extent that, in the opinion of the Directors, there is a reasonable probability that a liability or asset will crystallise in the foreseeable future.

*j) Software and website development costs*

The Group capitalises both internal and external infrastructure and design costs incurred in the development of software for internal use, in the development of its wireless internet portal and in the development of the functionality of its website. These costs are depreciated in accordance with Group policy in 1e above.

*k) Pensions*

For defined benefit schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the estimated regular cost of providing the benefits accrued in the period, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially constant percentage of current and future payroll. Variations from regular cost are charged or credited to the profit and loss account as a constant percentage of payroll over the estimated average remaining working life of scheme members. Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Group in separate trustee administered funds. Differences between amounts charged to the profit and loss account and amounts funded are shown as either provisions or prepayments in the balance sheet.

For defined contribution schemes amounts are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

*l) Foreign exchange*

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations are dealt with through reserves, as are differences arising on translation of debt to the extent that they hedge the Group's investment in such operations. All other exchange differences are included in the profit and loss account.

*m) Finance costs*

Finance costs of debt are recognised in the profit and loss account over the term of the associated facilities at a constant rate on the carrying amount.

*n) Derivative financial instruments*

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

For a forward foreign exchange contract to be treated as a hedge, the instrument must be related to actual foreign currency assets or liabilities or to a probable commitment. It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign currency exchange movements on the Group's operations. Gains and losses arising on these contracts are deferred and recognised in the profit and loss account, or as adjustments to the carrying amount of fixed assets, only when the hedged transaction has itself been reflected in the Group's accounts.

For an interest rate swap to be treated as a hedge the instrument must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts.

If an instrument ceases to be accounted for as a hedge, for example, because the underlying hedged position is eliminated, the instrument is marked to market and any resulting profit or loss recognised at that time.

**2 Segmental analysis**

Divisional results are analysed as follows:

	2001			2000		
	Turnover £'000	Profit before tax £'000	Net assets £'000	Turnover £'000	Profit before tax £'000	Net assets £'000
Distribution	1,079,143	101,160	363,970	685,838	63,136	21,019
Telecoms Services	30,481	18,125	21,802	10,456	9,746	11,270
Wireless Data Services	1,054	(5,265)	52,673	1,426	977	11,131
Common costs	–	(48,004)	–	–	(32,470)	–
	<b>1,110,678</b>	<b>66,016</b>	<b>438,445</b>	<b>697,720</b>	<b>41,389</b>	<b>43,420</b>
Depreciation		(18,788)			(10,617)	
Amortisation		(8,771)			(340)	
Operating profit		38,457			30,432	
Exceptional items		6,555			(5,132)	
Net interest receivable (payable)		2,385			(196)	
Profit before tax		<b>47,397</b>			<b>25,104</b>	

Results by geographical location are analysed by origin as follows:

	2001			2000		
	Turnover £'000	Profit before tax £'000	Net assets £'000	Turnover £'000	Profit before tax £'000	Net assets (liabilities) £'000
United Kingdom	749,160	91,118	391,220	532,618	61,436	47,770
Rest of Europe	361,518	22,902	47,225	165,102	12,423	(4,350)
Common costs	–	(48,004)	–	–	(32,470)	–
	<b>1,110,678</b>	<b>66,016</b>	<b>438,445</b>	<b>697,720</b>	<b>41,389</b>	<b>43,420</b>
Depreciation		(18,788)			(10,617)	
Amortisation		(8,771)			(340)	
Operating profit		38,457			30,432	
Exceptional items		6,555			(5,132)	
Net interest receivable (payable)		2,385			(196)	
Profit before tax		<b>47,397</b>			<b>25,104</b>	

There is not a material difference between turnover by destination and turnover by origin.

Acquisitions during the period generated the following turnover and profit before tax by segment:

	Turnover £'000	Profit before tax £'000
Distribution	102,920	187
Telecoms Services	16,068	3,704
Common costs	–	(3,134)
	<b>118,988</b>	<b>757</b>
United Kingdom	107,112	3,562
Rest of Europe	11,876	329
Common costs	–	(3,134)
	<b>118,988</b>	<b>757</b>

Details of acquisitions in the period are given in note 12.

It is not practicable to determine the operating assets for acquisitions made during the period at 31 March 2001 as, subsequent to the acquisitions, these assets were incorporated into the operations of other Group undertakings for financial reporting purposes.

### 3 Analysis of profit and loss account

	2001			2000
	Existing operations £'000	Acquisitions £'000	Total £'000	Total £'000
Cost of sales	(722,861)	(107,265)	(830,126)	(505,738)
Gross profit	268,830	11,722	280,552	191,982
Depreciation	(18,272)	(516)	(18,788)	(10,617)
Amortisation	(7,431)	(1,340)	(8,771)	(340)
Other operating expenses	(205,427)	(9,109)	(214,536)	(150,593)
<b>Total operating expenses</b>	<b>(231,130)</b>	<b>(10,965)</b>	<b>(242,095)</b>	<b>(161,550)</b>
Operating profit	37,700	757	38,457	30,432

Total operating expenses are analysed as follows:

	2001			2000
	Existing operations £'000	Acquisitions £'000	Total £'000	Total £'000
Distribution costs	(174,460)	(7,831)	(182,291)	(125,805)
Administrative expenses	(56,670)	(3,134)	(59,804)	(35,745)
<b>Total operating expenses</b>	<b>(231,130)</b>	<b>(10,965)</b>	<b>(242,095)</b>	<b>(161,550)</b>

### 4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging (crediting):

	2001 £'000	2000 £'000
Amortisation of goodwill	8,771	340
Depreciation of owned tangible fixed assets	18,604	10,361
Depreciation of tangible fixed assets held under finance leases and hire purchase contracts	184	256
Loss (profit) on sale of tangible fixed assets	31	(254)
Rentals under operating leases		
– hire of plant and machinery	298	102
– other	32,374	24,760
Auditors' remuneration – audit services	400	248
– non-audit services	450	341

In addition to the above, payments of £2.4m were made to the Group's auditors in respect of the Group's flotation on the London Stock Exchange in July 2000.

### 5 Employees

Employee costs consist of:

	2001 £'000	2000 £'000
Wages and salaries	103,160	71,642
Social security costs	13,661	8,845
Other pension costs	1,520	1,072
	<b>118,341</b>	<b>81,559</b>

The average monthly number of people employed by the Group during the period was:

	2001 Number	2000 Number
Administration	979	721
Selling and distribution	4,466	3,035
	<b>5,445</b>	<b>3,756</b>

Details of Directors' remuneration are provided in pages 20 to 21 of the Remuneration report.

**6 Exceptional items**

		2001 £'000	2000 £'000
Profit (loss) on disposal of subsidiary undertakings	(a)	16,514	(1,613)
(Loss) profit on disposal of fixed assets	(b)(i)	(2,484)	1,981
	(b)(ii)	(2,945)	–
Cost of fundamental reorganisation	(c)	(4,530)	(5,500)
		<b>6,555</b>	<b>(5,132)</b>

**a) Profit and loss on disposal of subsidiary undertakings***MViva*

On 13 June 2000 the Group entered into a strategic partnership agreement with AOL Europe SA to provide funding, functionality, content and services for the Group's subsidiary, MViva Limited. AOL Europe paid \$25m for a 15% interest resulting in a gain of £16.5m. The loss in the period ended 25 March 2000 resulted primarily from the sale of Tecno Holdings Limited.

