



The Carphone Warehouse Group PLC
Annual Report 2003

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The Carphone Warehouse is Europe's leading independent retailer of mobile phones and services, with over 1,100 stores in 11 countries

Stores by country

Ireland	29
United Kingdom	475
Belgium	41
France	169
Switzerland	21
Spain	130
Portugal	44
Netherlands	80
Germany	81
Czech Republic	19
Sweden	51

Financial Calendar

3 June	Results announcement
2 July	Ex-dividend date
4 July	Record date
4 August	Dividend payment date

Financial highlights

	2003 £m	2002 £m
Turnover	1,841.5	1,152.7
Turnover (ex Wholesale)	1,034.9	809.7
EBITDA*	90.0	72.8
Profit before tax*	57.0	46.8
Headline earnings per share*	5.25p	4.41p
Earnings (loss) per share	2.60p	(3.39)p

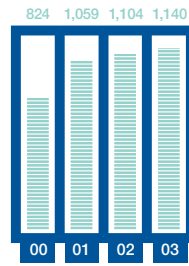
EBITDA represents earnings before interest, taxation, depreciation and amortisation.

*Headline figures are stated before exceptional items (operating exceptionals, and non-operating exceptionals and amounts written off fixed asset investments) and amortisation of goodwill.

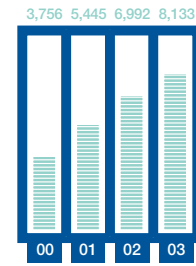
Operational highlights

Strong growth in profits and earnings per share
 Continued market share growth across Europe
 Total connections of 4.36 million
 Growth in high quality subscription connections of 8%
 Acquisition of Opal Telecom and entry into residential fixed line market
 Recurring revenues generating 50% of total contribution
 Mainland European contribution up by 49%

Stores
(number)



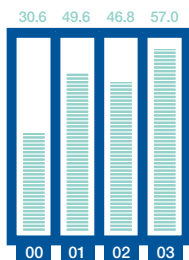
Employees
(number)



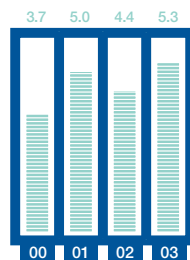
Chairman's Statement

I am pleased to report on a successful year for The Carphone Warehouse. In the year to March 2003, we achieved organic growth in turnover of 18.4% in our core Distribution and Telecoms Services businesses. Profit before tax, exceptional items and goodwill increased by 21.8% to £57.0m, and earnings per share on the same basis increased by 19.0% to 5.25p.

Headline profit before tax
(£m)



Headline earnings per share
(pence)



The Group has successfully continued to pursue its strategy of developing its recurring revenue streams, both in the existing mobile business and, with the acquisition of Opal Telecom, through our move into fixed line services. We are delighted to be recommending a maiden dividend, reflecting strong cash generation and confidence in our prospects.

The Group continued to gain market share in the year as a result of our superior retail and service offering, our independence, and the withdrawal of further capacity from the retail market. After nearly two years of deteriorating handset sales, most of the markets in which we operate have returned to growth, giving improving visibility for the current year.

In November 2002 we acquired Opal Telecom plc, a provider of value-added fixed line telecoms services to business customers. The core Opal business has continued to deliver strong and profitable growth since it became part of the Group, and in February we launched our own residential fixed line service, talktalk™, using the Opal network and leveraging our retail asset. We have been very pleased with the initial levels of customer interest.

We continue to pursue our strategy of generating recurring revenues and profits from our customers beyond the point of sale as our business becomes more closely aligned with that of our network partners. The acquisition of Opal has further developed these revenue streams so that in the forthcoming year we anticipate that over 50% of Group contribution will be generated beyond the point of sale.

The Group generated an encouraging level of free cash flow, maintaining a strong balance sheet. Our confidence in the future has prompted us to propose a maiden dividend of 1p per share, which we aim to increase in line with earnings growth in the medium term.

We are quietly optimistic about the outlook for this year. The product pipeline is strong and customers continue to be interested in the latest technologies and handset styles. The recent launch of the first third generation network operational in the UK gives some indication of the range of new services that is likely to be widely available in the coming years.

The Carphone Warehouse has been built on the foundations of strong relationships with suppliers, customers and employees. I would like to thank our suppliers and network partners for their continued support during the year, our customers for their loyalty, and most of all our employees for their outstanding contribution.

