

Number one choice for mobile communications

The Carphone Warehouse Group PLC
Annual Report 2002



THE Carphone Warehouse
COMMUNICATION CENTRES

...for a better mobile life

For a better mobile life in a changing mobile world

The Carphone Warehouse is Europe's leading independent retailer of mobile phones and services, with over 1,100 stores in 12 countries.



Financial highlights	52 weeks 2002 £m	53 weeks 2001 £m
Turnover	1,152.7	1,110.7
Gross profit	318.3	280.6
EBITDA*	72.8	66.0
Profit before tax*	46.8	49.6
Exceptional items	(55.1)	6.6
Earnings per share*	4.41p	5.00p

EBITDA represents earnings before interest, taxation, depreciation and amortisation.
*Headline figures before exceptionals and amortisation.

- 10% growth in EBITDA to £72.8m against a challenging market
- Market share growth across Europe
- Total connections of over 3.6 million
- Growth in high quality subscription connections of 13%
- Telecoms services customer base increased to over 1 million
- Recurring revenues generating 45% of total contribution
- Mainland European contribution up by 40%

The Carphone Warehouse has built its business on constant adherence to providing a better mobile life; to being the customer's ally to ensure best value, best quality service and best guidance to the mobile package that most suits each individual's needs

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Chairman's statement

Those who know me know that I have a passion for the Wirefree Future.

That is a term that Orange trade marked when it was fighting to establish itself in a highly competitive market and guided its strategy by a vision of what mobile phones could be.

It's a vision I believe is largely shared by all network operators. It is the recognition that practically everyone would own a mobile phone; that mobile would progressively displace fixed line telephony; that it would move well beyond voice. The Wirefree Future sees your phone as your central access device, not just to all the people you wish to speak to – whenever you want, wherever you are – but to all the information, goods and services you want – whenever you want, wherever you are.

This and more is what I've always seen in mobile, and I still do. A good deal of this has already happened. Mobile ownership is now commonplace. Usage is increasing. Fixed line telephony is being displaced. And today, we're on the verge of seeing the mass availability of new generation handsets coming together with new content and new services, to take advantage of the greatly expanded capacity and capabilities that 2.5G and 3G technologies will enable.

Look at the gloom and despondency that seems to characterise the telecoms investment markets and commentators today, and you could be forgiven for saying I'm dreaming. It wouldn't be the first time people had suggested that. But I'll stick to my convictions. To me, it's common sense, and so many of the foundations of the Wirefree Future are now in place, I believe it is inevitable.

It won't happen overnight; but it will happen. I've referred to two key conditions – the mass availability of new generation handsets and of content and services customers want. These will build up progressively, probably from the end of this year onwards. But there's a third factor – customer trust and familiarity. And that's where The Carphone Warehouse comes in.

Whilst the mobile market has very visibly grown, The Carphone Warehouse Group PLC has also grown – much more quietly – to be the leading independent retailer of mobile phones in the UK and Europe. Much more important, The Carphone Warehouse has built its business on constant adherence to providing a better mobile life; to being the customer's ally to ensure best value, best quality service and best guidance to the mobile package that most suits each individual's needs.

As a result, it has built a great brand. It is trusted by the customer, and customer loyalty is high. Over 75% of people buying in The Carphone Warehouse in the UK today are repeat customers – sometimes for the sixth time or more. Our sales mix has always been tilted towards subscription phones, which for most people offer best value.

All this has stood the Group in good stead. It understood that the days of rapid growth of new mobile customers would inevitably give way to a market increasingly dominated by replacement phone sales. It has therefore migrated its business and its business model.

Today, The Carphone Warehouse is not just a retailer. Over 40% of the contribution we are presenting to you in this Annual Report comes

from services that provide the Group with continuing revenue streams.

We have moved beyond the point of sale alone to providing continuing service over the lifetime of our customers' mobile phone ownership. Our retail sales feed our service business, and our service business reinforces customer loyalty as well as expanding and improving the quality of our earnings. We shall build upon this platform.

A huge proportion of today's mobile phone owners have only had their phones for a relatively short time. Their usage will grow and, beyond knowing that they make the right choice of phone, network and tariff, they're interested in the services they hear and read about. They want to know what more their phone could do for them. They want to separate hype and fact.

The Carphone Warehouse is the customer's physical point of contact. It's also their virtual point of contact if they wish to deal by phone or internet. We understand the technology and the road map of the Wirefree Future. We have no intention of talking technology to customers. We want to explain and demonstrate the services to let customers see what would be of most value to them.

In this, since the formation of The Carphone Warehouse, we are the ally of the network operator as well as the customer. We are a major source of quality customers for the network operators, and we represent an additional channel to increase customer familiarity and usage of mobile services – always on the basis of best advice and widest choice. "For a better mobile life" is a promotional slogan; but it is also a statement of business aim and conviction.

As with all quality companies, our business starts by thinking through the customer mind. Do that and you provide what customers want and like. As a consequence, business grows and prospers.

All this is why I was delighted to be invited to become your Chairman and to work with Charles and the whole team at The Carphone Warehouse. Since I took up this role on May 1, I have been struck by the talent, enthusiasm, commitment and innovation of the whole Group. I have known the business for years, from the position of being a network operator, and have always felt respect and liking for what I saw. As an insider, I am even more impressed than I thought I would be by the quality and the potential.

I can claim no credit for the performance and financials for a year when I was not part of the business; but it is plain that they represent a considerable achievement in a market that has been undergoing fundamental change.

The role I hope I can play is to work with The Carphone Warehouse team to help develop our strategy, and to help assure the full recognition of our strengths and potential to create value for customers and shareholders alike. I am confident of our position. I am confident of our potential. I am confident of our ability to evolve and execute our strategy. And I look forward to reporting regularly to you on our progress. Let Charles now report on the year past and the prospects ahead.

Hans Roger Snook, Chairman

Outperforming through retail excellence

Chief Executive's review

The Group continues to succeed in a challenging business environment but one that offers huge opportunities for the future.

The Carphone Warehouse's success is based on our ability to offer customers an unrivalled retail experience through our award winning retail network and our online channels. Our service now extends beyond the point of sale and continues through the entire mobile life of our customers.

In a year where the overall market for mobile phones has been challenging, we have continued to outperform our competitors and we continue to attract and retain high value subscription customers. Our performance in this market environment clearly demonstrates the strength of our retail proposition. At the same time we have seen the Group deliver its objective set out twelve months ago to significantly build recurring revenue streams beyond the point of sale.

Against this market backdrop, we have produced strong results for the Group. In the twelve months ended 30 March 2002, the Group turnover and headline post-tax earnings were £1,152.7m and £36.5m respectively. The Group connected 3.6 million mobile phones during the year across all of its markets. As ever the retail nature of our business continues to influence the seasonality of our results, with over 70% of our earnings achieved in the six months to March 2002.

In a market that has significantly decreased we have continued to outperform our competitors and to attract and retain high value customers

The European market for mobile communications services has undergone considerable change during the period. Penetration has reached over 70% and as a result network operators have continued to shift their focus from pure customer acquisition to the retention of high quality, high spending subscription customers. As a result subsidies on prepay handsets have been significantly reduced, resulting in an increase in prepay prices by as much as £70. This market shift plays into our hands.

In the UK, our strongest market, we have experienced an impressive retail performance with growth in our market share from 12% in March 2001 to over 20% by the end of March 2002. This is a considerable achievement and we aim to build on this success and increase our UK market share further.

We have also continued to enjoy growth in our market share across Western Europe trading under The Phone House brand. We have enjoyed strong performances in France, Portugal and Ireland. Of particular note is our turnaround in Spain where we have seen substantial growth in sales, market share and profitability compared to the previous period.

In The Netherlands and Sweden we have more recently seen a turnaround in our performance, which disappointed in the early part of the year.

However we have continued to experience ongoing issues in the tough German and Belgian markets, and we are taking all steps necessary to bring these businesses to breakeven as soon as possible.



In our retail operations we have started the process of restructuring and centralising certain operational and management functions in order to maximise efficiency, roll out best practice and secure synergies across the Group. Within this we are also focusing on reorganising our European back office functions, including financial processes, logistics, purchasing and IT, and the Group is making good use of the expertise built up within its UK operation.

In the UK, our strongest market, we have experienced an impressive retail performance with growth in our market share from 12% in March 2001 to over 20% by the end of March 2002

In addition to the restructuring of our operations, we have undertaken a comprehensive review of any part of the Group that was not generating adequate returns. As a result we reorganised our Data services business and have now turned that business around from losing over £5m a year to being profitable. We also identified those retail locations that were under-performing and made the decision to close these stores. This review resulted in us withdrawing from non-key markets, as announced



last year, and the closure of over 100 retail stores across Europe.

Our Distribution platform however continues to grow and our focus is to improve the quality of our store portfolio, now consisting of 1,104 stores across twelve European markets. In the coming year we anticipate opening another 100 new stores.

The core retail proposition and customer service guarantees developed in the UK have also been extensively rolled out into our other European markets, with increasing focus on the quality of our offering.

Our retail business has never been in better shape and is more focused and more efficient than ever. We will be maximising the potential from this position in the coming months

Our online division also continues to prosper and our insurance business has experienced strong growth throughout the year, as we have continued to roll out this offering across Europe.

As set out last year we have continued to invest in our strategy of generating revenue beyond the point of sale and the Telecoms services business now manages over one million customers across five different networks. Revenue for this business has increased by nearly 200% and more importantly the contribution has almost doubled during the year.

The Telecoms services business encompasses our facilities management operations on behalf of network operators, with 864,000 customers, as well as management of 155,000 of our own customers in both the UK and France.

As well as providing significant contribution, highlights in Telecoms services this year include the integration of CMC, the French Telecoms services business acquired in May 2001, and the establishment of a 250 strong call centre in Le Mans, France. In addition we have also secured facilities management contracts with Vodafone in the UK and are looking at similar arrangements with additional European networks. Altogether this is a significant change in activity from where we were only twelve months ago.

In the Data services business following the restructuring, we have focused on generating a profitable business and have extended our operations to focus on a wide range of text messaging based products and services.

Looking ahead, the next twelve months will bring significant opportunities. As for new technology, the network operators are beginning to launch more advanced data services platforms, and the manufacturers more advanced products with additional customer focused applications. The stimulus for widespread usage of 'next generation' mobile technology will however ultimately be the arrival of good quality content that is simple and straightforward to use. This is likely to arrive later in 2002 and become more widespread in 2003. A growing replacement market will continue to introduce customers to new handset models, capable of more advanced services. We will endeavour

to provide an increasing quality of advisory services to assist customers in this upgrade process.

We have continued to invest in our strategy to generate revenue beyond the point of sale. Recurring revenues generated 45% of our contribution during the year

This year will see the entrance of new network operators which will invigorate the European mobile communications market. In the UK, Hutchison is due to launch its 3G network and services in the fourth quarter of 2002. The European market has also been stimulated by the recent consolidation and rebranding of other networks including O₂ and T-Mobile across their European operations, and during the period Orange and Vodafone have also become Pan-European brands.

The launch of new handsets by the mobile phone manufacturers will also continue to drive customer interest and repeat purchases. In particular we are expecting innovative new products from Nokia, Sony Ericsson, Siemens and Samsung. Picture messaging services, Bluetooth technologies and new games applications for mobile phones should also stimulate customer demand this year.

This changing environment is clearly creating new opportunities for The Carphone Warehouse and in this regard, I am very pleased to welcome Hans and the experience, guidance and vision he brings to the Group as Chairman.

Our continued success is thanks to the dedication and expertise of all our 7,500 employees. This year we have employed a further 2,000 employees to strengthen and extend the service that we offer our customers. Our success is also thanks to the ongoing strength of our management team, the support of our investors, business partners and suppliers.

As this year has clearly demonstrated, we continue to succeed in a business environment that has been challenging but also offers great opportunity for the future. During these next twelve months, we intend to retain and build on our position as Europe's leading independent retailer of mobile phones and services, and believe we are perfectly positioned to benefit from the opportunities that the mobile environment will offer.

Charles Dunstone, Chief Executive Officer

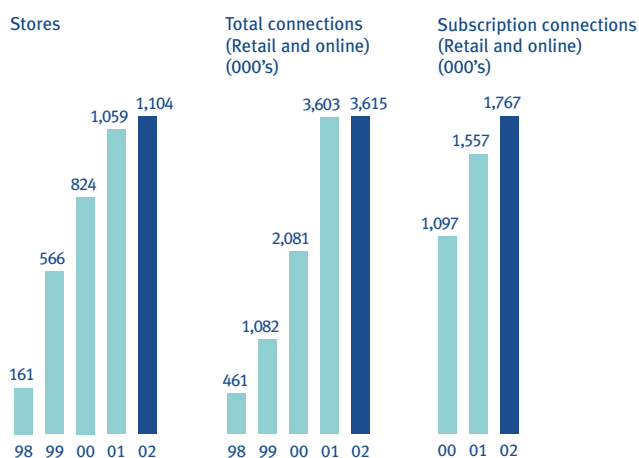


Higher quality customers, higher quality stores

Distribution performance reinforces our position as first choice for mobile communications. Upgrading the store portfolio across Europe will continue to drive growth.