**b) Profit and loss on disposal of fixed assets**

(i) On 30 March 2001, the Group disposed of the individual investments in its Wireless Internet Portfolio into an independently managed fund. Although the consideration for the transfer was equal to the aggregate cost of the individual investments, in accordance with the Group's accounting policy, exceptional losses of £2.5m have been recognised in respect of the disposal of certain investments.

The prior period gain of £2.0m relates to the disposal of various properties for a cash consideration of £4.4m.

(ii) In certain non-key markets where the prospects of achieving acceptable financial returns are not evident, the Group has announced its intention to either restructure its operations or to withdraw its involvement.

As such the Group has provided for the loss of £2.9m expected to arise on the disposal of specific fixed assets. The Group anticipates that further restructuring costs of £3.0m will be incurred in the period to 30 March 2002.

**c) Cost of fundamental reorganisation**

In the period ended 25 March 2000, the Group made provision of £5.5m for the anticipated costs of a fundamental reorganisation arising from the integration of the support function and retail operations of Antika Retail Limited (trading as Tandy) into those of the other UK operations. The total cost of the integration, which was completed by 31 March 2001, was £10.0m and as such a charge of £4.5m has arisen in the period.

**Effect of exceptional items on taxation and minority interests**

The effects of the exceptional items reported after operating profit on the amounts charged to the profit and loss account for taxation and minority interests were:

	Tax on profit on ordinary activities		Minority interests	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
(a) Profit and loss on disposal of subsidiary undertakings	–	–	2,475	(56)
(b) Profit and loss on disposal of fixed assets	–	–	–	817
(c) Cost of fundamental reorganisation	(1,350)	–	–	–
(Decrease) increase in charge to profit and loss account	<b>(1,350)</b>	–	<b>2,475</b>	<b>761</b>

## 7 Net interest receivable (payable)

	2001 £'000	2000 £'000
Interest receivable and similar income	6,015	733
Interest payable and similar charges:		
Bank overdrafts and loans	(3,168)	(468)
Other loans	(426)	(425)
Finance lease and hire purchase contracts	(36)	(36)
Interest payable and similar charges	(3,630)	(929)
Net interest receivable (payable)	2,385	(196)

## 8 Tax on profit on ordinary activities

The tax charge for the period comprises:

	2001 £'000	2000 £'000
UK corporation tax	7,662	7,523
Deferred tax	2,428	–
Overseas tax	473	1,308
Adjustments in respect of prior periods		
– UK	(1,888)	–
	8,675	8,831

Details of deferred tax assets and liabilities are provided in note 19.

Adjustments in respect of prior periods include the tax effect of the exceptional costs of a fundamental reorganisation provided in the period ended 25 March 2000 (see note 6c), for which no deferred tax asset was recognised.

**9 Earnings per share**

The calculations of earnings per share are based on the following profits and numbers of shares:

	Basic and diluted	
	2001 £'000	2000 £'000
Profit for the financial period	38,159	16,327
Amortisation of goodwill	8,771	340
Earnings before amortisation of goodwill	46,930	16,667
Exceptional items (net of tax and minority interests)	(5,429)	5,893
Earnings before amortisation of goodwill and exceptional items	41,501	22,560

	2001 Number of shares 000's	2000 Number of shares 000's
<b>Weighted average number of shares:</b>		
For basic earnings per share	763,002	600,000
Dilutive effect of share options	23,122	19,415
For diluted earnings per share	786,124	619,415

	Basic pence per share		Diluted pence per share	
	2001	2000	2001	2000
<b>Unadjusted earnings per share</b>	5.0	2.7	4.9	2.6
<b>Headline earnings per share:</b>				
Earnings before amortisation of goodwill	6.2	2.8	6.0	2.7
Earnings before amortisation of goodwill and exceptional items	5.4	3.8	5.3	3.7

Headline earnings per share calculations are provided since the Directors consider that earnings before amortisation of goodwill and exceptional items gives a better indication of performance than Basic earnings per share.

**10 Intangible fixed assets – goodwill**

Group	Positive goodwill £'000	Negative goodwill £'000	Total £'000
<b>Cost</b>			
At 25 March 2000	28,943	(1,776)	27,167
Acquisition of minority interests in the Group (see note 12a)	169,050	–	169,050
Other acquisitions	42,580	–	42,580
Amounts written off (see below)	–	1,776	1,776
Foreign exchange	340	–	340
At 31 March 2001	240,913	–	240,913
<b>Amortisation</b>			
At 25 March 2000	(582)	348	(234)
(Charge) credit for the period	(8,860)	89	(8,771)
Amounts written off (see below)	–	(437)	(437)
At 31 March 2001	(9,442)	–	(9,442)
<b>Net book value</b>			
At 31 March 2001	231,471	–	231,471
At 25 March 2000	28,361	(1,428)	26,933

Negative goodwill relates to Antika Retail Limited ('Tandy') and has been written off in the period against the costs of the fundamental reorganisation referred to in note 6c.

## 11 Tangible fixed assets

Group	Freehold land and buildings £'000	Short leasehold costs £'000	Computer and office equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>						
At 25 March 2000	6,545	33,354	18,207	28,307	957	87,370
Additions	9,753	11,007	25,742	27,027	446	73,975
Disposals	(861)	(2,091)	(1,329)	(661)	(405)	(5,347)
Acquisition of subsidiary undertakings	–	3,804	440	67	227	4,538
Foreign exchange	6	94	58	(19)	2	141
At 31 March 2001	15,443	46,168	43,118	54,721	1,227	160,677
<b>Depreciation</b>						
At 25 March 2000	(628)	(6,634)	(9,534)	(6,969)	(415)	(24,180)
Charge for period	(196)	(3,263)	(7,562)	(7,440)	(327)	(18,788)
Disposals	426	748	806	180	312	2,472
Foreign exchange	(1)	(27)	43	84	(2)	97
At 31 March 2001	(399)	(9,176)	(16,247)	(14,145)	(432)	(40,399)
<b>Net book value</b>						
At 31 March 2001	15,044	36,992	26,871	40,576	795	120,278
At 25 March 2000	5,917	26,720	8,673	21,338	542	63,190

The net book value of tangible fixed assets includes an amount of £442,000 (2000 – £471,000) in respect of assets held under finance leases and hire purchase contracts and the depreciation charge on these assets was £184,000 (2000 – £256,000). The Directors consider that the market value of freehold land and buildings exceeds net book value by approximately £4.6m. The Company does not hold any tangible fixed assets.

## 12 Fixed asset investments

### Group

Movements in the period were as follows:

Cost	Own shares £'000	Other investments £'000	Total £'000
At 25 March 2000	–	11,584	11,584
Acquisitions during the period	3,949	31,377	35,326
Write down (see below)	–	(2,484)	(2,484)
At 31 March 2001	3,949	40,477	44,426

### Own shares

The Group has an Employee Share Ownership Trust (ESOT) which holds shares in the Company for the benefit of the Group's employees. The movement in the period represents the acquisition of 1,974,000 shares on flotation at £2 per share (for a total cost of £3.9m). At 31 March 2001 the shares had a market value of £2.5m.