Hans Roger Snook, Chairman

Chief Executive's Review

The Group has made significant progress over the last twelve months, both in the execution of our strategy and in the financial results we have achieved.

Strategy driving earnings growth and quality

Our mobile telecoms strategy is to attract and retain high quality subscription customers on behalf of our network partners, and to harness increasing value from our customer relationships throughout each customer's mobile lifetime.

We continue to attract high value customers as a result of the quality and scale of our retail proposition. We remain truly and passionately independent, representing the widest possible range of networks and tariffs and being first to market with the latest technology.

Our aim at all times is to establish a customer's needs and match them as accurately as possible with the most appropriate handset and tariff. The success of this approach is evidenced by the continued growth in subscription connections, which we have grown at a compound annual rate of over 20% over the past three years.

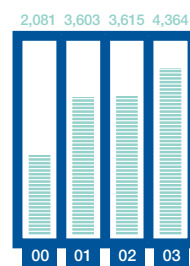
This year we have augmented our strategy with a move into fixed line services. The acquisition of Opal Telecom, and the subsequent launch of talktalk™, our residential fixed line service, present us with a significant additional opportunity towards which we have already made significant progress. We are actively reviewing the potential of other products and services that we believe are relevant and appropriate to our mobile offer and will allow us to maximise the return from our retail asset base.

We anticipate that the successful execution of this strategy will deliver not only continued growth but also ongoing improvement in the quality of our earnings, by generating an increasing proportion of profits from recurring revenue streams.

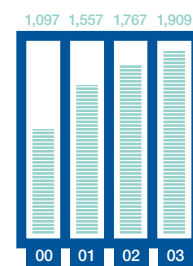
Market share continues to grow

During the year we consolidated our position as the leading independent retailer of mobile phone handsets and related services across Europe. Overall, we connected 4.36 million mobile phones during the period, an increase of 20.7% on 2002. We attained this level of growth in a handset market that declined for the second successive year and in the process we increased our market share from approximately 5.1% to approximately 6.2% across the markets we serve.

Total connections
(retail and online)
(000s)



Subscription connections
(retail and online)
(000s)



Through our focus on independence, choice and service we have achieved over 20% compound annual growth in subscription connections over the last three years.

International performance strong

The Group's performance outside the UK has been particularly encouraging. In key markets such as France, Spain, the Netherlands and Sweden we have achieved very strong revenue growth and a significant improvement in profitability. Our country management teams have worked very hard to improve back office disciplines and sharpen the retail proposition, with sales and margins both benefiting as a result.

Elsewhere we have continued to trade well in Ireland, Portugal and Switzerland. We exited the Polish market just before the year end as we did not have sufficient scale nor did we consider it to be strategically important.

Both Germany and Belgium continue to be loss-making. The losses in Belgium remain tolerable and we are optimistic that we can take advantage of opportunities to develop our business in the Belgian market to move it to profitability in the medium term. In Germany, we succeeded in our aim of halving losses year-on-year. After the year end, we announced our intention to acquire Hutchison Telecommunications GmbH, a German service provider, which we believe will transform our German business and create a platform for profitable growth in that market.

Recurring businesses making strong progress

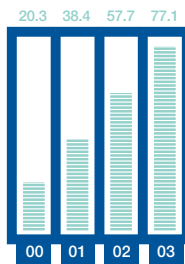
We have also made good progress with the development of our recurring revenues strategy during the year. 50% of Group contribution now derives from recurring business. The customer bases we manage on behalf of mobile networks continue to grow and we are helping to stimulate customer ARPU and reduce churn. Our share of ongoing ARPU has made rapid progress this year and our insurance base continues to grow.

Our growing presence in the customer management market was reinforced by the agreement reached with Sainsbury's in April 2003 to provide mobile and fixed line services to its customer base. We are confident that we will be able to develop this opportunity into a significant contributor to Group profitability in the medium term, and will continue to look for additional affiliate schemes in the coming year.