Review of operations Distribution

- 3.6 million connections
- Turnover of £1,061.6m (2001- £1,079.1m)
- Contribution £95.4m (2001- £101.2m)



This year our Distribution division, comprising our retail operations, online and insurance activities and our wholesaling business, has continued its exceptional performance, strengthening its position in the mobile market place across Europe.

Our Distribution business generated revenues of £1,061.6m and contribution of £95.4m from the sale of mobile handsets, accessories and other mobile telephony products and services.

The core retail and online businesses connected 3.6 million customers in the twelve month period to 30 March 2002, showing a marginal improvement on last year. Since the Western European handset market is estimated to be down by 40%, this reflects a significant increase in our market share.

The Carphone Warehouse has continued to grow its share of high value subscription customers and connected 1.8 million of these customers, compared to 1.6 million last year. This represents an increase of 13%. Our retail like for like sales for the year were down 8%, although like for like gross margin was only 1% behind last year.

Across the Group we have rationalised our retail operations and updated the format and size of our stores, as well as standardising the visual merchandising and point of sale material. Part of our rationalisation has been the withdrawal from non-key markets and the closure of over 100 under-performing stores.

Our store portfolio has however increased from 1,059 to 1,104, having opened 154 new stores in the year. As such we have increased the total average selling space during the year from 54,200 sqm to 60,800 sqm. Sales per sqm decreased from £11,350 to £10,200 in the year.

Significant focus has also been given in the year to the reorganisation of our Pan-European retail operation. We have identified the need to

restructure and centralise certain functions with the aim of rolling out best practice, reducing duplication and driving cost efficiencies. As a result, the experience that we have gained from our more established markets, especially the UK, is now being more rapidly adopted within our mainland European operations. This is already showing encouraging progress in terms of our in-store proposition and after sales offerings to customers including the rapid roll out of repairs services, which are so important in the highly penetrated mobile market.

This restructuring is also driving improved purchasing and logistical efficiencies as well as cost savings from the introduction of shared service processing centres. As a result our Pan-European operations are in much better shape and continued improvement is intended in the following twelve months.

Significant focus has been given to the reorganisation of our Pan-European retail operations, and as a result, the experience gained in our more established markets is now being more rapidly adopted across all our mainland European operations

On an individual country basis, our business in the UK, where we now have 461 stores, continues to thrive. We opened 69 new stores during the period, considerably increasing our retailing presence and our market share of new connections and upgrades.

In France we have extended our store portfolio to 151 and we have also increased the number of express repair centres. Our business in France continues to benefit from the good relationship that it



Stores by country



enjoys with the French network operators, which has also been reinforced by the Telecoms services operation acquired during the year.

The performance of our Spanish business is evidence of our ability to manage a turnaround in difficult market conditions. With a change of management, a strengthening of our relationship with our key network partners and a re-engineering of a number of business processes, we have transformed our performance in this country. Our businesses in Portugal and Ireland also performed well in a rapidly changing market place, reflecting the strength of the management in place.

Our operations in Sweden and The Netherlands experienced a difficult period of trading, particularly in the earlier part of the year, but following intensive management focus both are showing signs of good recovery to the levels of profitability we would expect from these fundamentally good operations.

Germany and Belgium have however proved to be very challenging and we have incurred additional losses compared to the previous year in both markets. Following a change of management and specific store closures, we are confident that we have taken steps to significantly reduce the rate of these losses, although further action and time is required before we can enjoy a full turnaround. Needless to say intensive management focus is being given to these operations.

Our additional distribution channels have also contributed to our success during the last twelve months. The online business, which includes our direct sales team and our website operations, continues to perform well and during the last twelve months we connected over 196,000 customers. This division contributed revenue of £36.7m to the Group's turnover and strong operating profits, and we are constantly seeking new opportunities in this area.

We have considerably increased the reach and performance of our insurance business. Our insurance products are now available in eleven of our twelve markets and this business allows us to secure profitable recurring revenue streams for the Group. During the last twelve months, the insurance business generated £60.4m revenue and our customer base increased by 18% to over 939,000, our growth rate in mainland Europe was over 40%.

Our wholesale division's performance during the last twelve months is reflective of the handset market decline. Whilst revenue was only marginally down on the previous period, at £343.0m against £348.0m, a significant proportion of the revenue generated in the current period was from the wholesaling of airtime vouchers at relatively low margins, and as such the net contribution was down by £8.6m year on year. We will continue to conduct these activities in the future as they complement our overall Distribution operations and we will explore opportunities to enhance their profitability.

Growing revenue beyond the point of sale rings true

Review of operations Telecom services

- Customers under management over 1 million
- Turnover £89.3m (2001 – £30.5m)
- Contribution £35.9m (2001 – £18.1m)

Our Telecoms services business has experienced significant growth during the last twelve months and now plays an increasingly important role in the Group's strategy. This performance demonstrates our ability to continue to generate revenue beyond the point of sale.

Revenues from Telecoms services have increased by 193% to £89.3m against £30.5m in the previous period, and contribution by 98% to £35.9m against £18.1m in 2001. This growth in contribution clearly demonstrates the extent to which the Telecoms services business has grown within the Group. This is a result of the increased number of customers under our management and the number of networks with which we have facilities management agreements.

During the last year we have grown this business through attracting high value customers, new network arrangements and corporate acquisition. In May 2001 we acquired the French business CMC, our largest acquisition to date. CMC has two call centres in France, and has now been successfully integrated into the business. Since the acquisition, we have won a significant contract to manage more customers for the French network SFR and established a bespoke call centre in Le Mans to undertake these activities.

During the last year we have grown the Telecoms services business through attracting high value customers, new network arrangements, and through acquisition

In the UK we invested in a new call centre in Acton, London and in October 2001 we negotiated a new contract with Vodafone to provide facilities management services for their customers in the UK, in addition to our existing contract with O₂. We are currently negotiating with a number of additional Pan-European networks with the aim of providing these facilities management services for an even wider range of customers.

We currently have 864,000 facilities management customers in the UK and France, for whom we manage the billing, debt collection and customer services on behalf of the network operators. These activities complement our retail business, as we continue to focus on the provision of after sales services to customers.

The high level of mobile penetration in Western Europe has led to a growing need to provide high quality customer care and service, both at and after the point of sale. In a replacement market, it is increasingly important to ensure the right choice of phone for the customer and also that customers benefit from the increasing capabilities and capacity of their mobile phones. We can now offer this level of service throughout our customers' mobile lives with a continuous customer interface.

The Telecoms services business also manages the customer care for

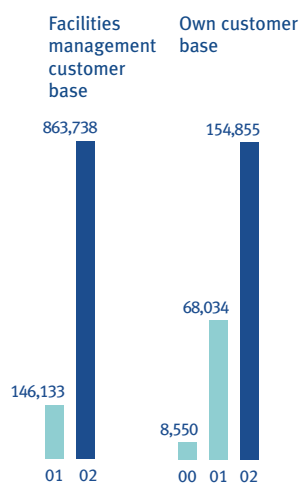
Revenue up 193% and contribution up 98%, showing our ability to develop revenue beyond the point of sale through billing, messaging and customer care services.



our own customers, on a package branded "Fresh". The Fresh tariffs are provided on the T-Mobile network and are designed to bridge the gap between conventional subscription and prepay tariffs.

The Group now operates four call centres in the UK and France, with over 900 skilled telecoms operatives

The Group will continue with its strategy to expand the scale of its Telecoms services business, which is rapidly increasing the proportion of earnings that are recurring and inherently of higher quality. In the year ahead we plan to continue to roll out this model and work with more European networks across more of our markets.



Telecoms services call centre in Acton, London.

Putting customers in the picture



Review of operations Data services

Performance improved as a result of delivering new products and services, with growth in texting and targeted messaging services.

- MViva subscriber base up to 683,000 registered users
- Turnover up to £1.8m (2001 – £1.1m)
- Loss (£2.4m) (2001 – (£5.3m))

During the last twelve months, we have restructured our Data services operation to align it more closely with our Distribution business. We have concentrated on revenue generating products and services, which now retail through our store portfolio. This has produced a significant turnaround in the performance of this division.

Our Data services division generated revenues of £1.8m against £1.1m in 2001, with losses of £2.4m against £5.3m in 2001. Most encouragingly though the business has moved to profitability since September 2001. We currently have 683,000 registered MViva customers and continue our close partnership with AOL.

We have experienced particular success with our text message alerts service for European football results and news, branded "GoalFlash", and similar text services for the English cricket Test Matches, Six Nations rugby matches, Formula 1 races and The Mirror news service.

This division also manages the launch of new mobile products, such as the XDA by O₂ and the Pogo device, which was retailing in the UK from February 2002. In the coming year we anticipate the arrival and customer uptake of Multimedia Messaging Services (MMS), which will allow users to send and receive picture images from their mobile phones. In addition new mobile games applications will be widely available as more advanced software is standardised on mobile handsets.

In this context we feel that we are perfectly positioned to explain and advise our customers on the new services available and to assist all parties within the wireless world, by enhancing awareness of the benefits of the Wirefree Future.



Sony Ericsson T68i above and P800 top.

Alert to new opportunities

Left to right, Goalflash text alerts, the Nokia 7650 camera phone, and the XDA by O₂, an integrated phone and PDA.



Strong performance in a challenging market



Financial review

Roger Taylor, Chief Financial Officer

Trading review

The Group demonstrated a strong performance in a challenging market environment in terms of volumes of handsets sold, growth in recurring revenues and profitability for the 52 week period to 30 March 2002.

Group turnover for the period was £1,152.7m compared to £1,110.7m for the 53 week period to 31 March 2001. We enjoyed growth in turnover within most of our operations including our mobile phone retailing business, our online business, insurance operations and also our Telecoms and Data services divisions.

The Group increased EBITDA (pre exceptionals) by over 10% to £72.8m for the period compared to £66.0m in the previous period. This growth in earnings was most significant within our Telecoms services division, which enjoys the recurring revenue generated from the customers of our retail and other distribution businesses.

During the period the principal acquisition was Communications De Mobile Cellulaires SA (CMC) in France, a provider of telecoms based facilities management services, for a cash consideration of £54.3m. This business contributed operating profit of £5.6m in the period.

The Group generated profit after tax (pre goodwill amortisation and exceptional items) of £36.8m compared to £38.2m for the previous period, and headline earnings per share of 4.41p, down from 5.00p last year, in part due to an increase in the average number of shares in issue.

As announced prior to the year end we have undertaken a significant restructuring of various parts of our organisation and have written down our wireless investment portfolio, together giving rise to an exceptional charge of £55.1m.

After the year end the Group sold the freehold on its London offices for £36.6m generating a profit of £16.5m. The effect of this disposal, together with the exceptionals above, is a net cash inflow of over £10.0m.

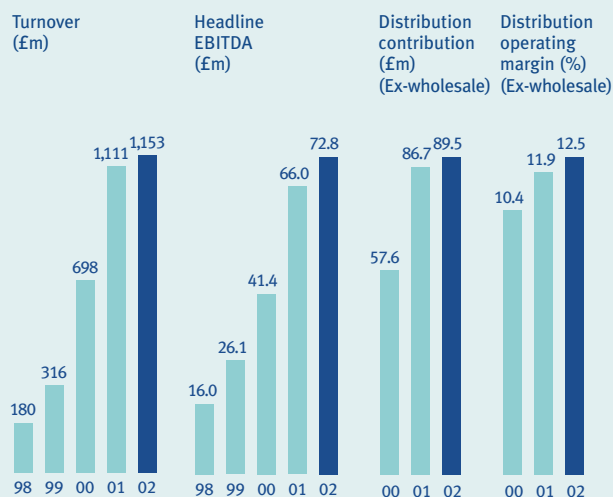
Distribution

Retail

The retail business operated from 1,100 stores on average during the period, compared to 975 for the previous period, with average selling space increasing from 54,200 sqm to 60,800 sqm year on year. As initiated last year the Group undertook a detailed review of any loss making operations, resulting in our withdrawal from certain non-key markets and the closure of over 100 under-performing stores across the Group. This reorganisation is fundamental to our future success and our aim to increase our rate of return on shareholders' funds.

The performance of the retail division was highly impressive for the year with increased sales and increased operating margin, driven by improved gross margins. Operating costs rose year on year, as the Group continued to upgrade its store portfolio; it is however anticipated that this investment will have a positive impact on operating margins in the future.

A significant contributing factor to our success in retail has been a change in the Group's mix towards higher value subscription customers. The number of subscription customers has grown by 13% year on year to 1.8m.