### Other investments

In March 2001, the Group disposed of the individual investments in its Wireless Internet Portfolio into an independently managed fund. Although the consideration for the transfer was equal to the aggregate cost of the individual investments, in accordance with the Group's accounting policy, losses of £2.5m have been recognised in respect of the disposal of certain investments.

## 12 Fixed asset investments (continued)

## Company

## Subsidiary undertakings

	£'000
At 25 March 2000	594
Acquisitions of minority interests (see 12a)	167,090
Other additions	66,594
At 31 March 2001	234,278

## Principal Group investments

The Company and the Group have investments in the following subsidiary undertakings, which principally affected the profits 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 the proportion held reflects the effective holding to the Group on consolidation.

Name	Country of incorporation or registration	Nature of business	Proportion
The Carphone Warehouse Limited*	England	Retail of mobile communication equipment	100%
The Carphone Warehouse UK Limited	England	Retail of mobile communication equipment	100%
The Phone House SA	Belgium	Retail of mobile communication equipment	100%
The Phone House s.r.o.	Czech Republic	Retail of mobile communication equipment	100%
The Phone House SA	France	Retail of mobile communication equipment	100%
Multiples SA	France	Retail of mobile communication equipment	100%
The Phone House Deutschland GmbH	Germany	Retail of mobile communication equipment	100%
Otto Boenicke Vermietungs und Verpachtungs GmbH	Germany	Retail of mobile communication equipment	100%
The Phone House Kft	Hungary	Retail of mobile communication equipment	100%
The Carphone Warehouse Limited	Ireland	Retail of mobile communication equipment	100%
The Phone House Limited	Israel	Retail of mobile communication equipment	65%
The Phone House SpA	Italy	Retail of mobile communication equipment	100%
The Phone House Netherlands BV	Netherlands	Retail of mobile communication equipment	100%
Road Phone Telecom NV	Netherlands	Retail of mobile communication equipment	100%
The Phone House Sp.z.o.o.	Poland	Retail of mobile communication equipment	80%
Polirent Comercio e Aluguer de Bens e Servicos LDA	Portugal	Retail of mobile communication equipment	100%
PVP Comercio e Equipamento de Telecomunicacoes LDA	Portugal	Retail of mobile communication equipment	100%
Eurotransmite Representacoes LDA	Portugal	Retail of mobile communication equipment	100%
Phone Warehouse SL*	Spain	Retail of mobile communication equipment	100%
A.C.J.M. SA	Spain	Retail of mobile communication equipment	100%
GEAB Teleshop AB	Sweden	Retail of mobile communication equipment	100%
The Phone House SA	Switzerland	Retail of mobile communication equipment	100%
ISe-Net Solutions Limited	England	Information technology services	100%
MViva Limited	England	Wireless data services	85%
Value Telecom Limited	England	Telecoms services	100%
Carphone Warehouse Services Limited	England	Telecoms services	100%
The Wireless Warehouse SA*	Belgium	Holding company	100%
The Phone House Holdings (UK) Limited*	England	Holding company	100%
The Carphone Warehouse Insurance Limited	Isle of Man	Insurance underwriting	100%
The Phone House Insurance Limited	Isle of Man	Insurance underwriting	100%
Wireless Internet Portfolio BV	Netherlands	Holding company	100%
The Phone House BV	Netherlands	Holding company	100%
The Phone House Insurance Brokers SA	Switzerland	Insurance brokerage	100%

\*held directly by the Company.

## 12 Fixed asset investments (continued)

### Acquisitions

#### a. Acquisition of minority interests in the Group

On 22 June 2000, the Company acquired 24% of the issued share capital of The Phone House Holdings (UK) Limited, a company registered in England in which it already had a 76% interest, in exchange for 81.9m shares in the Company. The shares in the Company had a fair value of £104.1m, giving rise to goodwill on acquisition of £105.9m.

On 14 July 2000, the Company acquired all minority interests in The Phone House SA (France), Phone Warehouse SL (Spain) and Polirent Comercio e Aluguer de Bens e Servicos LDA (Portugal), in exchange for 31.3m shares in the Company. The shares in the Company had a fair value of £62.5m, giving rise to goodwill on acquisition of £63.1m.

#### b. Germany

On 1 April 2000, the Group acquired 100% of the issued share capital of Otto Boenicke Vermietungs- und Verpachtungs GmbH ("Boenicke"), a company registered in Germany, for a gross cash consideration of £6.5m.

Boenicke was a shell company into which 74 retail outlets were transferred at a book value of nil. Fair value adjustments of £0.5m in respect of onerous lease contracts gave rise to additional goodwill of £0.5m on acquisition, bringing the total goodwill on acquisition to £7.0m. Since the acquisition consisted only of lease contracts it is not applicable to disclose profits and losses for this Company for the period before or after acquisition.

#### c. UK

On 13 June 2000, the Group acquired the trade, assets and certain liabilities of Cellcom Limited, a telecoms services business registered in England, for a gross cash consideration of £9.1m.

The following table sets out the book values of the identifiable assets and liabilities acquired and their fair value to the Group:

	Book value £'000	Accounting policy alignment £'000	Other fair value adjustments £'000	Fair value to Group £'000
<b>Fixed assets</b>				
Tangible	1,084	(117)	(391)	576
<b>Current assets</b>				
Stock	4,511	(100)	–	4,411
Debtors	8,932	(200)	–	8,732
Cash	3,386	–	–	3,386
<b>Total assets</b>	<b>17,913</b>	<b>(417)</b>	<b>(391)</b>	<b>17,105</b>
<b>Creditors</b>				
Other creditors	(17,913)	(86)	–	(17,999)
<b>Provisions</b>				
Other provisions	–	–	(1,432)	(1,432)
<b>Total liabilities</b>	<b>(17,913)</b>	<b>(86)</b>	<b>(1,432)</b>	<b>(19,431)</b>
<b>Net liabilities</b>	<b>–</b>	<b>(503)</b>	<b>(1,823)</b>	<b>(2,326)</b>
Goodwill				11,393
<b>Satisfied by cash</b>				<b>9,067</b>

Net cash outflows in respect of the acquisition comprised:

	£'000
Gross cash consideration	9,067
Cash acquired	(3,386)
	<b>5,681</b>

Other fair value adjustments relate to the revaluation of tangible fixed assets and onerous property commitments.

The trade and net assets acquired were subsumed within larger reporting units prior to acquisition, hence it is not practicable to disclose profits or losses for the period prior to acquisition. The business generated a profit after taxation of £299,000 from 13 June 2000 to 31 March 2001.

## 12 Fixed asset investments (continued)

*Acquisitions* (continued)**d. Netherlands**

On 1 September 2000, the Group acquired 100% of the issued share capital of Road Phone Telecom NV, a company registered in the Netherlands, for a gross cash consideration of £6.9m.