Turnover by division

	2002 £m	2001 £m
Distribution	1,061.6	1,079.1
Retail	621.5	613.6
Tandy	-	35.7
Online	36.7	32.6
Insurance	60.4	49.2
Wholesale	343.0	348.0
Telecoms services	89.3	30.5
Data services	1.8	1.1
Total turnover	1,152.7	1,110.7

Our performance further enhanced our market share in all our key markets and most notably in the UK where we estimate our market share has increased from 12% to over 20%. In certain mainland European markets our growth in market share was however disappointing and in particular we failed to make significant progress in both our German and Belgian operations. Year on year these operations incurred additional operating losses of £7.5m and it is against this backdrop that we should reflect upon the strength of the retail performance elsewhere.

In addition to the store closure programme the Group appraised its back office infrastructure across its European operations. As a result the Group is in the process of establishing shared service operations and a Group operational management structure, with the aim of improving our operational efficiency and in turn reducing our support cost ratio. This operational reorganisation is already driving increased efficiencies and will continue to be rolled out in the next 12 months.

Insurance and online

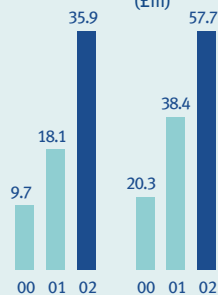
Insurance and online sales showed growth of 23% and 13% respectively.

The rate of growth in our insurance business has exceeded that of

Impressive growth in recurring revenues

Financial review continued

Divisional contribution and headline EBITDA	2002 £m	2001 £m	Telecoms contribution (£m)	Recurring revenue streams (£m)
Contribution				
Distribution				
Ex-Wholesale	89.5	86.7		
Wholesale	5.9	14.5		
Telecoms services	35.9	18.1	35.9	
Data services	(2.4)	(5.3)		
Total contribution	128.9	114.0		
Support costs	(56.1)	(48.0)		
EBITDA	72.8	66.0		



our retail business following our decision to roll out insurance products to all our key markets. Its performance has been assisted by our continued success in attracting a strong subscription customer mix through our distribution channels.

We have continued to develop our online operations during the period. The business has enjoyed a strong performance in turnover, gross margin and operating margin and accounted for over 5% of our connections, reflecting the strength of our online proposition and logistics infrastructure.

Wholesale

Our wholesale operation was directly affected by the reduction in handset sales volumes across Western Europe and while reduced handset turnover was compensated by a growth in low margin prepaid voucher wholesale trading, the net contribution from wholesale operations fell sharply from £14.5m to £5.9m year on year.

Telecoms services

As the Group continues to deliver an increasing number of subscription customers through its retail and online operations the Telecoms services division enjoys growth in both its ongoing revenues and its facilities management activities.

In the period, ongoing revenue grew from £14.6m to £22.0m as a result of the increasing number of customers from whom we earn a share of spend each month. This income stream has no associated cost base.

Another part of our Telecoms services business, where we provide facilities management services to various networks in both France and the UK, also enjoyed substantial growth both organically and through the acquisition of CMC in France. The number of customers for whom these services are provided increased from 146,000 to 864,000 and turnover grew from £4.6m to £26.4m.

The Group also generates revenue and profits from its own virtual network and customers managed under a service provision contract. There were 155,000 such customers at the end of the period, compared

to 68,000 at 31 March 2001. These activities generated £40.9m of revenue in the period compared to £11.3m for the previous period. Operating efficiencies ensured continued improvement in operating margins, with Telecoms services contribution, excluding ongoing revenue, growing from £3.5m to £13.9m.

Exceptional items

The following exceptional items arose in the period to 30 March 2002:

• Reorganisation of European operations

Following the detailed review of our retail operations across Europe in the early part of 2001, the Group committed to closing under-performing stores, withdrawing from certain non-key territories and reorganising its back office operations to drive increased efficiencies. On this latter point, the Group is establishing shared service operations and introducing a Group management functional structure where appropriate. As a result of this reorganisation the Group has recognised exceptional charges in the period of £31.2m.

The one-off substantial store closure program is separate from our continued activity of improving our store portfolio. This will from time to time include relocations and property trading activities and the income and expenditure resulting from these is included within operating profit.

• Costs of fundamental reorganisation

A charge of £5.2m has arisen following the fundamental reorganisation of the Data services division, including the write-off of wireless portal assets in light of poor visibility of revenue in a number of countries in which it was established.

• Amounts written off fixed asset investments

At 30 March 2002 £18.7m has been written off the Group's share of Wireless Frontiers, an independently managed wireless investment fund, upon reflection of current market values of investments held by the fund.

Post balance sheet event

After the year end the Group exchanged contracts on the sale and lease back of its London offices for a cash consideration of £36.6m. This has in turn generated an exceptional profit of £16.5m. The net cash impact of this and the above exceptional items is a cash inflow of over £10.0m.

Interest and tax

Net interest receivable of £0.3m was generated in the period compared to £2.4m in the previous period. This movement is predominantly explained by the utilisation of cash to acquire CMC in May 2001.

The effective tax rate before amortisation and exceptionals for the period to 30 March 2002 was 22% compared to 27% in the previous period following the adoption of FRS 19. The rate for the period benefited from the use of prior year tax losses and the effect of profit within low tax rate jurisdictions.

Goodwill amortisation

Goodwill of £57.9m arose during the period, of which £50.7m was as a result of the acquisition of CMC. The goodwill amortisation charge for the period was £14.7m compared to £8.8m in the previous period. A goodwill

Funds in hand after significant investment

Cash and short-term investments	2002	2001
	£m	£m
Cash	20.7	67.5
Overdrafts and short-term loans	(10.6)	(10.8)
Long-term loans	(24.7)	(0.2)
Bonds and FRNs	14.4	16.3
Equities and equity funds	34.8	21.5
Other short-term investments	18.4	8.6
Net cash and short-term investments	53.0	102.9
Cash flow	2002	2001
	£m	£m
Operating cash inflows	29.4	43.7
Capital expenditure (net)	(38.3)	(71.1)
Acquisitions and investments (net)	(43.4)	(54.1)
Tax and interest	(9.1)	(4.6)
Financing	24.8	133.5
Net cash (outflow) inflow	(36.6)	47.4

impairment review was undertaken by the Board in accordance with FRS 11 at the period end and did not give rise to any additional charge.

Earnings per share (EPS)

Headline EPS, before amortisation of goodwill and exceptional items, was 4.41p, compared to 5.00p in the previous period.

Balance sheet and cash generation

At 30 March 2002, the Group had net cash and short-term investments of £53.0m compared to £102.9m at the end of the previous period. The Group continues to generate strong cash flow from operating activities albeit absorbing significant working capital after taking advantage of favourable supplier early settlement terms. The Group has incurred capital expenditure on opening new stores, and on continued investment in the Group's operational infrastructure. The level of capital expenditure is expected to reduce further in the year ahead with fewer store openings and the Group focusing on net cash generation. Our working capital management is closely attuned to this aim of cash generation, as reflected in the levels of stock and debtors at year end.

Net assets decreased during the period from £434.5m to £408.0m, reflecting the exceptional charges made during the period, but the Group's liquidity ratio has remained constant at 1.4, reflecting the strength of the Group's financial position.

Financing and treasury

The Group's operations are financed almost entirely by retained profits and equity. The Group has a multi-currency 3 year revolving credit facility of £150m expiring on 14 April 2003, of which £24.7m was utilised at the period end, albeit offset by other cash and short-term investments. 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. At the time of peak working capital requirement the Group mitigates the cost of drawing on the revolving credit facility with more flexible uncommitted short-term borrowings.

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 intra-Group borrowings in the appropriate currencies and by currency swaps.

The Board's strategy for financial risk management includes 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

Total shareholders' funds were £407.3m at the period end compared to £432.8m at 31 March 2001. As in previous periods the Board has decided to retain these funds for continued investment in the development of the Group and the future enhancement of shareholder value and is therefore not proposing a dividend for the period.

Post tax earnings before amortisation and exceptionals generated a return on average shareholders' funds, excluding goodwill on minority interests acquired in the previous period, of 14.1% compared to 23.3% for the previous period.

Financial controls

The management structure of the Group ensures that day-to-day financial controls are the responsibility of local operational managers, under the overall supervision of Group management. The introduction of Group management functions and shared services will lead to more centralisation of these controls and processes in the future. 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 at least three times a year and reviews all key business units on a rolling basis.

Accounting standards

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

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 with the exception of FRS 19 which was applied in this period and gave rise to a prior period adjustment as detailed in note 10 to the financial statements.

Roger Taylor, Chief Financial Officer

Pulling together for responsible growth

Two Carphone Warehouse employees row across the Atlantic raising £50,000 for Macmillan Cancer Relief

Corporate responsibility



Commitment to responsible growth

The Group's achievements during the last year are clear evidence of its commitment to responsible growth. By putting customers first and through its relationship with its employees, the Group has developed innovative and effective ways of making positive contributions to society and the environment. We have recently appointed a Group Corporate Responsibility Manager, a new role that reflects our commitment to this area.

Charitable activities

Non-Executive Director, Des Wilson, has a 30-year record of achievement in the voluntary sector and heads up the Board's Charitable Activities sub-committee. This year we have refocused our charitable activities to concentrate on two main charities, Get Connected and Macmillan Cancer Relief.

• Get Connected

Get Connected is a charity that was set up by the Suzy Lamplugh Trust in 1999 and is aimed at supporting anyone under the age of 25 in crisis situations by finding them the best help possible. There are thousands of helplines and charities for young people throughout the UK, but often it is very difficult to know where to start. The Get Connected helpline provides young people with the best help it can find for free, seven days a week.

In September 2001, The Carphone Warehouse announced a unique partnership with Get Connected, providing purpose-built headquarters for Get Connected within its offices in Acton, London and assumed all office costs for the charity. In addition, The Carphone Warehouse's own employees across the UK are actively encouraged to train as Get Connected volunteers, and today Group employees make up 10% of the Get Connected volunteers team. The helpline currently helps over one thousand callers per month. Additionally employees in the UK are actively encouraged to publicise the Get Connected helpline in their local area, which has been

particularly successful in Scotland and Northern Ireland.

• Macmillan Cancer Relief

The "Challenge Yourself" programme in support of Macmillan Cancer Relief has continued this year. The campaign launched by David Beckham in May 2000 is aimed primarily at our 7,500 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 store and call centre consultants, a number of impressive challenges have already taken place, including two employees completing the 3,300 mile row across the Atlantic and 40 employees trekking 112km across the Sahara desert. The campaign has raised £250,000 to date.

• The Prince's Trust

We have 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 six years has been heavily involved in supporting the charity. Many of our employees give their time to community and training programmes within the Trust's activities.

• New York tragedy handset donation

In response to the tragedy in New York on 11 September 2001, the Group donated 100 mobile phones and free airtime to volunteer liaison officers at Scotland Yard in London. The officers used the mobile phones as vital communication tools, on behalf of American families living in the UK and UK based families with close relatives missing in New York, to help locate and link up those who were missing.

• Auteuil International

This French association runs various projects to help children worldwide



get connected
0808 808 4994
finding young people help

Macmillan
cancer relief



By putting its customers first and through its relationship with its employees, The Carphone Warehouse has developed effective ways of making positive contributions to society and the environment.

and in the past twelve months, The Phone House France raised £20,000 for the charity to help build a house in Madagascar for street orphans.

• **Acción Contra el Hambre**

Every Christmas The Phone House Spain makes a donation to pay for food for starving children through "Acción Contra el Hambre".

• **Local charities**

The Group regularly supports local charities through donations of funds, mobile phones and employee time. Store employees and direct conversations initiate the majority of these donations. In July 2002 the company is running the first non-profit making industry Golf tournament, The Mobile Cup 2002, which will specifically raise funds for children's charities that do not receive nationwide support.

Environment

All of our stores have a requirement to ensure that all packaging and store waste is returned to our warehouses to be recycled and re-used. Systems are in place to ensure that all mobile phones and related accessories are recycled, reconditioned and distributed for re-use. All UK carrier bags are made of low-density recyclable polyethylene. The UK monthly buyers' guide distributed through our stores has a print run of over one million each month, and the paper used is chlorine free and made from wood from sustainable forests.

All old mobile phone batteries are disposed of by a licensed waste management and recycling company. A new policy introduced this year means that all company cars will be changed to diesel in order to lower emissions. In addition the Group has made a commitment to ensure that all cleaning products used in its stores and at the Support Centre are non-toxic and eco-friendly.

Mobile phone crime

Unfortunately mobile phone crime rates have soared this year and mobile phone theft now constitutes a reported 36% of all robberies in London. In March 2002, we launched a national Combat Mobile Phone Crime Week in all of our UK stores.

Alongside extensive radio and press advertising, we teamed up with local police to UV mark handsets so that, if stolen, the police will now be able to quickly identify the handset and return it to the rightful owner.