The following table sets out the aggregate book values of the identifiable assets and liabilities acquired and their fair value to the Group:

	Book value £'000	Accounting policy alignment £'000	Other fair value adjustments £'000	Fair value to Group £'000
<b>Fixed assets</b>				
Tangible	943	–	(618)	325
<b>Current assets</b>				
Stock	1,332	(390)	–	942
Debtors	2,238	–	–	2,238
<b>Total assets</b>	<b>4,513</b>	<b>(390)</b>	<b>(618)</b>	<b>3,505</b>
<b>Creditors</b>				
Overdrafts	(1,708)	–	–	(1,708)
Loans	(1,751)	–	–	(1,751)
Other creditors	(1,566)	–	–	(1,566)
<b>Provisions</b>				
Other provisions	(30)	(235)	–	(265)
<b>Total liabilities</b>	<b>(5,055)</b>	<b>(235)</b>	<b>–</b>	<b>(5,290)</b>
<b>Net liabilities</b>	<b>(542)</b>	<b>(625)</b>	<b>(618)</b>	<b>(1,785)</b>
Goodwill				8,683
<b>Satisfied by cash</b>				<b>6,898</b>

Net cash outflows in respect of the acquisition comprised:

	£'000
Gross cash consideration	6,898
Overdrafts acquired	1,708
	<b>8,606</b>

Other fair value adjustments relate to the revaluation of tangible fixed assets.

Road Phone Telecom NV earned a profit after taxation of £602,000 in the 15 month period ended 31 March 2001 (year ended 31 December 1999 – £518,000), of which £302,000 arose in the period from 1 January 2000 to 31 August 2000.

## 12 Fixed asset investments (continued)

### Acquisitions (continued)

#### e. France

On 1 September 2000, the Group acquired 100% of the issued share capital of Multiples SA, a company registered in France, for a gross cash consideration of £8.0m. Multiples SA was a shell company into which the assets and certain liabilities of Multiples Clothing SA were transferred.

The following table sets out the book values of the identifiable assets and liabilities acquired and their fair value to the Group:

	Book value £'000	Accounting policy alignment £'000	Fair value to Group £'000
<b>Fixed assets</b>			
Tangible	7,711	(3,522)	4,189
<b>Current assets</b>			
Stock	126	–	126
Cash	1,092	–	1,092
<b>Total assets</b>	<b>8,929</b>	<b>(3,522)</b>	<b>5,407</b>
<b>Creditors</b>			
Loans	(828)	–	(828)
Other creditors	(252)	(678)	(930)
<b>Total liabilities</b>	<b>(1,080)</b>	<b>(678)</b>	<b>(1,758)</b>
<b>Net assets</b>	<b>7,849</b>	<b>(4,200)</b>	<b>3,649</b>
Goodwill			4,334
<b>Satisfied by cash</b>			<b>7,983</b>

Net cash outflows in respect of the acquisition comprised:

	£'000
Gross cash consideration	7,983
Cash acquired	(1,092)
	<b>6,891</b>

Since the acquisition consisted only of individual assets and liabilities rather than a trade, it is not applicable to disclose profits or losses for the shell company for the period before or after acquisition.

#### f. Other acquisitions

During the period the Group made a number of other acquisitions, for an aggregate gross cash consideration of £8.6m.

The following table sets out the aggregate book values of the identifiable assets and liabilities acquired and their fair value to the Group:

	Book value £'000	Accounting policy alignment £'000	Other fair value adjustments £'000	Fair value to Group £'000
<b>Fixed assets</b>				
Tangible	1,412	–	(1,965)	(553)
<b>Current assets</b>				
Stock	567	(264)	–	303
Debtors	1,660	(503)	–	1,157
Cash	980	(4)	–	976
<b>Total assets</b>	<b>4,619</b>	<b>(771)</b>	<b>(1,965)</b>	<b>1,883</b>
<b>Creditors</b>				
Long term loans	(305)	–	–	(305)
Other creditors	(3,081)	(1,090)	–	(4,171)
<b>Provisions</b>				
Other provisions	(28)	(11)	–	(39)
<b>Total liabilities</b>	<b>(3,414)</b>	<b>(1,101)</b>	<b>–</b>	<b>(4,515)</b>
<b>Net assets (liabilities)</b>	<b>1,205</b>	<b>(1,872)</b>	<b>(1,965)</b>	<b>(2,632)</b>
Goodwill				11,215
<b>Satisfied by cash</b>				<b>8,583</b>

Other fair value adjustments in respect of other acquisitions include adjustments of £1.2m made in relation to acquisitions in the period ended 25 March 2000. Adjustments made in respect of acquisitions in both the current and prior period arose principally from the revaluation of fixed assets.

**12 Fixed asset investments** (continued)*Other acquisitions* (continued)

Net cash outflows in respect of the above acquisitions comprised:

	£'000
Gross cash consideration	8,583
Cash acquired	(976)
	<b>7,607</b>

Net cash outflows in respect of all acquisitions in the period were as follows:

	£'000
Gross cash consideration	39,078
Cash acquired	(5,454)
Overdrafts acquired	1,708
	<b>35,332</b>

**13 Stock**

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Finished goods and goods for resale	52,437	51,842	–	–

There is no material difference between the balance sheet value of stock and its replacement cost.

**14 Debtors**

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Amounts falling due within one year:				
Trade debtors	104,827	55,557	–	–
Other debtors	27,516	20,419	924	2
Prepayments and accrued income	16,857	6,850	601	292
	<b>149,200</b>	82,826	<b>1,525</b>	294
Amounts falling due after more than one year:				
Amounts owed by Group undertakings	–	–	131,555	9,077
	<b>149,200</b>	82,826	<b>133,080</b>	9,371

**15 Short-term investments**

	Group	
	2001 £'000	2000 £'000
Short-term investments	46,374	11,144

Included within short-term investments are listed investments with a cost of £46.1m (2000 – £11.1m). The market value of these investments at 31 March 2001 is £47.3m (2000 – £13.5m).

**16 Creditors: amounts falling due within one year**

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Obligations under finance leases and hire purchase contracts	256	125	–	–
Loans and overdrafts	10,537	28,131	7,946	–
Trade creditors	144,908	75,948	–	–
Corporation tax	8,102	9,577	–	–
Other taxes and social security costs	15,933	6,772	–	–
Other creditors	11,685	19,959	–	26
Accruals and deferred income	30,927	33,308	1,664	237
	<b>222,348</b>	<b>173,820</b>	<b>9,610</b>	<b>263</b>

**17 Creditors: amounts falling due after more than one year**

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Obligations under finance leases and hire purchase contracts	178	130	–	–
Loans and overdrafts	–	3,180	–	–
Amounts owed to subsidiary undertakings	–	–	–	8,789
Other creditors	5,885	6,832	–	–
Accruals and deferred income	8,044	10,891	–	–
	<b>14,107</b>	<b>21,033</b>	<b>–</b>	<b>8,789</b>

Loans and overdrafts are repayable as follows:

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Between one and two years	–	813	–	–
Between two and five years	–	2,367	–	–
	<b>–</b>	<b>3,180</b>	<b>–</b>	<b>–</b>

## 18 Derivatives and other financial instruments

The Financial review on pages 12 and 13 provides an explanation of the role that financial instruments have in managing the currency risks the Group faces in its activities. The numerical disclosures in this note deal with financial assets and financial liabilities as defined in FRS 13 "Derivatives and other financial instruments". Certain financial assets such as investments in subsidiary and associated companies are also excluded from the scope of these disclosures. As permitted by FRS 13, short-term debtors and creditors have been excluded, other than the currency disclosures.