The Group ran a discounted handsfree amnesty offering all handsfree kits at a reduced price to encourage more discreet use of mobile phones in public, and an insurance amnesty to offer customers another chance to take out insurance at a special discount. In addition all sales consultants are trained to provide advice and tips on how to avoid phone crime and we produce educational literature for customers to take away from our stores to read, which is also available on carphonewarehouse.com

Mobile phones and health concerns

The Carphone Warehouse has for a number of years recognised that there is clearly customer confusion surrounding health and mobile phones. In May 1998 the Group launched an independent service regarding the issue, including regularly updated fact sheets. Currently on its tenth issue the leaflet sets out all the facts relating to health and mobile phones including new medical research, Government announcements and industry comments. This allows customers to make their own choices surrounding health and mobile phones.

In May 2000, The Carphone Warehouse was recognised by The Stewart Report, the Government committee appointed 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."

• **Specific Absorption Rates (SAR) listings**

The majority of mobile phone manufacturers have recently retested all their radio wave emission rates under an approved harmonised standard. To give customers direct access to this information, the Group lists all these figures on a leaflet in all UK stores, on carphonewarehouse.com and in our UK monthly buyers' guide.

• **Government and industry research**

Following on from The Stewart Report's call for additional research, a new independent research programme costing £7.5 million has been commissioned, half of it funded jointly by industry and Government. The Group has made a considerable financial contribution to this programme.

• **Mobile phones and driving concerns**

The increasing use of handheld mobile phones whilst driving is a very real concern in today's society and drivers are reportedly four times more likely to have an accident as a result of driving while using a mobile phone. To encourage our own employees to drive safely the company installs a free handsfree kit into every company car and provides every employee with a free handsfree earpiece. We have also recently made it an employee disciplinary offence to use a handheld mobile phone while driving.

Diversity and inclusion

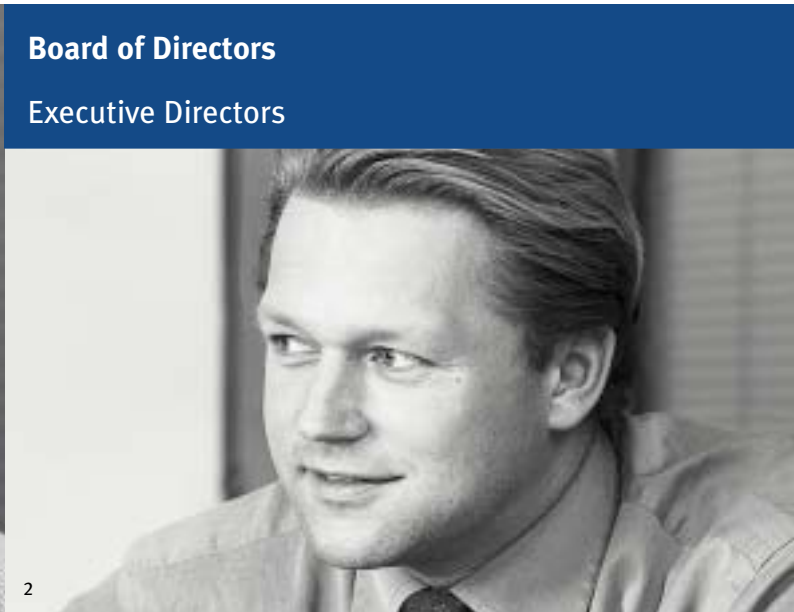
The Group recognises the importance of diversity and inclusion, and has systems in place to recruit employees of different genders, ages, disabilities and ethnic origins. We recruit using totaljobs.com and jobability.com, the leading job site for disabled people, as well as through a number of ethnic magazines. The Group is implementing an online recruitment system and is also committed to putting in systems to measure diversity across the Group.

Board of Directors

Executive Directors



1



2



3



4



5

1. Charles Dunstone
Chief Executive Officer

Age 37. Founder and Managing Director of the Group since 1989. In addition to his role as Chief Executive Officer, he is responsible for new business development and strategic initiatives. Non-Executive Director of HBOS PLC, he is also Chairman of The Prince's Trust Trading Board and a member of its Council, and most recently was appointed Non-Executive Director of The Daily Mail and General Trust PLC.

3. Geoffroy Roux de Bezieux ESSEC (MBA)
Chief Operating Officer, Europe

Age 39. Joined the Group in 1996 and was appointed to the Board in June 2000. He is currently Chief Operating Officer for European Retail 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 L'Oreal's Polish operations between 1994 and 1996.

2. David Ross ACA
Chief Operating Officer

Age 36. Chief Operating Officer of the Group since 1990. He is responsible for the Group's operations and development in mainland Europe. Non-Executive Director of National Express Group PLC and Big Yellow Group PLC.

4. Roger Taylor ACA
Chief Financial Officer

Age 37. Chief Financial Officer of the Group since January 2000. Prior to joining he was a Corporate Finance Partner at BDO Stoy Hayward. 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. Non-Executive Director of Berkeley Scott Group PLC.

5. James Dale FCA
Executive Chairman of Carphone Warehouse Insurance

Age 62. Joined the Group in January 1997 and is Executive Chairman of Carphone Warehouse Insurance, and responsible for the management of the Group's insurance operations. Non-Executive Director of Elstan Limited and Placecourt Limited.

Non-Executive Directors



6. Sir Brian Pitman

Age 70. Joined the Board in January 2001. He is also a Non-Executive Director of Carlton Communications PLC, and Tomkins PLC, and a Senior Advisor to Morgan Stanley. He retired in April 2001 from Lloyds TSB Bank PLC where he was Chief Executive for 13 years and Chairman for 4 years. He was also Chairman of NEXT PLC from 1998 until May 2002.

7. John Gildersleeve

Age 57. Joined the Board in June 2000. He is currently an Executive Director of Tesco PLC and Non-Executive Director of Gallaher Group 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.

8. Adrian Martin

Age 52. Joined the Board in 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.

9. Des Wilson

Age 61. Joined the Board in 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. He is currently Non-Executive Director of Earls Court and Olympia and also a board member of the British Tourist Authority.

10. Hans Roger Snook Chairman

Age 54. Joined the Board on 1 May 2002 as Chairman. He was the founding Chief Executive of Orange and articulated the vision of the 'Wirefree Future', which drove the branding, strategy and operations of Orange. Under Hans' leadership Orange launched on 28 April 1994 and had a profound impact on the global mobile market. In March 1996, Orange listed on the London and New York stock exchanges, in June that year becoming the youngest ever company to enter the FTSE 100.

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

Executive Directors

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

Non-Executive Directors

H R Snook
Sir Brian Pitman
D Wilson
A Martin
J Gildersleeve

Company Secretary

T S Morris

Advisors

Bankers

HSBC Bank PLC
Poultry
London EC2P 2BX

Legal advisors

Ashurst Morris Crisp
5 Appold Street
London EC2A 2HA

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

Registrars

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA

Auditors

Arthur Andersen
180 Strand
London WC2R 1BL

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 throughout the period except in that Charles Dunstone has been Chairman, Chief Executive Officer and largest shareholder. This position changed on 1 May 2002 when Hans Roger Snook was appointed Chairman of the Company, and there is now a clear division of responsibilities for running the Board and the Group's business.

Board

The Company has a well-balanced Board. There are five Executive Directors and five Non-Executive Directors. Directors' names and brief biographies are set out on pages 14 and 15. Changes to the Board in the period are set out on page 22.

Hans Roger Snook is the Chairman, Charles Dunstone is Chief Executive Officer and Sir Brian Pitman is the Senior Independent Director.

The Board considers that, other than Hans Roger Snook, 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 ten 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 Executive Directors and 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 advised on the appointment of Hans Roger Snook, and advises generally on Board appointments 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 this dialogue 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 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. The Board's monitoring covers all controls, including financial, operating and compliance controls and risk management. The control systems in place are designed to provide reasonable and not absolute assurance against misstatement or loss and are 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 of individual business units prepare plans and budgets covering a two year period. These plans are challenged and approved by the Executive Board.

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

Capital expenditure is subject to the disciplines of appraisal and approval by appropriate levels of management.

The Audit Committee acts under delegated authority from the Board and meets at least 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 Group's central support functions.

There is a continuous process for identifying, evaluating and managing the significant risks faced by the Group. This process 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 work plans;
- Regular review by the Board of a detailed risk management 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 the Board or by internal or 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.

Auditors

During the period the Group has had safeguards to ensure that the objectivity and independence of its auditors could not be compromised. In particular, the Group's procedures in respect of services provided by Arthur Andersen are:

- Audit related services – these are areas of the Group's work that, in their position as the Group's auditors, Arthur Andersen are best placed to undertake. Such work includes formalities relating to borrowings, shareholder and other circulars, various other regulatory reports and work in respect of acquisitions and disposals.
- Tax consulting – the Group uses Arthur Andersen for certain tax consulting projects, while other tax advice and services are provided by other parties with experience in the relevant area.
- General consulting – all significant general consulting projects are subject to Audit Committee review and approval. Arthur Andersen are only permitted to tender when the Audit Committee and Arthur Andersen are satisfied that the nature of the work presents no potential threat to the independence of the audit team.

These safeguards have been approved by the Audit Committee and are regularly reviewed and updated in the light of internal and external developments.

Arthur Andersen report to the Directors and the Audit Committee on the actions they take to comply with relevant professional and regulatory requirements and best practice to ensure their independence from the Group.

Remuneration report

Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policy for Executive Directors and senior management. It ensures that remuneration packages are appropriate for their responsibilities, taking into account the overall financial and business position of the Group, the highly competitive industry of which the Group is a part, and the importance of recruiting and retaining management of the most appropriate calibre.

Remuneration policy

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

The Committee makes its recommendations by taking into account:

- The experience of Executive Directors and other senior management;
- The Group's competitiveness in the market place as assessed through independent market comparisons;
- The growing international nature of the Group;
- The move towards performance based remuneration plans.

The base salaries of Executive Directors are positioned at market levels and are then supplemented by variable rewards at a level consistent with market practice. Variable rewards are governed by performance conditions to ensure that maximum variable rewards are paid only for exceptional performance. Such remuneration packages are aligned with shareholder interests through an annual bonus scheme which is based on an earnings per share formula and through the provision of a share option plan which can only be exercised if total shareholder returns exceed an acceptable level as compared with relevant indices.

Components of remuneration

Annual performance bonus

The Company operates a performance related annual bonus designed to reflect the performance of the Group.

The bonus is based on earnings per share and the achievement of strategic corporate goals, up to a maximum of 60% of annual salary. The Company has the discretion to pay 50% of the bonus in fully paid ordinary shares, and if this discretion is exercised Directors have the option of also taking the balance in fully paid ordinary shares. The shares may be sold after twelve months of continued service. There will be an optional holding period of up to a further two years. During this holding period the number of shares will be increased by 12.5% at the beginning of each year. The share equivalent of dividends payable on the shares will be added to the award each year.

Share options

A UK savings related share option scheme is open to all eligible employees in the UK. The Company also has a performance related share option scheme for Executive Directors and senior managers both in the UK and overseas. Subject to satisfactory personal performance share options are granted as a percentage of an individual's base salary. Normally options can only be exercised after they have been held for a minimum period of three years. Options granted from April 2002 will be subject to the achievement of an additional performance measure of Total Shareholder Return ("TSR"). The rate of TSR is measured against an index comprising UK FTSE general retailers and European telecoms businesses. If the Company performs at the median level the allocation will be made; if performance is in the upper quartile an additional 100% of the allocation will be made; if the Company performs below the median the award will be reduced by 50%; and if the Company is in the lower quartile the award will be cancelled.

Service contracts

Executive Directors have service contracts which are all terminable by the Company with twelve months notice or less.

Fees for Non-Executive Directors

The fees for each of the Non-Executive Directors are determined by the Board after considering external market research. The Non-Executive Directors do not take part in discussions on their remuneration.

Each of the Non-Executive Directors except Hans Roger Snook may have their appointment terminated by the Company with immediate effect and are not entitled to receive any compensation for loss of office. Hans Roger Snook has a service contract which is terminable by either party on twelve months notice. Hans Roger Snook also has an interest in 1 million share options in the Company and is not therefore considered to be an independent Non-Executive Director.

Remuneration report continued

Aggregate remuneration

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

Director	Basic salary/ Fees £'000	Taxable benefits £'000	Annual bonuses £'000	2002 Total £'000	2001 Total £'000
Executive					
C W Dunstone	250	12	–	262	310
D P J Ross	250	–	–	250	309
C G Johnson	70	3	–	73	311
R W Taylor	200	8	–	208	229
G Roux De Bezieux	163	3	–	166	150
J H Dale	120	–	–	120	–
Non-Executive					
Sir Brian Pitman	25	–	–	25	5
J Gildersleeve	25	–	–	25	19
A Martin	25	–	–	25	8
D Wilson	33	–	–	33	19
Aggregate emoluments	1,161	26	–	1,187	1,360

Charles Dunstone and David Ross each waived emoluments of £50,000 during the period ended 30 March 2002.

Share options

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

Director	31 March 2001	Granted during the period	30 March 2002	Exercise price per share £	Exercisable from	Expiry date
R W Taylor	250,000		250,000	0.80	14/07/00	29/01/10
	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
		240,000	240,000	1.25	21/05/04	21/05/11
	1,150,000	240,000	1,390,000			
G Roux De Bezieux	3,500,000		3,500,000	1.50	19/05/02	19/05/10
		120,000	120,000	1.25	21/05/04	21/05/11
	3,500,000	120,000	3,620,000			
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
		96,000	96,000	1.25	21/05/04	21/05/11
	600,000	96,000	696,000			

The market price of ordinary shares on 30 March 2002 was £0.95 and the range during the period was from £0.67 to £1.65.

On 25 March 2002 Hans Roger Snook was awarded 1,000,000 share options in the Company with an exercise price of £0.80, representing the average price over the previous three days, and exercisable after 25 March 2005.

From the date of his appointment Hans Roger Snook will receive an annual remuneration of £150,000.

Pensions

None of the Directors was a member of a defined benefit pension scheme. Pension contributions were paid into defined contribution schemes as follows:

Director	2002 £'000	2001 £'000
C W Dunstone	17	39
D P J Ross	16	39
C G Johnson	6	39
R W Taylor	10	8
	49	125

Directors' interests in shares of the Company

Director	Ordinary shares of 0.1 pence	
	30 March 2002	31 March 2001
C W Dunstone	309,028,535	309,028,535
D P J Ross	216,590,759	216,590,759
R W Taylor	2,276,806	38,000
G Roux De Bezieux	13,038,670	13,038,670
J H Dale	150,500	150,500
Sir Brian Pitman	5,000	5,000
J Gildersleeve	45,000	45,000
A Martin	12,461	12,461
D Wilson	50,000	50,000

There was no movement in the above shareholdings between 30 March 2002 and 5 June 2002.

Futher details of movements during the period are provided in note 31 to the financial statements.

Directors' report

For the 52 weeks ended 30 March 2002

The Directors have pleasure in presenting the Annual Report and financial statements of The Carphone Warehouse Group PLC for the 52 weeks ended 30 March 2002.

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 Data services.

The subsidiary undertakings principally affecting the results or net assets of the Group in the period are listed in note 13 to the financial statements.

Results

The profit or loss before tax for the financial period decreased from a profit of £47.4m in the prior period to a loss of £23.0m after exceptional items and amortisation. No dividend was paid in the period (2001 – £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 30 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

C G Johnson Resigned on 12 July 2001

Non-Executive Directors

H R Snook Appointed on 25 March 2002 with effect from 1 May 2002

The appointment of Hans Roger Snook requires approval in accordance with the Company's articles of association at the Annual General Meeting on 30 July 2002. Charles Dunstone, Roger Taylor and John Gildersleeve are required to retire by rotation and stand for re-election. The Company can terminate Hans Roger Snook's service agreement and Charles Dunstone's service agreement on 12 months notice. The Company can terminate Roger Taylor's service agreement on 6 months notice. The Company can terminate John Gildersleeve's service agreement with immediate effect without any compensation for loss of office if he is 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 that 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 44 days (2001 – 53 days). The Company did not have any trade creditors at 30 March 2002 or 31 March 2001.

Donations

The Group made charitable donations of £87,000 during the period (2001 – £173,000). No political donations were made during either period.

Contracts with controlling shareholders

There are no material contracts with controlling shareholders. Details of related party transactions are provided in note 31 to the financial statements.

Share capital

Details of the movements in authorised and issued share capital during the period are provided in note 22 to the financial statements.

Tangible fixed assets

Movements in tangible fixed assets are set out in note 12 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 £1.3m. The Group's liability to taxation if such assets were sold at that value would be insignificant.

Significant shareholdings

As at 5 June 2002 no disclosable interest in the issued share capital of the Company has been notified to the Company in accordance with sections 198 to 208 of the Companies Act 1985, other than those of Charles Dunstone and David Ross, whose interests are detailed in the Remuneration report on pages 19 to 21, and Guy Johnson, who holds 77,008,611 shares.

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 appoint Deloitte & Touche 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
5 June 2002

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 Company and Group and of their 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 Company and Group and to prevent and detect fraud and other irregularities.

Independent Auditors' report

Independent Auditors' report to the shareholders of The Carphone Warehouse Group PLC

We have audited the financial statements of The Carphone Warehouse Group PLC for the period ended 30 March 2002 which comprise the profit and loss account, balance sheets, cash flow statement, statement of total recognised gains and losses and the related notes numbered 1 to 31. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

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 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

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

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

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the 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 30 March 2002 and of the Group's loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Chartered Accountants and Registered Auditors

180 Strand
London
WC2R 1BL
5 June 2002

Consolidated profit and loss account

For the 52 weeks ended 30 March 2002

	Notes	Before exceptional items and amortisation 52 weeks ended 30 March 2002 £'000	Exceptional items and amortisation 52 weeks ended 30 March 2002 £'000	After exceptional items and amortisation 52 weeks ended 30 March 2002 £'000	Restated 53 weeks ended 31 March 2001 £'000
Turnover					
Existing operations		1,106,353		1,106,353	991,690
Acquisitions	2	46,364		46,364	118,988
	2	1,152,717		1,152,717	1,110,678
Cost of sales	3	(834,413)		(834,413)	(830,126)
Gross profit	3	318,304		318,304	280,552
Operating expenses excluding amortisation and depreciation	3,6	(245,500)	(24,863)	(270,363)	(214,536)
EBITDA	2	72,804		47,941	66,016
Depreciation	3,4	(26,335)		(26,335)	(18,788)
Amortisation	3,4		(14,736)	(14,736)	(8,771)
Operating profit	3	46,469		6,870	38,457
Existing operations	3	40,886		3,340	37,700
Acquisitions	3	5,583		3,530	757
Loss on disposal of fixed assets	6		(6,336)	(6,336)	(5,429)
Amounts written off fixed asset investments	6		(18,681)	(18,681)	–
Cost of fundamental reorganisation	6		(5,210)	(5,210)	(4,530)
Profit on disposal of subsidiary undertakings	6			–	16,514
Profit (loss) before interest and taxation		46,469		(23,357)	45,012
Net interest receivable	7	342		342	2,385
Profit (loss) on ordinary activities before taxation		46,811		(23,015)	47,397
Tax on profit on ordinary activities	6,8	(10,307)	4,145	(6,162)	(11,998)
Profit (loss) on ordinary activities after taxation		36,504		(29,177)	35,399
Equity minority interests	25	262	653	915	(563)
Profit (loss) for the financial period	23	36,766		(28,262)	34,836
Earnings (loss) per share					
Basic	9	4.41p		(3.39)p	4.57p
Diluted	9	4.39p		(3.39)p	4.43p
Headline earnings per share					
Basic	9	4.41p			5.00p
Diluted	9	4.39p			4.86p

The accompanying notes are an integral part of this consolidated profit and loss account.

Consolidated statement of total recognised gains and losses

For the 52 weeks ended 30 March 2002

	Notes	52 weeks ended 30 March 2002 £'000	Restated 53 weeks ended 31 March 2001 £'000
(Loss) profit for the financial period	23	(28,262)	34,836
Loss on foreign currency translation	23	(302)	(383)
Total recognised gains and losses relating to the period		(28,564)	34,453
Prior period adjustments	10	(3,941)	–
Total gains and losses recognised since last financial statements		(32,505)	34,453

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

Consolidated balance sheet

As at 30 March 2002

	Notes	30 March 2002 £'000	Restated 31 March 2001 £'000
Fixed assets			
Intangible assets			
Goodwill	11	274,798	231,471
		274,798	231,471
Tangible assets			
Investments	13	30,130	44,426
		416,582	396,175
Current assets			
Stock	14	50,088	52,437
Debtors due within one year	15	139,238	149,200
Short-term investments	16	67,637	46,374
Cash at bank and in hand		20,684	67,517
		277,647	315,528
Creditors: Amounts falling due within one year	17	(199,669)	(225,348)
Net current assets		77,978	90,180
Total assets less current liabilities			
		494,560	486,355
Creditors: Amounts falling due after more than one year	18	(39,050)	(15,434)
Provisions for liabilities and charges	20	(47,483)	(36,417)
Net assets		408,027	434,504
Capital and reserves			
Called-up share capital	22	835	833
Share premium	23	359,305	356,235
Capital redemption reserve	23	30	30
Profit and loss account	23	47,085	75,719
Equity shareholders' funds	24	407,255	432,817
Equity minority interests	25	772	1,687
Total capital employed		408,027	434,504

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

The financial statements on pages 26 to 50 were approved by the Board on 5 June 2002 and signed on its behalf by:

C W Dunstone
Chief Executive Officer

R W Taylor
Chief Financial Officer

Company balance sheet

As at 30 March 2002

	Notes	30 March 2002 £'000	31 March 2001 £'000
Fixed assets			
Investments	13	169,377	234,278
		169,377	234,278
Current assets			
Debtors due within one year	15	208,257	1,525
Debtors due after more than one year	15	128,226	131,555
		336,483	133,080
Creditors: Amounts falling due within one year	17	(96,798)	(9,610)
Net current assets		239,685	123,470
Total assets less current liabilities			
Creditors: Amounts falling due after more than one year	18	(24,911)	–
Net assets		384,151	357,748
Capital and reserves			
Called-up share capital	22	835	833
Share premium	23	359,305	356,235
Profit and loss account	23	24,011	680
Total capital employed		384,151	357,748

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

The financial statements on pages 26 to 50 were approved by the Board on 5 June 2002 and signed on its behalf by:

C W Dunstone
Chief Executive Officer

R W Taylor
Chief Financial Officer

Consolidated cash flow statement

For the 52 weeks ended 30 March 2002

	Notes	52 weeks ended 30 March 2002 £'000	53 weeks ended 31 March 2001 £'000
Net cash inflow from operating activities		29,352	43,663
Net cash inflow from returns on investments and servicing of finance	26a	342	2,385
Net cash outflow from taxation	26b	(9,398)	(6,991)
Net cash outflow from capital expenditure and financial investment	26c	(48,742)	(141,687)
Net cash outflow from acquisitions and disposals	26d	(42,846)	(18,818)
Net cash outflow before management of liquid resources and financing		(71,292)	(121,448)
Net cash inflow from management of liquid resources	26e	–	196
Net cash inflow from financing	26f	34,669	168,608
(Decrease) increase in cash in the period		(36,623)	47,356

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

Reconciliation of net cash inflow from operating activities to operating profit

	2002 £'000	2001 £'000
Operating profit excluding exceptional items	31,733	38,457
Operating exceptional items	(24,863)	–
Operating profit	6,870	38,457
Depreciation of tangible fixed assets	26,335	18,788
Amortisation of goodwill	14,736	8,771
EBITDA	47,941	66,016
(Profit) loss on disposal of tangible fixed assets	(646)	31
Increase (decrease) in provisions	9,533	(11,256)
Decrease in stock	2,700	5,187
Decrease (increase) in debtors	26,422	(54,248)
(Decrease) increase in creditors	(56,598)	37,933
Net cash inflow from operating activities	29,352	43,663

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, with the exception of the change in accounting policy resulting from the adoption of Financial Reporting Standard 19 'Deferred Tax', as detailed in note 10.

a) Turnover

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

Distribution:

Distribution turnover comprises revenue generated from the sale of mobile telephony products and services, commissions receivable on sales and insurance premiums receivable.

- Commission receivable from network operators, including volume bonuses, is recognised to the extent that it is reasonably certain.
- Insurance premium income is credited to the profit and loss account over the period of the underlying policies.
- All other revenue is recognised as it falls due.

Telecoms services:

Telecoms services turnover comprises revenue generated from facilities management, share of customer airtime spend and loyalty income, and revenue from mobile network services. All such revenue is recognised as it falls due.

Data services:

All Data services revenue is recognised as it falls due.

b) Basis of consolidation

The consolidated financial statements incorporate the results of The Carphone Warehouse Group PLC and its subsidiary undertakings drawn up to 30 March 2002. 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.

c) 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.

d) 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%-25% per annum
Motor vehicles	25% per annum
Short leasehold costs	10 years or the lease term if less
Freehold buildings	2%-4% per annum

e) 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.

f) Investments

Fixed asset investments are shown at cost less provision for permanent diminution in value, other than investments which are independently managed within external funds, which 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.

g) Leases

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

h) Taxation

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date, with the following exceptions:

- Provision is made for the tax that would arise on remittance of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable.
- Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

i) 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 and in the development of the functionality of its website. These costs are depreciated in accordance with the policy defined in note 1d.

j) Pensions

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

k) Foreign exchange

Material transactions in foreign currencies are hedged using forward purchases or sales of the relevant currencies and are recognised in the financial statements at the exchange rates thus obtained. Unhedged transactions are recorded at the exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are hedged, mainly using forward foreign exchange contracts to create matching liabilities and assets. At the balance sheet date, both the monetary assets and liabilities and the foreign currency hedges are retranslated at rates prevailing at the balance sheet date and any differences are taken to the profit and loss account. The results of overseas operations are translated at the average foreign exchange rates for the period, and their balance sheets are translated at the rates prevailing at the balance sheet date. Exchange differences arising on translation of opening net assets and results of overseas operations are dealt with through reserves. All other exchange differences are included in the profit and loss account.

l) Employee incentive schemes

The Company operates a Save As You Earn scheme that allows for the grant of share options at a discount to the market price at the date of the grant. The Company has made use of the exemption under UITF Abstract 17 not to recognise any compensation charge in respect of these options.