### (i) Interest rate and currency profile of financial assets and liabilities

The Group's financial assets include cash deposits, mostly denominated in sterling, as well as longer-term investments including bonds and fixed rate notes (FRNs), again mainly denominated in sterling. There are also foreign exchange swaps used to hedge the Group's balance sheet translation risk. Whilst cash deposits tend to be placed at call, other investments are made with a view to maximising return and matching future cashflow requirements. The Group has limited financial liabilities, other than currency hedges, and these mainly consist of local overdraft facilities for cash management purposes and, as such, are denominated in a variety of European currencies. The Group does not trade in financial assets and liabilities and no additional disclosures of net gains or losses from such a trade are required to be reported.

After taking into account interest rate swaps and foreign exchange swaps entered into by the Group, the profile of the Group's financial assets and liabilities at 31 March 2001 was as follows:

#### Financial assets

	Sterling	Euro	Other	Total 2001	Sterling	Euro	Other	Total 2000
By instrument	£m	£m	£m	£m	£m	£m	£m	£m
Cash and deposits	50.8	12.6	4.1	67.5	22.3	2.6	0.4	25.3
Foreign exchange swaps	81.6	0.0	0.0	81.6	0.0	0.0	0.0	0.0
Other	46.4	0.0	0.0	46.4	11.1	0.0	0.0	11.1
<b>Total</b>	<b>178.8</b>	<b>12.6</b>	<b>4.1</b>	<b>195.5</b>	<b>33.4</b>	<b>2.6</b>	<b>0.4</b>	<b>36.4</b>

	Sterling	Euro	Other	Total 2001	Sterling	Euro	Other	Total 2000
By interest rate	£m	£m	£m	£m	£m	£m	£m	£m
Floating rate	164.3	12.6	4.1	181.0	33.4	2.6	0.4	36.4
Fixed rate	14.5	0.0	0.0	14.5	0.0	0.0	0.0	0.0
<b>Total</b>	<b>178.8</b>	<b>12.6</b>	<b>4.1</b>	<b>195.5</b>	<b>33.4</b>	<b>2.6</b>	<b>0.4</b>	<b>36.4</b>

#### Financial liabilities

	Sterling	Euro	Other	Total 2001	Sterling	Euro	Other	Total 2000
By instrument	£m	£m	£m	£m	£m	£m	£m	£m
Borrowings	0.0	(10.2)	(0.3)	(10.5)	(12.4)	(14.5)	(4.4)	(31.3)
Foreign exchange swaps	0.0	(63.7)	(16.4)	(80.1)	0.0	0.0	0.0	0.0
Other	(0.1)	(0.3)	(0.0)	(0.4)	(0.3)	0.0	0.0	(0.3)
<b>Total</b>	<b>(0.1)</b>	<b>(74.2)</b>	<b>(16.7)</b>	<b>(91.0)</b>	<b>(12.7)</b>	<b>(14.5)</b>	<b>(4.4)</b>	<b>(31.6)</b>

	Sterling	Euro	Other	Total 2001	Sterling	Euro	Other	Total 2000
By interest rate	£m	£m	£m	£m	£m	£m	£m	£m
Floating rate	(0.1)	(66.9)	(16.7)	(83.7)	(12.7)	(5.9)	(4.4)	(23.0)
Fixed rate	0.0	(7.3)	0.0	(7.3)	0.0	(8.6)	0.0	(8.6)
<b>Total</b>	<b>(0.1)</b>	<b>(74.2)</b>	<b>(16.7)</b>	<b>(91.0)</b>	<b>(12.7)</b>	<b>(14.5)</b>	<b>(4.4)</b>	<b>(31.6)</b>

Financial assets earning interest at fixed rates are investments in FRNs, bonds etc, which bear interest at a variety of market rates dependent on the instrument concerned and purchase date. Fixed financial liabilities, all of which are denominated in Euro, bear weighted average interest rates of 4.79% (2000 – 4.78%) for weighted average periods of 1.4 years (2000 – 1.8 years).

## 18 Derivatives and other financial instruments (continued)

### (ii) Currency exposures

At 31 March 2001, financial assets of £10.3m (2000 – £nil) were held by companies in currencies other than their own functional currency. Of this amount, £9.3m was held by companies whose functional currency was Euro and £1.0m by companies with other functional currencies.

### (iii) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 31 March 2001 was as follows:

	Total 2001 £m	Total 2000 £m
In one year or less	(90.8)	(28.3)
In more than one year but not more than two years	(0.2)	(0.9)
In more than two years but not more than five years	0.0	(2.4)
<b>Total</b>	<b>(91.0)</b>	<b>(31.6)</b>

Of the £91.0m total financial liabilities, £80.1m is represented by foreign exchange swaps that are offset by corresponding financial assets.

### (iv) Borrowing facilities

The Group had undrawn committed borrowing facilities at 31 March 2001 of £139.5m (2000 – £nil) all of which expire in more than two years.

### (v) Fair values

Set out below is a comparison by category of book values and fair values of the Group's financial assets and liabilities at 31 March 2001 and 25 March 2000. Cash and short-term borrowings and deposits have been included at carrying value; other fair values have been arrived at by discounting future cashflows (assuming no early redemption) or marking deals to year-end market or foreign exchange rates as appropriate to the instrument.

	2001		2000	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the Group's operations				
Short-term financial liabilities	(10.5)	(10.5)	(31.3)	(31.3)
Other	(0.4)	(0.4)	(0.3)	(0.3)
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate swaps	0.0	(0.1)	0.0	(0.1)
Forward foreign currency contracts	1.5	1.5	0.0	0.0
Financial assets				
Cash and deposits	67.5	67.5	25.3	25.3
Other	46.4	47.5	11.1	13.5

### (vi) Gains and losses on hedges

The Group hedges certain currency and interest rate exposures using foreign exchange and interest rate swaps. Net losses of £0.1m were unrecognised at 25 March 2000 and were not recognised during the period to 31 March 2001. These losses are expected to be recognised in the period ended 30 March 2002.

**19 Provisions for liabilities and charges**

	Provisions against sales	Insurance funds and reserves	Restructuring provisions	Deferred tax	Other	Total
<b>Group</b>	£'000	£'000	£'000	£'000	£'000	£'000
At 25 March 2000	3,631	18,445	9,840	–	2,678	34,594
Charge to profit and loss account	8,735	25,232	4,530	2,428	3,290	44,215
Acquisition of subsidiary undertakings	–	–	–	–	2,145	2,145
Utilised in period	(5,831)	(23,667)	(11,717)	–	(2,977)	(44,192)
Exchange adjustment	–	–	–	–	41	41
<b>At 31 March 2001</b>	<b>6,535</b>	<b>20,010</b>	<b>2,653</b>	<b>2,428</b>	<b>5,177</b>	<b>36,803</b>

The principal components of provisions are as follows:

- Provisions against sales relate largely to customer returns;
- Insurance funds and reserves represent unearned premium and the anticipated costs of claims;
- Restructuring provisions relate to the integration of the Tandy business, as detailed in note 6c;
- Other provisions relate primarily to product warranty costs and the anticipated loss on disposal of fixed assets in certain smaller markets, as detailed in note 6b.

*Deferred tax (liabilities) assets*

	Provided		Not provided	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
<b>Group</b>				
Accelerated capital allowances	(59)	–	3,067	(94)
Other timing differences	(2,369)	–	9	3,673
	(2,428)	–	3,076	3,579

The accumulated reserves of certain overseas subsidiary undertakings would be subject to additional taxation if remitted to the UK. The Directors do not presently intend to remit these reserves and, accordingly, no provision for additional taxation has been made.

**20 Share capital**

<b>Group and company</b>	2001 million	2000 million	2001 £'000	2000 £'000
<i>Authorised</i>				
Ordinary shares of 0.1p each	1,000	1,000	1,000	1,000
<i>Allotted, called up and fully paid</i>				
Ordinary shares of 0.1p each	833	600	833	600

The principal movements in share capital during the period represent shares issued on flotation and shares issued in consideration for minority interests in the Group.

	Nominal value £	Number of ordinary shares 000's	Consideration £'000
Acquisition of minority interests (see note 12)	113,194	113,194	166,570
Shares issued on flotation	102,614	102,614	185,806
Exercise of options	16,824	16,824	4,092
<b>Total</b>	<b>232,632</b>	<b>232,632</b>	<b>356,468</b>

## Share options

The Group has in issue the following options to purchase ordinary shares in the Company:

### 1. Unapproved executive share option scheme

Date options granted	Exercise price per share £	Exercisable from	Expiry date	Number of options outstanding	
				2001	2000
30/04/94	0.04	14/07/00	30/04/01	–	15,000,000
01/04/99	0.25	14/07/00	01/04/09	<b>1,635,000</b>	2,080,000
25/07/99	0.25	14/07/00	25/07/09	<b>200,000</b>	410,000
06/10/99	0.25	14/07/00	06/10/09	–	400,000
01/04/99	0.50	14/07/00	01/04/09	<b>890,000</b>	940,000
25/07/99	0.50	14/07/00	25/07/09	<b>359,000</b>	380,000
06/10/99	0.50	14/07/00	06/10/09	<b>200,000</b>	200,000
06/10/99	0.50	30/06/01	06/10/09	<b>120,000</b>	120,000
01/02/00	0.80	14/07/00	01/02/10	<b>500,000</b>	1,000,000
01/02/00	0.80	30/06/02	01/02/10	<b>300,000</b>	–
01/02/00	1.00	14/07/00	01/02/10	<b>1,000,000</b>	1,000,000
01/02/00	1.00	30/06/03	01/02/10	<b>200,000</b>	–
31/03/01	1.25	31/03/04	31/03/11	<b>125,000</b>	–
24/06/00	1.50	14/07/00	24/06/10	<b>4,000,000</b>	–
25/05/00	1.50	25/05/01	25/05/10	<b>125,000</b>	–
19/05/00	1.50	19/05/02	19/05/10	<b>10,156,500</b>	–
19/05/00	2.00	19/05/02	19/05/10	<b>850,000</b>	–
				<b>20,660,500</b>	21,530,000

In addition to the above 7,343,900 further options were awarded on 21 May 2001 at an exercise price of £1.25, exercisable after 21 May 2004, and expiring on 21 May 2011.

### 2. Employee share option schemes

Date options granted	Exercise price per share £	Exercisable from	Expiry date	Number of options outstanding	
				2001	2000
31/12/99	–	01/01/01	31/12/09	<b>389,350</b>	755,557
05/06/00	1.50	01/01/02	05/06/10	<b>561,300</b>	–
				<b>950,650</b>	755,557

At 31 March 2001 there were 7,381,918 outstanding options to subscribe for shares in the Group's subsidiary, MViva, at exercise prices between £0.10 and £3.13. This represents 6.9% of the enlarged issued share capital of this subsidiary.

The Carphone Warehouse Group ShareSave Scheme, a 'Save As You Earn' scheme, was launched in April 2001. UK employees can enter into this Inland Revenue approved savings scheme for a period of three or five years, whereby shares may be acquired. The option price is the average market price over the three days before an offer to subscribe, discounted by a maximum of 20%.

Options are exercisable within a six month period from the conclusion of a three or five year period. As a result of the take up, 2,630,868 shares are to be allocated to the scheme over the respective three and five year periods.

**21 Reserves**

	Profit and loss account £'000	Share premium account £'000	Capital redemption reserve £'000	Total £'000
<b>Group</b>				
At 25 March 2000	43,560	–	30	43,590
Profit for the financial period	38,159	–	–	38,159
Currency translation	(383)	–	–	(383)
Issue of share capital*	–	356,235	–	356,235
Other movements	(1,676)	–	–	(1,676)
<b>At 31 March 2001</b>	<b>79,660</b>	<b>356,235</b>	<b>30</b>	<b>435,925</b>
<b>Company</b>				
At 25 March 2000	484	–	–	484
Profit for the financial period	628	–	–	628
Currency translation	(432)	–	–	(432)
Issue of share capital*	–	356,235	–	356,235
<b>At 31 March 2001</b>	<b>680</b>	<b>356,235</b>	<b>–</b>	<b>356,915</b>

\*Net of issue costs of £19.4m.

In accordance with the exemption permitted by S230 of the Companies Act 1985, the profit and loss account of the Company is not separately presented. The profit attributable to shareholders of the Company for the year is £0.6m (2000 – £0.9m).

Other movements of £2.1m relate to the exercise of employee share options and the reversal of a charge recognised in the profit and loss account of £0.4m relating to shares issued to employees at below market value prior to flotation.

The cumulative amount of goodwill written off against the Group's reserves is £0.1m (2000 – £0.1m)

**22 Reconciliation of movements in shareholders' funds**

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Profit for the financial period	<b>38,159</b>	16,327	<b>628</b>	903
Currency translation	<b>(383)</b>	(543)	<b>(432)</b>	–
New shares issued	<b>356,468</b>	–	<b>356,468</b>	–
Other movements	<b>(1,676)</b>	–	–	–
Net movements in shareholders' funds	<b>392,568</b>	15,784	<b>356,664</b>	903
Opening shareholders' funds	<b>44,190</b>	28,406	<b>1,084</b>	181
Closing shareholders' funds	<b>436,758</b>	44,190	<b>357,748</b>	1,084

**23 Minority interests**

	Equity interests £'000
At 25 March 2000	(770)
Minority interests' share of profits in the period	563
Change in minority interests during the period	1,945
Foreign exchange	(51)
<b>At 31 March 2001</b>	<b>1,687</b>

The change in minority interests arose from the acquisition of the Group's holding in certain subsidiary undertakings during the period, as detailed in note 12a.