Notes to the financial statements continued

2 Segmental analysis

Divisional results are analysed as follows:

	2002			2001		
	Turnover £'000	Profit (loss) before tax £'000	Net assets £'000	Turnover £'000	Profit before tax £'000	Restated Net assets £'000
Distribution	1,061,646	95,460	351,223	1,079,143	101,160	360,029
Telecoms services	89,321	35,872	28,875	30,481	18,125	21,802
Data services	1,750	(2,398)	27,929	1,054	(5,265)	52,673
Common costs	–	(56,130)	–	–	(48,004)	–
	1,152,717	72,804	408,027	1,110,678	66,016	434,504
Depreciation		(26,335)			(18,788)	
		46,469			47,228	
Amortisation		(14,736)			(8,771)	
Exceptional items		(55,090)			6,555	
Net interest receivable		342			2,385	
(Loss) profit before tax		(23,015)			47,397	

Results by geographical location are analysed by origin as follows:

	2002			2001		
	Turnover £'000	Profit (loss) before tax £'000	Net assets £'000	Turnover £'000	Profit before tax £'000	Restated Net assets £'000
United Kingdom	777,872	96,700	329,639	749,160	91,118	387,279
Rest of Europe	374,845	32,234	78,388	361,518	22,902	47,225
Common costs	–	(56,130)	–	–	(48,004)	–
	1,152,717	72,804	408,027	1,110,678	66,016	434,504
Depreciation		(26,335)			(18,788)	
		46,469			47,228	
Amortisation		(14,736)			(8,771)	
Exceptional items		(55,090)			6,555	
Net interest receivable		342			2,385	
(Loss) profit before tax		(23,015)			47,397	

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	Net assets £'000
Distribution	2,799	(51)	(109)
Telecoms services	43,565	8,096	12,604
Common costs	–	(3,891)	–
	46,364	4,154	12,495
Rest of Europe	46,364	8,045	12,495
Common costs	–	(3,891)	–
	46,364	4,154	12,495

Details of acquisitions in the period are given in note 13.

3 Analysis of profit and loss account

	2002			2001
	Existing operations £'000	Acquisitions £'000	Total £'000	Total £'000
Cost of sales	(811,056)	(23,357)	(834,413)	(830,126)
Gross profit	295,297	23,007	318,304	280,552
Depreciation	(25,452)	(883)	(26,335)	(18,788)
Amortisation	(12,683)	(2,053)	(14,736)	(8,771)
Exceptional operating expenses	(24,863)	–	(24,863)	–
Other operating expenses	(228,959)	(16,541)	(245,500)	(214,536)
Total operating expenses	(291,957)	(19,477)	(311,434)	(242,095)
Operating profit	3,340	3,530	6,870	38,457

Total operating expenses for statutory reporting purposes are analysed as follows:

	2002			2001
	Existing operations £'000	Acquisitions £'000	Total £'000	Total £'000
Distribution costs	(201,431)	(14,958)	(216,389)	(182,291)
Administrative expenses	(65,663)	(4,519)	(70,182)	(59,804)
Exceptional operating expenses	(24,863)	–	(24,863)	–
Total operating expenses	(291,957)	(19,477)	(311,434)	(242,095)

4 Profit (loss) on ordinary activities before taxation

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

	2002 £'000	2001 £'000
Amortisation of goodwill	14,736	8,771
Depreciation of tangible fixed assets	26,335	18,788
Rentals under operating leases – property	38,713	32,374
(Profit) loss on disposal of fixed assets	(646)	31
Auditors' remuneration – audit services	450	400
– non-audit services	250	450

5 Employees

Employee costs consist of:

	2002 £'000	2001 £'000
Wages and salaries	114,125	98,586
Social security costs	21,395	18,235
Other pension costs	1,632	1,520
	137,152	118,341

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

	2002 Number	2001 Number
Administration	1,113	979
Selling and distribution	5,879	4,466
	6,992	5,445

Details of Directors' remuneration are provided in the Remuneration report on pages 19 to 21.

6 Exceptional items

		2002 £'000	2001 £'000
Costs of operational reorganisation			
Store closures	(a)	(11,956)	–
Business closures and reorganisation	(a)	(12,907)	–
Exceptional operating items		(24,863)	–
Loss on disposal of fixed assets	(b)	(6,336)	(5,429)
Amounts written off fixed asset investments	(c)	(18,681)	–
Cost of fundamental reorganisation	(d)	(5,210)	(4,530)
Profit on disposal of subsidiary undertakings	(e)	–	16,514
Total exceptional costs		(55,090)	6,555

(a) Costs of operational reorganisation

As anticipated in the financial statements for the period ended 31 March 2001, the Group has incurred costs in reorganising its operations across Europe. This reorganisation comprises:

- the withdrawal from certain non-key territories;
- the closure of a significant number of under-performing retail outlets;
- the reorganisation of back office operations across the Group, including the establishment of shared service centres in the UK and Portugal.

(b) Loss on disposal of fixed assets

Fixed assets with a net book value of £6.3m have been written down in the period principally as a result of the withdrawal from non-key territories and the store closures noted in 6a. A provision of £2.9m was made in the period ended 31 March 2001 in anticipation of the withdrawal from non-key territories; this provision has been utilised to offset the charge in the current period.

(c) Amounts written off fixed asset investments

A total of £18.7m has been written off the Group's holding in Wireless Frontiers, an independently managed internet fund, to reflect the diminution in the value of the fund at 30 March 2002.

(d) Cost of fundamental reorganisation

A charge of £5.2m, reflecting the write-down of fixed assets and other restructuring costs, has been made during the period principally in respect of the fundamental reorganisation of the Group's Data services division, involving a significant downscaling of wireless internet portal activities. Costs arising in the period ended 31 March 2001 relate to the integration of the support function and retail operations of Tandy into those of other UK operations.

(e) Profit on disposal of subsidiary undertakings

During the period ended 31 March 2001, the Group entered into a strategic partnership agreement with AOL Europe SA to provide funding, functionality and services to the Group's subsidiary, MViva Limited, whereby AOL Europe paid \$25m for a 15% interest, giving rise to a profit of £16.5m.

Effect of exceptional items on taxation and minority interests

The effect of exceptional items on the amounts charged to the profit and loss account for taxation and minority interests was as follows:

	Tax on profit on ordinary activities		Minority interests	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Costs of operational reorganisation	(3,290)	–	–	–
Cost of fundamental reorganisation	(855)	(1,350)	(653)	–
Profit on disposal of subsidiary undertakings	–	–	–	2,475
(Decrease) increase in charge to profit and loss account	(4,145)	(1,350)	(653)	2,475

7 Net interest receivable

	2002 £'000	2001 £'000
Interest receivable and similar income	5,711	6,015
Interest payable and similar charges:		
Bank overdrafts and loans	(4,975)	(3,168)
Other loans	(394)	(462)
Interest payable and similar charges	(5,369)	(3,630)
Net interest receivable	342	2,385

8 Tax on profit on ordinary activities

	2002 £'000	Restated 2001 £'000
Current tax		
UK corporation tax	6,930	7,662
Overseas tax	2,778	473
	9,708	8,135
Adjustments in respect of prior periods		
UK corporation tax	(2,538)	(1,888)
Total current tax	7,170	6,247
Deferred tax		
Origination and reversal of timing differences	(1,008)	5,751
Total deferred tax	(1,008)	5,751
Total tax on profit on ordinary activities	6,162	11,998

	2002 £'000	Restated 2001 £'000
(Loss) profit on ordinary activities before tax	(23,015)	47,397
(Loss) profit on ordinary activities before tax at 30%	(6,905)	14,219
Effect of:		
Amortisation of goodwill	4,421	2,631
Exceptional items attracting no tax relief or liability	12,420	(4,193)
Other items attracting no tax relief or liability	4,314	5,913
Income taxed at lower rates	(5,550)	(4,684)
Adjustments in respect of prior periods	(2,538)	(1,888)
Other timing differences	1,008	(5,751)
Current tax charge for the period	7,170	6,247

The Group earns its profits primarily in the UK, therefore the tax rate used for tax on profit on ordinary activities is the standard rate for UK corporation tax, currently 30%.

As explained in note 10, the tax charge for the period ended 31 March 2001 has been restated in accordance with FRS 19. The adjustments relate primarily to provisions and short-term timing differences on acquisitions in respect of which no deferred tax assets, or their subsequent utilisation, had previously been recognised.

Deferred tax assets of approximately £20 million (2001 – £15 million) for tax losses have not yet been recognised as there is insufficient evidence that there will be suitable taxable profits against which these losses can be recovered.

Details of deferred tax assets and liabilities are provided in note 21.

9 Earnings per share

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

	Basic and diluted	
	2002 £'000	Restated 2001 £'000
(Loss) profit for the financial period	(28,262)	34,836
Amortisation of goodwill	14,736	8,771
Operating exceptional items (net of tax and minority interests)	21,573	–
Non-operating exceptional items (net of tax and minority interests)	28,719	(5,429)
Earnings before amortisation of goodwill and exceptional items	36,766	38,178
	2002 Number of shares 000's	2001 Number of shares 000's
Weighted average number of shares:		
For basic earnings per share	833,382	763,002
Dilutive effect of share options	3,759	23,122
For diluted earnings per share*	837,141	786,124

	Basic pence per share		Diluted pence per share	
	2002	Restated 2001	2002	Restated 2001
(Loss) earnings per share	(3.39)	4.57	(3.39)	4.43
Headline earnings per share	4.41	5.00	4.39	4.86

* In accordance with FRS 14 'Earnings per Share', the dilutive effect of share options has not been applied where doing so would decrease the loss per share.

Headline earnings per share is calculated on earnings before amortisation of goodwill and exceptional items and is provided because the Directors consider that it gives a better indication of underlying performance than standard earnings per share.

10 Prior period adjustments

As explained in note 1, the Group has implemented FRS 19 with effect from 1 April 2001 and in accordance with the standard, has restated prior period figures to reflect this. The effects of the adjustments are as follows:

	Restated 2001 £'000
Profit and loss account	
Increase in deferred tax charge in the period ended 25 March 2000	(618)
Increase in deferred tax charge in the period ended 31 March 2001	(3,323)
Cumulative decrease in profit and loss account	(3,941)

11 Intangible fixed assets – goodwill

Group	Total £'000
Cost	
At 31 March 2001	240,913
Acquisitions (see note 13)	57,948
Foreign exchange	115
At 30 March 2002	298,976
Amortisation	
At 31 March 2001	(9,442)
Charge for the period	(14,736)
At 30 March 2002	(24,178)
Net book value	
At 30 March 2002	274,798
At 31 March 2001	231,471

12 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
Cost						
At 31 March 2001	15,443	46,168	43,118	54,721	1,227	160,677
Additions	2,972	8,964	14,903	14,420	118	41,377
Transfers to short-term investments	(11,415)	–	–	–	–	(11,415)
Exceptional disposals and write-offs	–	(1,594)	(6,487)	(8,342)	(11)	(16,434)
Other disposals	(2,420)	(51)	(136)	(172)	(303)	(3,082)
Acquisition of subsidiary undertakings	–	791	1,711	789	238	3,529
Foreign exchange	(13)	(216)	(24)	(140)	(6)	(399)
At 30 March 2002	4,567	54,062	53,085	61,276	1,263	174,253
Depreciation						
At 31 March 2001	(399)	(9,176)	(16,247)	(14,145)	(432)	(40,399)
Charge for the period	(226)	(4,114)	(10,567)	(11,117)	(311)	(26,335)
Exceptional disposals and write-offs	–	298	1,486	1,571	5	3,360
Other disposals	218	19	92	96	201	626
Foreign exchange	7	33	42	63	4	149
At 30 March 2002	(400)	(12,940)	(25,194)	(23,532)	(533)	(62,599)
Net book value						
At 30 March 2002	4,167	41,122	27,891	37,744	730	111,654
At 31 March 2001	15,044	36,992	26,871	40,576	795	120,278

As explained in note 30, the Group disposed of the freehold on its London offices in May 2002 and the relevant assets have been transferred to short-term investments during the period.

Exceptional disposals and write-offs relate to the withdrawal from non-key territories and store closures (note 6b) and to the fundamental reorganisation of the Group's Data services division (note 6d).