## 24 Analysis of cash flows

### a. Returns on investments and servicing of finance

	2001 £'000	2000 £'000
Interest received	6,015	733
Interest paid	(3,594)	(893)
Interest element of finance lease rental payments	(36)	(36)
<b>Net cash inflow (outflow) from returns on investments and servicing of finance</b>	<b>2,385</b>	<b>(196)</b>

### b. Taxation

UK Corporation tax paid	(6,991)	(7,412)
<b>Net cash outflow from taxation</b>	<b>(6,991)</b>	<b>(7,412)</b>

### c. Capital expenditure and financial investment

Payments to acquire fixed asset investments	(35,326)	(11,584)
Payments to acquire tangible fixed assets	(73,975)	(36,662)
Net (outflows) receipts from (acquisition) disposal of short-term investments	(35,230)	864
Receipts from sale of tangible fixed assets	2,844	392
<b>Net cash outflow from capital expenditure and financial investment</b>	<b>(141,687)</b>	<b>(46,990)</b>

### d. Acquisitions and disposals

Purchase of subsidiary undertakings	(39,078)	(25,709)
Net cash acquired with subsidiary undertakings	3,746	503
Sale of subsidiary undertakings	16,514	3,680
Exceptional sale of assets	–	4,419
<b>Net cash outflow from acquisitions and disposals</b>	<b>(18,818)</b>	<b>(17,107)</b>

### e. Management of liquid resources

Movement in short-term deposits	196	7,296
<b>Net cash inflow from management of liquid resources</b>	<b>196</b>	<b>7,296</b>

### f. Financing

Net receipts from issuing shares	187,096	–
(Decrease) increase on loans	(18,667)	11,425
Capital element of hire purchase and finance lease payments	179	(224)
<b>Net cash inflow from financing</b>	<b>168,608</b>	<b>11,201</b>

### g. Analysis of changes in net debt

	At 25 March 2000 £'000	Cash flows £'000	Acquisition of subsidiary undertakings* £'000	At 31 March 2001 £'000
Cash at bank and in hand	25,152	42,365	–	67,517
Overdrafts	(15,414)	4,991	–	(10,423)
	9,738	47,356	–	57,094
Short-term deposits	196	(196)	–	–
Debt due within one year	(12,717)	15,487	(2,884)	(114)
Debt due after one year	(3,180)	3,180	–	–
Finance leases	(255)	(179)	–	(434)
<b>Net (debt) funds</b>	<b>(6,218)</b>	<b>65,648</b>	<b>(2,884)</b>	<b>56,546</b>

\*Excluding cash and overdrafts.

**24 Analysis of cash flows (continued)****h. Reconciliation of net cash inflow (outflow) to movements in net funds (debt)**

	2001 £'000	2000 £'000
<b>Increase (decrease) in cash in the period</b>	<b>47,356</b>	<b>(8,733)</b>
Cash outflow (inflow) from decrease (increase) in loans	18,667	(11,425)
Cash (inflow) outflow from (inception) repayment of finance leases	(179)	224
Cash inflow from decrease in short-term deposits	(196)	(7,296)
<b>Change in net funds</b>	<b>65,648</b>	<b>(27,230)</b>
Loans acquired with subsidiary undertakings	(2,884)	(309)
Currency retranslation	–	959
<b>Movement in net funds in the period</b>	<b>62,764</b>	<b>(26,580)</b>
<b>Net (debt) funds brought forward</b>	<b>(6,218)</b>	<b>20,362</b>
<b>Net funds (debt) carried forward</b>	<b>56,546</b>	<b>(6,218)</b>

**i. Acquisitions**

Companies acquired in the period contributed to £1.4m to the Group's net operating cash flows and utilised £1.8m for capital expenditure.

**j. Discontinued activities**

	2001 £'000	2000 £'000
Net cash inflow from operating activities comprises:		
Continuing operating activities	43,663	46,900
Discontinued operating activities	–	(2,425)
	<b>43,663</b>	<b>44,475</b>

**k. Major non-cash transactions**

The Group acquired various minority interests in the Group in consideration for shares in the Company, as disclosed in note 12a. In addition, the Group sold its wireless internet investments, valued at £41.9m, to an externally managed fund, in consideration for an interest in that fund.

**25 Commitments under operating leases**

	Land and buildings		Other	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
<b>Group</b>				
Operating leases which expire:				
Within one year	1,652	5,590	–	520
In two to five years	7,604	7,742	7	–
After five years	24,558	14,529	45	–
	<b>33,814</b>	<b>27,861</b>	<b>52</b>	<b>520</b>

There are no Company only operating leases.

**26 Capital commitments**

	2001 £'000	2000 £'000
Expenditure contracted, but not provided for in the financial statements of the Group	4,184	1,872

**27 Pension arrangements**

The Group provides various schemes for the benefit of a significant number of its employees:

*Defined benefit schemes*

The most recent actuarial valuation was as at 6 April 2001. The market value of the scheme's assets at 6 April 2001 was £7,776,000. The actuarial value of these assets represented 104% of the benefits that had accrued to members, after allowing for expected future increases in pensionable salaries. The main assumptions were an annualised gross redemption yield of 8% for conventional gilts and 3.85% for index-linked gilts, an interest rate of 2.7% above inflation for indexed pensions and a long-term interest rate for deferred pensioners with preserved benefits of 8% per annum. The winding up of the scheme commenced on 5 April 2000. The pension charge, calculated on the same assumptions as used for the actuarial valuation, amounts to £75,000 (2000 – £277,000).

#### Defined contribution schemes

The Group also operates a number of defined contribution schemes for which the pension cost for the period amounted to £1,328,000 (2000 – £681,000).

#### Other schemes

The Group provides pension arrangements to a minority of full time employees through a self-administered scheme and the related costs are assessed in accordance with the advice of professionally qualified actuaries.

There were employer contributions to the scheme in the period of £117,000 (2000 – £114,000).

## 28 Related party transactions

#### D P J Ross

On 24 May 2000, the Group acquired the holding of D P J Ross in Phone House Holdings (UK) Limited, in consideration for 81.9m ordinary shares in the Company.

#### G Roux De Bezieux

On 26 June 2000 the Group entered into an arrangement with G Roux De Bezieux to acquire his interest in The Phone House SA (France) in exchange for 28.5m ordinary shares in the Company, on Admission of the Group to the London Stock Exchange on 14 July 2001.

#### Clareville Capital

During the period ended 31 March 2001 the Group realised funds on an arm's length basis of £5.3m from an equity fund managed by Clareville Capital Limited, a company in which at that time C W Dunstone and D P J Ross had an interest. This interest was sold prior to 31 March 2001.

## 29 Post-balance sheet events

As detailed in note 6b, the Group is in the process of restructuring its involvement in certain non-key markets. Whilst provision has been made for the anticipated loss on disposal of certain fixed assets, the Directors expect additional exceptional restructuring costs of £3m to arise in the period ended 30 March 2002.

## Four year record (unaudited)

	2001 £m	2000 £m	1999 £m	1998 £m
<b>Results</b>				
Turnover	1,110.7	697.7	316.1	180.2
EBITDA	66.0	41.4	26.1	16.0
PBT*	49.6	30.6	19.8	13.9
Profit for the financial period	38.2	16.3	12.8	9.5
<b>Assets employed</b>				
Fixed assets	396.1	101.7	34.6	18.9
Net current assets (liabilities)	93.2	(2.7)	28.3	10.3
Creditors: Amounts falling due after more than one year	(14.1)	(21.0)	(14.0)	(6.2)
Provisions for liabilities and charges	(36.8)	(34.6)	(21.2)	(7.4)
Net assets	438.4	43.4	27.7	15.6
<b>Financed by</b>				
Shareholders' funds	436.7	44.2	28.4	15.5
Minority interests	1.7	(0.8)	(0.7)	0.1
	438.4	43.4	27.7	15.6
<b>Key statistics</b>				
Basic earnings per share	5.0p	2.7p	2.1p	1.6p
Diluted earnings per share	4.9p	2.6p	2.1p	1.6p
EPS†	5.4p	3.8p	2.1p	1.6p

\*PBT is defined as Profit before exceptional items and amortisation

†EPS is defined as Profit before exceptional items and amortisation, expressed on a per share basis.

## Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at The Jarvis International Hotel, Ealing Common, London W5 3HN on 28 June 2001 at 11.00am for the transaction of the following business:

### Ordinary resolutions

1. To receive the accounts and reports of the Directors and auditors for the period ended 31 March 2001.
2. To re-appoint Sir Brian Pitman as a Director.
3. To re-appoint Adrian Martin as a Director.
4. To re-appoint Jim Dale as a Director.
5. That Arthur Andersen be re-appointed as auditors of the Company and to authorise the Board to determine the auditors' remuneration.
6. That the Directors be generally and unconditionally authorised for the purpose of section 80(1) of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act), such authority being limited to the allotment and issue of relevant securities up to an aggregate nominal amount equal to £277,544 being one third of the aggregate nominal amount of the issued and unconditionally allotted ordinary share capital of the Company as at 31 March 2001 and shall expire on the date falling 15 months after the passing of this resolution or, if sooner, at the conclusion of the Company's Annual General Meeting to be held in 2002 and provided that the Directors may, at any time before such authority expires, make offers, agreements or other arrangements which would or might require such securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to any such offer, agreement or other arrangement as if such authority had not expired.

### Special resolutions

7. That the Directors be empowered pursuant to section 95 of the Act to allot equity securities (as defined in section 94(2) of the Act) pursuant to the authority conferred by resolution 6 as if section 89(1) of the Act did not apply to any such allotment, such power being limited to:
  - 7.1 the allotment of equity securities in connection with an offer or issue to holders of ordinary shares of 0.1p each in the capital of the Company ("Ordinary Shares") where the equity securities respectively attributable to the interests of all such holders are proportionate (as nearly as may be practicable) to the respective numbers of Ordinary Shares held by them, but including, in connection with such an issue the making of such arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements or problems under the laws of any territory or the requirements of any regulatory body or any stock exchange; and
  - 7.2 the allotment (other than pursuant to the powers conferred pursuant to resolution 7.1) of equity securities up to an aggregate nominal amount equal to £41,632 being five per cent of the aggregate nominal amount of the issued share capital of the Company as at 31 March 2001, and shall expire, on the date falling 15 months after the passing of this resolution or, if sooner, at the conclusion of the Company's Annual Aeneral Meeting in 2002 save that the Directors may, at any time before such expiry, make offers, agreements or other arrangements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offer, agreement or other arrangements as if the power conferred hereby had not expired.

By order of the Board

T.S. Morris  
Secretary  
29 May 2001

Registered Office  
The Carphone Warehouse Group PLC  
North Acton Business Park  
Wales Farm Road  
London  
W3 6RS

### Directors

#### Resolutions 2, 3 and 4

These Directors are required to be re-appointed pursuant to the Company's articles of association adopted on 13 July 2000. Biographical details of these Directors are given on pages 14–15 of the Annual Report.

### Relevant and equity securities

#### Resolutions 6 and 7

These resolutions renew the Directors' authority to issue relevant securities up to an aggregate nominal amount of £277,544 approximately 33% of the nominal amount of the issued ordinary share capital as at 31 March 2001 and to make a rights issue to existing holders of ordinary shares on the conventional basis without the need to comply with the technical requirements of the statutory provisions which can create problems especially with regard to overseas shareholders. Except for the issue of shares pursuant to the various share schemes and any share dividend alternatives, the Directors do not presently intend to issue any part of that capital.

The Directors will also be able to make issues for cash on a non pre-emptive basis. The proposed limit of £41,632 represents 5% of the nominal amount of the issued ordinary share capital as at 31 March 2001.

The above limits are in line with the guidelines issued by the Investment Committees of the Association of British Insurers and the National Association of Pension Funds.

### Notes

#### 1. Eligibility to attend

The Company specifies that only those shareholders on the register of members as at 11.00am on 26 June 2001 are entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after 11.00am on 26 June 2001 shall be disregarded in determining the right to any person to attend or vote at the meeting.

#### 2. Proxy voting

A shareholder who is entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and, on a poll, to vote on his/her behalf. A proxy need not be a member of the Company. To be valid a Form of Proxy, a form of which is enclosed, and any power of attorney or the authority under which it is signed or a duly certified copy thereof must be lodged with the registrars of the Company, Lloyds TSB, whose details are found on page 16 of the Annual Report, before 11.00am on 26 June 2001. Shareholders who return completed proxy voting forms may still attend the meeting instead of their proxies and vote in person if they wish. In the event of a poll in which the shareholder votes in person, his/her proxy votes lodged with the Company will be excluded.

#### 3. Admission

If you propose to attend the meeting, please detach and bring with you the attendance slip attached to the Form of Proxy. You will be asked to show this at the entrance and not having it available could delay your admission.

#### 4. Proof of identity

Shareholders and participants may also be required to provide proof of identity. If you have been appointed as a shareholder proxy please make this fact known to the Lloyds TSB staff on admission who will direct to you to a proxy helpdesk.

#### 5. Directions

Directions to the address of the meeting are as follows:

##### From Central London

Take the A40(M) Westway (Oxford) until the exit marked North Circular Road (A406). Turn left at this exit marked North Circular Road West, Heathrow and Kew Bridge. In approximately 1½ miles, turn left at the traffic lights (Junction A4020 Uxbridge Road). The Jarvis International Hotel is immediately on the left.

##### From Heathrow

Take the M4 (Central London), exit at Junction 2 (A406 North Circular Road), take the first turn left (A406 and M1). In approximately 1 mile turn right at the traffic lights (Junction A4020 Uxbridge Road). The Jarvis International Hotel is immediately on the left.

##### By tube

The nearest tube station is Ealing Common (on the District line) as you leave the station take your immediate left and follow the road down to the main junction. You will see the Jarvis International Hotel on your right.

#### 6. Information available for inspection

The following information is available for inspection at the registered office of the Company (weekends and public holidays excluded); it will also be available for inspection at the place of the Annual General Meeting from 10.00am on the day of the meeting until the conclusion of the meeting:

- Memorandum and articles of association of the Company.
- Copies of the Directors' service contracts and biographical details.
- Register of Directors' interests.

#### 7. Enquiries

If you have any questions regarding the meeting our Public Relations department will be pleased to help. Their contact number is: 0845 604 1207.

#### 8. Asking questions at the meeting

During the meeting the Chairman will give shareholders and eligible participants the opportunity to ask questions.

#### 9. Special needs

Facilities are available for those who are in wheelchairs and anyone wishing to use any of these facilities should contact a member of the Jarvis staff.

#### 10. Safety

In the event of a fire or other emergency an alarm will sound and an announcement made. If asked to evacuate the building please follow the instructions of the Jarvis staff.

#### 11. Medical care

If you need medical attention while attending the Annual General Meeting please contact a member of the Jarvis staff who will obtain medical assistance.

#### 12. Smoking

Smoking will not be permitted in the auditorium.



**The Carphone Warehouse Group PLC** [www.carphonewarehouse.com](http://www.carphonewarehouse.com)  
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