13 Fixed asset investments

Group	Own shares £'000	Other investments £'000	Total £'000
At 31 March 2001	3,949	40,477	44,426
Additions	–	4,385	4,385
Amounts written off (see below)	–	(18,681)	(18,681)
At 30 March 2002	3,949	26,181	30,130

Own shares

The Group has an Employee Share Ownership Trust which holds 1,974,000 shares (2001 - 1,974,000) in the Company for the benefit of the Group's employees. At 30 March 2002 the shares had a market value of £1.9m (2001 - £2.5m). The Directors do not consider the impairment of the investment to be permanent.

Other investments

Additions during the period represent further investments in Wireless Frontiers, an independently managed internet fund. As explained in note 6c, £18.7m has been written off the Group's holding in Wireless Frontiers, to reflect the diminution in the value of the fund at 30 March 2002.

13 Fixed asset investments (continued)

Company	£'000
At 31 March 2001	234,278
Additions	80,734
Disposals	(143,935)
Amounts written off	(1,700)
At 30 March 2002	169,377

Amounts written off relate to wireless internet investments held directly by the Company.

Principal Group investments

The Company and the Group have investments in the following subsidiary undertakings, which principally affected the profits or losses or net assets of the Group. To avoid a statement of excessive length, details of investments which are not significant have been omitted. All holdings are in equity share capital and 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 sro	Czech Republic	Retail of mobile communication equipment	100%
The Phone House SA	France	Retail of mobile communication equipment	100%
The Phone House Deutschland GmbH	Germany	Retail of mobile communication equipment	100%
The Carphone Warehouse Limited	Ireland	Retail of mobile communication equipment	100%
The Phone House Netherlands BV	Netherlands	Retail of mobile communication equipment	100%
The Phone House Polska SA	Poland	Retail of mobile communication equipment	80%
The Phone House Lda	Portugal	Retail of mobile communication equipment	100%
The Phone Warehouse SL*	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%
Carphone Warehouse Services Limited	England	Telecoms services	100%
Value Telecom Limited	England	Telecoms services	100%
Communication des Mobiles Cellulaires SA	France	Telecoms services	100%
The Carphone Warehouse Insurance Limited	Isle of Man	Insurance underwriting	100%
The Phone House Insurance Limited	Isle of Man	Insurance underwriting	100%
The Phone House Insurance Brokers SA	Switzerland	Insurance brokerage	100%
MViva Limited	England	Data services	85%
ISe-Net Solutions Limited	England	Information technology services	100%
The Phone House Holdings (UK) Limited*	England	Holding company	100%
Wireless Internet Portfolio BV	Netherlands	Holding company	100%
The Phone House BV	Netherlands	Holding company	100%
The Phone House Investments SA	Belgium	Holding company	100%

*held directly by the Company.

13 Fixed asset investments (continued)**a. CMC**

On 29 May 2001, the Group acquired 100% of the issued share capital of Communication des Mobiles Cellulaires SA ('CMC'), a Telecoms services business registered in France, for a gross cash consideration of £54.3m. 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 alignments £'000	Other fair value adjustments £'000	Fair value to Group £'000
Fixed assets				
Tangible	3,318			3,318
Current assets				
Stock	375			375
Debtors	17,517	1,574		19,091
Cash	20,302	(7,033)		13,269
Total assets	41,512	(5,459)		36,053
Creditors				
Trade creditors	(19,551)	7,033		(12,518)
Corporation tax	(2,110)			(2,110)
Other taxes	(2,523)		(2,449)	(4,972)
Other creditors	(9,048)		(1,366)	(10,414)
Provisions				
Other provisions	(2,510)			(2,510)
Total liabilities	(35,742)	7,033	(3,815)	(32,524)
Net assets	5,770	1,574	(3,815)	3,529
Goodwill				50,745
Satisfied by cash				54,274

Net cash outflows in respect of the acquisition comprised:

	£'000
Gross cash consideration	54,274
Cash acquired	(13,269)
	<u>41,005</u>

Accounting policy alignments relate to the recognition of deferred tax assets and cash book balances. Other fair value adjustments relate principally to unrecorded potential liabilities.

CMC earned a profit after taxation of £2.9m in the period ended 30 March 2002 (year ended 31 March 2001 £10.3m, after exceptional gains of £6.9m), of which £0.8m arose in the period from 1 April 2001 to 29 May 2001. The summarised profit and loss account and statement of total recognised gains and losses for the period from 1 April 2001 to 29 May 2001, shown on the basis of the accounting policies of CMC prior to the acquisition, are as follows:

Profit and loss account	£'000
Turnover	12,084
Cost of sales	(8,148)
Gross profit	3,936
Other operating expenses	(2,827)
Operating profit	1,109
Net interest receivable	92
Profit on ordinary activities before taxation	1,201
Tax on profit on ordinary activities	(400)
Profit on ordinary activities after taxation	<u>801</u>

All recognised gains and losses for the period are included in the profit and loss account.

b. Other acquisitions

During the period the Group made a number of other acquisitions for an aggregate gross cash consideration of £2.0m. There were no fair value or accounting policy adjustments and the acquisitions resulted in goodwill of £2.0m. Cash of £0.2m was acquired through these transactions.

As detailed in note 31, on 21 December 2001, the Group acquired the entire issued share capital of Papertimes Limited for a consideration of 2.2m shares in the Company. The market value of the shares issued was £3.0m, giving rise to goodwill of that amount. In addition, goodwill of £2.2m arose on fair value adjustments in respect of acquisitions in previous periods, principally in relation to unrecorded potential liabilities.

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

	£'000
Gross cash consideration	56,287
Cash acquired	(13,441)
	42,846

14 Stock

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Finished goods and goods for resale	50,088	52,437	–	–

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

15 Debtors

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Amounts falling due within one year:				
Trade debtors	109,538	104,827	–	–
Other debtors	11,992	27,516	1,369	924
Prepayments and accrued income	17,708	16,857	306	601
Amounts owed by Group undertakings	–	–	206,582	–
	139,238	149,200	208,257	1,525
Amounts falling due after more than one year:				
Amounts owed by Group undertakings	–	–	128,226	131,555
	139,238	149,200	336,483	133,080

16 Short-term investments

	Group	
	2002 £'000	2001 £'000
Short-term investments	67,637	46,374

Included within short-term investments are listed investments with a cost of £27.4 m (2001 – £46.1m). The market value of these investments at 30 March 2002 is £27.8m (2001 – £47.3m).

As explained in notes 12 and 30, the Group sold the freehold on its London offices after 30 March 2002 and the relevant assets, with a value of £18.4m have therefore been included within short-term investments.

17 Creditors: amounts falling due within one year

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Loans and overdrafts	10,645	10,793	61,459	7,946
Amounts owed to subsidiary undertakings	–	–	33,604	–
Trade creditors	117,871	144,908	–	–
Corporation tax	7,982	8,102	–	–
Other taxes and social security costs	18,052	15,933	–	–
Other creditors	7,779	11,685	235	–
Accruals and deferred income	37,340	33,927	1,500	1,664
	199,669	225,348	96,798	9,610

18 Creditors: amounts falling due after more than one year

	Group		Company	
	2002 £'000	Restated 2001 £'000	2002 £'000	2001 £'000
Loans	24,713	178	24,494	–
Other creditors	7,079	5,885	417	–
Accruals and deferred income	7,258	9,371	–	–
	39,050	15,434	24,911	–

Loans and overdrafts are repayable in more than one year but not more than two.

19 Derivatives and other financial instruments

The financial review on pages 9 to 11 provides an explanation of the role that financial instruments have in managing the currency and interest rate risks the Group faces in its activities. The disclosures below deal with financial assets and financial liabilities as defined in Financial Reporting Standard 13 'Derivatives and other financial instruments' (FRS 13). As permitted by FRS 13, short-term trade debtors and creditors have been excluded from the disclosures. Certain financial assets such as investments in subsidiaries are also excluded from the scope of these disclosures.

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

The Group's financial assets include cash and short-term deposits, as well as longer term investments including gilt-edged securities and other bonds, equities and equity funds. These investments are mainly denominated in Sterling, Euro and US Dollars to provide diversity of investment opportunities. Foreign exchange swaps, used to hedge the Group's balance sheet translation risk, create an asset and a liability. For the purposes of this note, foreign exchange assets and liabilities have been netted against each other, giving rise to a net financial asset of £nil (2001 – £1.5m). The Group's financial liabilities, other than currency hedges, consist of committed and uncommitted loans in Sterling and Euro as well as local overdraft facilities, which are denominated in a variety of European currencies. The Group does not trade in financial assets and liabilities.

Financial assets	2002				2001			
	Sterling £m	Euro £m	Other £m	Total £m	Sterling £m	Euro £m	Other £m	Total £m
By instrument								
Cash	10.1	8.1	2.5	20.7	50.8	12.6	4.1	67.5
Short-term investments	49.1	0.1	–	49.2	46.4	–	–	46.4
Total	59.2	8.2	2.5	69.9	97.2	12.6	4.1	113.9

By interest rate								
Floating rate	44.8	8.2	2.5	55.5	82.7	12.6	4.1	99.4
Fixed rate	14.4	–	–	14.4	14.5	–	–	14.5
Total	59.2	8.2	2.5	69.9	97.2	12.6	4.1	113.9

Financial liabilities

By instrument								
Loans and overdrafts	(10.6)	(24.7)	–	(35.3)	(0.1)	(10.5)	(0.3)	(10.9)
Total	(10.6)	(24.7)	–	(35.3)	(0.1)	(10.5)	(0.3)	(10.9)

By interest rate								
Floating rate	(10.6)	(19.0)	–	(29.6)	(0.1)	(3.2)	(0.3)	(3.6)
Fixed rate	–	(5.7)	–	(5.7)	–	(7.3)	–	(7.3)
Total	(10.6)	(24.7)	–	(35.3)	(0.1)	(10.5)	(0.3)	(10.9)

Financial assets earning interest at fixed rates are investments in gilts and bonds, which bear interest at a variety of market rates. Fixed rate financial liabilities, all of which are denominated in Euro, bear weighted average interest rates of 4.81% (2001 – 4.79%) for weighted average periods of 1.1 years (2001 – 1.4 years).

The interest rate on floating rate financial assets and liabilities is linked to market interest rates, mainly on an overnight basis or one, two or three month periods.

19 Derivatives and other financial instruments (continued)

(ii) Currency exposures

The extent to which Group companies have financial assets or liabilities in currencies other than their own functional currencies is as follows:

	2002				2001	
	Sterling £m	Euro £m	Other £m	Total £m	Sterling £m	Total £m
Functional currency of Group operation						
Sterling	–	1.0	0.2	1.2	–	–
Euro	–	–	–	–	9.3	9.3
Other	0.1	1.0	–	1.1	1.0	1.0
Total	0.1	2.0	0.2	2.3	10.3	10.3

The Group holds no currency swaps or other derivative contracts to hedge expected future currency exposures.

(iii) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 30 March 2002 was as follows:

	2002 £m	2001 £m
In one year or less	(10.6)	(10.7)
In more than one year but not more than two years	(24.7)	(0.2)
Total	(35.3)	(10.9)

(iv) Borrowing facilities

The Group had undrawn committed borrowing facilities at 30 March 2002, in respect of which all conditions precedent had been met, as follows:

	2002 £m	2001 £m
Expiring in more than one year but not more than two years	117.8	–
Expiring in more than two years	–	139.5
Total	117.8	139.5

(v) Fair values

The book and fair values of the Group's financial assets and liabilities at 30 March 2002 are as follows:

	2002		2001	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Financial assets				
Cash	20.7	20.7	67.5	67.5
Short-term investments	49.2	49.9	46.4	47.5
Financial liabilities				
Loans and overdrafts	(35.3)	(35.3)	(10.9)	(10.9)
Interest rate swaps	–	(0.1)	–	(0.1)
Forward foreign currency contracts	–	0.8	1.5	1.5

Cash, deposits and loans and overdrafts falling due within one year 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 rates as appropriate to the instrument.

(vi) Gains and losses on hedges

At 30 March 2002, the Group had unrecognised net gains of £0.7m (2001 - net loss £0.1m). All these gains are expected to be recognised in the period ending 29 March 2003.

20 Provisions for liabilities and charges

Group	Insurance funds and reserves £'000	Restructuring provisions £'000	Deferred tax £'000	Other £'000	Total £'000
At 31 March 2001 (restated)	11,809	8,189	2,428	13,991	36,417
Charge (credit) to profit and loss account	32,590	24,863	(574)	10,140	67,019
Acquisition of subsidiary undertakings	–	–	–	2,510	2,510
Utilised in the period	(31,240)	(11,653)	(590)	(14,891)	(58,374)
Foreign exchange	–	–	–	(89)	(89)
At 30 March 2002	13,159	21,399	1,264	11,661	47,483

Insurance funds and reserves

Insurance provisions represent unearned premium income and the anticipated costs of policy holder claims.

Restructuring provisions

As detailed in note 6a the Group has provided for the exceptional costs of reorganising operations across Europe during the period.

At 31 March 2001, a provision of £2.9m was made for the anticipated costs of withdrawal from non-key territories. This provision has been fully utilised during the period, as detailed in note 6b. Other provisions of £5.2m at 31 March 2001 relate to onerous property commitments acquired with Tandy, significant amounts of which have been utilised in the period.

Deferred tax

Details of movements on the deferred tax provision are given in note 21.

Other

Other provisions include provisions against sales, principally being the anticipated costs of product warranties and customer returns, and all other provisions, principally being the anticipated costs of outstanding legal, tax and other disputes.

21 Deferred tax

Group	2002 £'000	2001 £'000
Deferred tax liabilities		
Accelerated capital allowances	(1,698)	(59)
Other timing differences	434	(2,369)
	(1,264)	(2,428)
Deferred tax assets		
Other timing differences	1,446	–
	1,446	–
Total	182	(2,428)

22 Share capital

Group and Company	2002 million	2001 million	2002 £'000	2001 £'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	835	833	835	833

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	
				2002	2001
01/04/99	0.25	14/07/00	01/04/09	1,635,000	1,635,000
02/04/99	0.80	20/01/01	02/04/09	666,660	666,660
25/07/99	0.25	14/07/00	25/07/09	200,000	200,000
01/04/99	0.50	14/07/00	01/04/09	890,000	890,000
25/07/99	0.50	14/07/00	25/07/09	349,000	359,000
06/10/99	0.50	14/07/00	06/10/09	200,000	200,000
06/10/99	0.50	30/06/01	06/10/09	120,000	120,000
01/02/00	0.80	14/07/00	01/02/10	500,000	500,000
01/02/00	0.80	30/06/02	01/02/10	300,000	300,000
02/04/99	1.00	21/07/02	02/04/09	166,665	166,665
02/04/99	1.00	21/07/03	02/04/09	166,665	166,665
01/02/00	1.00	14/07/00	01/02/10	1,000,000	1,000,000
01/02/00	1.00	30/06/03	01/02/10	200,000	200,000
31/03/01	1.25	31/03/04	31/03/11	–	125,000
25/05/00	1.50	25/05/01	25/05/10	–	125,000
19/05/00	1.50	19/05/02	19/05/10	9,250,200	10,156,500
19/05/00	2.00	19/05/02	19/05/10	850,000	850,000
21/05/01	1.25	21/05/04	21/05/14	7,509,646	–
01/12/01	1.30	01/12/04	01/12/11	430,648	–
25/03/02	0.80	25/03/05	25/03/12	1,000,000	–
				25,434,484	17,660,490

It is proposed to award a further 8,109,438 options in June 2002 at an exercise price to be determined at that time.

2. Employee share option schemes

Date options granted	Exercise price per share £	Exercisable from	Expiry date	Number of options outstanding	
				2002	2001
31/12/99	–	01/01/01	31/12/09	357,950	389,350
05/06/00	1.50	01/01/02	05/06/10	514,300	561,300
				872,250	950,650

The savings-related share option scheme permits the grant to employees of options linked to a bank save-as-you-earn contract for a term of three or five years with contributions from employees of an amount between £5 and £250 per month. Options may be exercised at the end of the three or five year period at a subscription price not less than 80% of the middle market quotation of an ordinary share immediately prior to the date of grant. The following options were outstanding at 30 March 2002:

Date options granted	Exercise price per share £	Exercisable from	Expiry date	Number of options outstanding	
				2002	2001
30/05/01	1.00	30/05/04	30/11/04	1,540,703	–
30/05/01	1.00	30/05/06	30/11/06	1,080,350	–
				2,621,053	–

3. Other share options

At 30 March 2002 there were 4,000,000 (2001 - 4,000,000) options to subscribe for shares in the Company at an exercise price of £1.50 expiring on 24 June 2010.

At 30 March 2002 there were 4,996,690 (2001 - 7,381,918) outstanding options to subscribe for shares in the Group's subsidiary, MViva Limited, at exercise prices of between £0.10 and £3.13.

23 Reserves

	Profit and loss account £'000	Share premium £'000	Capital redemption reserve £'000	Total £'000
Group				
At 31 March 2001 as previously stated	79,660	356,235	30	435,925
Prior period adjustments (see note 10)	(3,941)	–	–	(3,941)
At 31 March 2001 as restated	75,719	356,235	30	431,984
Loss for the financial period	(28,262)	–	–	(28,262)
Currency translation	(302)	–	–	(302)
Issue of share capital	(70)	3,070	–	3,000
At 30 March 2002	47,085	359,305	30	406,420
Company				
At 31 March 2001	680	356,235	–	356,915
Profit for the financial period	23,500	–	–	23,500
Currency translation	(169)	–	–	(169)
Issue of share capital	–	3,070	–	3,070
At 30 March 2002	24,011	359,305	–	383,316

In accordance with the exemption permitted by section 230 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 period is £23.5m (2001 – £0.6m).

24 Reconciliation of movements in shareholders' funds

	Group		Company	
	2002 £'000	Restated 2001 £'000	2002 £'000	2001 £'000
(Loss) profit for the financial period	(28,262)	34,836	23,500	628
Currency translation	(302)	(383)	(169)	(432)
Issue of share capital	3,002	356,468	3,072	356,468
Other movements	–	(1,676)	–	–
Net movements in shareholders' funds	(25,562)	389,245	26,403	356,664
Opening shareholders' funds as previously stated	436,758	44,190	357,748	1,084
Prior period adjustments	(3,941)	(618)	–	–
Opening shareholders' funds as restated	432,817	43,572	357,748	1,084
Closing shareholders' funds	407,255	432,817	384,151	357,748

25 Equity minority interests

Group	Equity interests £'000
At 31 March 2001	1,687
Minority interests' share of profits or losses in the period	(915)
At 30 March 2002	772

26 Analysis of cash flows**a. Returns on investments and servicing of finance**

Group	2002 £'000	2001 £'000
Interest received	5,711	6,015
Interest paid	(5,369)	(3,630)
Net cash inflow from returns on investments and servicing of finance	342	2,385

b. Taxation

Corporation tax paid	(9,398)	(6,991)
Net cash outflow from taxation	(9,398)	(6,991)

c. Capital expenditure and financial investment

Payments to acquire fixed asset investments	(604)	(35,326)
Payments to acquire tangible fixed assets	(41,377)	(73,975)
Payments to acquire short-term investments	(9,863)	(35,230)
Receipts from sale of tangible fixed assets	3,102	2,844
Net cash outflow from capital expenditure and financial investment	(48,742)	(141,687)

d. Acquisitions and disposals

Purchase of subsidiary undertakings	(56,287)	(39,078)
Net cash acquired with subsidiary undertakings	13,441	3,746
Sale of subsidiary undertakings	–	16,514
Net cash outflow from acquisitions and disposals	(42,846)	(18,818)

e. Management of liquid resources

	2002 £'000	2001 £'000
Movement in short-term deposits	–	196
Net cash inflow from management of liquid resources	–	196

f. Financing

Net receipts from issuing shares	72	187,096
Increase (decrease) on loans	34,597	(18,488)
Net cash inflow from financing	34,669	168,608

g. Analysis of changes in net debt

	At 31 March 2001 £'000	Cash flows £'000	At 30 March 2002 £'000
Cash at bank and in hand	67,517	(46,833)	20,684
Overdrafts	(10,423)	10,210	(213)
	57,094	(36,623)	20,471
Debt due within one year	(370)	(10,062)	(10,432)
Debt due after more than one year	(178)	(24,535)	(24,713)
Net funds (debt)	56,546	(71,220)	(14,674)

h. Reconciliation of net cash (outflow) inflow to movements in net (debt) funds

	2002 £'000	2001 £'000
(Decrease) increase in cash in the period	(36,623)	47,356
Cash (inflow) outflow from (increase) decrease in loans	(34,597)	18,488
Cash inflow from decrease in short-term deposits	–	(196)
Change in net (debt) funds	(71,220)	65,648
Loans acquired with subsidiary undertakings	–	(2,884)
Movement in net (debt) funds in the period	(71,220)	62,764
Net funds (debt) brought forward	56,546	(6,218)
Net (debt) funds carried forward	(14,674)	56,546

i. Acquisitions

Companies acquired in the period utilised £3.3m of the Group's net operating cashflows, received £0.6m in respect of net returns on investments and servicing of finance, paid £7.3m in respect of taxation and utilised £3.5m for capital expenditure.

27 Commitments under operating leases

The Group's annual commitments under non-cancellable operating leases, all of which relate to land and buildings, are as follows:

	2002 £'000	2001 £'000
Operating leases which expire:		
Within one year	4,115	1,652
In two to five years	10,583	7,604
After five years	22,260	24,558
	36,958	33,814

28 Capital commitments

	2002 £'000	2001 £'000
Expenditure contracted, but not provided for in the financial statements of the Group	620	4,184

29 Pension arrangements

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

Defined contribution schemes

The Group operates a number of defined contribution schemes for which the cost for the period was £1.6m (2001 - £1.3m).

Defined benefit schemes

On 5 April 2000 the Group commenced the winding up of a defined benefit scheme. Based on actuarial advice, the assets of the scheme are anticipated to be sufficient to meet the levels required by the Government's Minimum Funding Requirements calculations. On completion of the winding up of the scheme, the Group will retain no obligations in relation to the funding of scheme benefits.

Other schemes

The Group provides pensions to a number of employees through a self-administered scheme, the costs of which are assessed in accordance with actuarial advice. Contributions to the scheme during the period were £49,000 (2001 - £117,000).

30 Post balance sheet events

On 27 May 2002 the Group exchanged contracts in a sale and leaseback transaction on its London offices. The sale generated cash proceeds of £36.6m and a profit on disposal, after fees and further spending commitments, of £16.5m.

31 Related party transactions*Papertimes Limited*

At 31 March 2001 Roger Taylor held a 40% interest in Papertimes Limited, a company which was entitled to receive 15% of the future value of certain investments within the Group's Wireless Internet fund.

Under arrangements approved prior to flotation Roger Taylor would realise such value by the Company acquiring his shares in Papertimes Limited. When the Group transferred its investments into a new fund in which neither Papertimes Limited or Roger Taylor has an interest, it was agreed pursuant to such arrangements that the Company would acquire Roger Taylor's shares in Papertimes Limited.

These shares were acquired on 21 December 2001 for a consideration of 2,238,806 shares in the Company, with a market value of £3,000,000. Roger Taylor is prohibited from selling such shares until 21 December 2004 except with the permission of the Company. The acquisition was also further approved by the Remuneration Committee and the Board of Directors of the Company.

Five year record (unaudited)

	2002 £m	Restated 2001 £m	Restated 2000 £m	Restated 1999 £m	1998 £m
Results*					
Turnover	1,152.7	1,110.7	697.7	316.1	180.2
EBITDA	72.8	66.0	41.4	26.1	16.0
PBT	46.8	49.6	30.6	19.8	13.9
Assets employed					
Fixed assets	416.6	396.1	99.1	32.0	18.9
Net current assets	78.0	90.2	0.6	32.2	10.3
Creditors: Amounts falling due after more than one year	(39.1)	(15.4)	(22.3)	(15.3)	(6.2)
Provisions for liabilities and charges	(47.5)	(36.4)	(34.6)	(21.2)	(7.4)
Net assets	408.0	434.5	42.8	27.7	15.6
Financed by					
Shareholders' funds	407.2	432.8	43.6	28.4	15.5
Equity minority interests	0.8	1.7	(0.8)	(0.7)	0.1
Total capital employed	408.0	434.5	42.8	27.7	15.6
Earnings per share*					
Basic	4.4p	5.0p	3.7p	2.1p	1.6p
Diluted	4.4p	4.9p	3.5p	2.1p	1.6p

* Results and Earnings per share are stated before exceptional items and amortisation.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at The Ramada Jarvis London West Hotel, Uxbridge Road, Ealing Common, London, W5 3HN on 30 July 2002 at 11 am to consider the following business:

Ordinary resolutions

1. That the accounts and reports of the Directors and auditors for the period ended 30 March 2002 be received.
2. That Hans Roger Snook be elected as a Director.
3. That Charles Dunstone be re-elected as a Director.
4. That Roger Taylor be re-elected as a Director.
5. That John Gildersleeve be re-elected as a Director.
6. That Deloitte & Touche be appointed as auditors of the Company and that the Board is authorised to determine the auditors' remuneration.

Special resolutions

7. 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 £278,305 being one third of the aggregate nominal amount of the issued and unconditionally allotted ordinary share capital of the Company as at 30 March 2002 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 2003 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.
8. 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 7 as if section 89(1) of the Act did not apply to any such allotment, such power being limited to:
 - 8.1 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
 - 8.2 The allotment (other than pursuant to the powers conferred pursuant to resolution 8.1) of equity securities up to an aggregate nominal amount equal to £41,746 being five per cent of the aggregate nominal amount of the issued share capital of the Company as at 30 March 2002, 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 in 2003 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
Company Secretary

5 June 2002

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