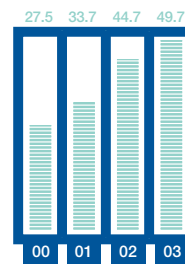
Opal Telecom acquisition

The acquisition of Opal Telecom plc in November 2002 represents an important strategic development for The Carphone Warehouse. Opal is a highly successful, rapidly

Contribution from recurring revenues (£m)



Contribution from recurring revenues (%)



We launched talktalk™, our residential fixed line service, within three months of the acquisition of Opal. We are very excited about the market opportunity for talktalk™ and intend to pursue it vigorously.

growing business in its own right, offering low fixed line calling costs and value-added services to its SME customer base. It is able to offer highly competitive prices thanks to the efficient way in which its network has been developed.

By owning switches and building its own interconnects into the BT network, but leasing its trunk fibre, the network has relatively low capital and operating expenditure requirements. At the same time a software layer has been integrated into the network, allowing Opal to provide a number of bespoke services to its customers on a variable cost basis.

Successful launch of talktalk™

In addition to a valuable core business, we identified two attractive opportunities for additional growth through the acquisition of Opal: the launch of a residential fixed line service to compete with BT and other providers; and a corporate mobile offering combining The Carphone Warehouse's mobile expertise and retail asset with the corporate customer base and focus of Opal.

We launched our residential fixed line service, talktalk™, in February 2003, and the initial response has been very encouraging. By our year end we had attracted over 32,000 applications. Providing this service is a natural extension of our existing proposition, offering value and a high quality service in personal communications, and in particular demystifying the confusion of tariffs available in the market by offering a £500 guarantee to be cheaper than BT.

We are very excited about the market opportunity for talktalk™. Recent changes in the regulatory environment make it much easier to switch from BT to an alternative provider and we intend to pursue this opportunity vigorously.

The efficiency of the Opal network allows us to be highly competitive while still generating attractive margins. Our cost of customer acquisition is low given our existing retail presence, and the residential business also incurs very little marginal capital expenditure: the Opal network is busy during weekdays serving business traffic, but idle in the evenings and at weekends when the majority of residential calls are made.

Outlook

We are encouraged by the outlook for the coming year. We expect to see retail capacity continue to contract throughout Europe, with the networks developing a more segmented approach to their distribution channels. Our continuing ability

to deliver high volumes of high quality customers means that we are benefiting from better commercial terms than many of our competitors, allowing us to price competitively while maintaining our margins.

Additionally the launch of MVNOs and new 3G networks is increasing the competitive tension between our suppliers. We are now seeing a concerted effort by both the incumbent and new networks to drive the adoption of valuable data services. This year we expect to see picture messaging services pick up in earnest now that network interoperability is in place. We also anticipate a growing interest in the mobile gaming market and an ongoing convergence of mobile phone and PDA products as mobile e-mail becomes an increasingly important application.

These developments are likely to be supported by an impressive new product pipeline. We continue to see high levels of innovation from all of our handset suppliers and the desire to own the latest handset continues to be the major driver of replacement demand. The manufacturers, too, are becoming more adept at segmenting their market and we expect to see a widening range of handsets targeting more specific subsectors of the market.

Our continued success is thanks to the dedication and expertise of all our employees. We will continue to invest in recruitment, training and development to strengthen and extend our customer service proposition. Our business is also indebted to our strong management team and our supportive investors, suppliers and business partners. I would like to take this opportunity to thank Des Wilson for his strong contribution to the Board over the last three years, and welcome Martin Dawes with his many years of experience in the mobile industry that should prove invaluable to the Group as it evolves. Over the next year, we intend to build on our position as the leading independent retailer of mobile phones and services in Europe and deliver further profitable growth through our existing business and new opportunities.

Charles Dunstone, Chief Executive Officer

Operating & Financial Review

The Group achieved a strong result for the year despite a handset market that recorded a second consecutive year of declines. Revenues, profits and earnings per share all grew significantly and the Group generated encouraging levels of free cash flow. The quality of earnings also improved, with nearly half of Group contribution being derived from our recurring revenue businesses.

Group turnover for the period was £1,841.5m compared with £1,152.7m for the prior year. We achieved growth in turnover across all our businesses. Excluding our Wholesale business, which grew turnover from £343.0m to £806.6m, and the acquisition of Opal Telecom, underlying growth in turnover was 18.4%.

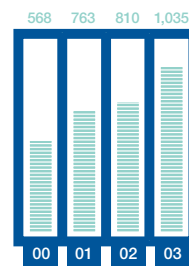
The principal acquisition during the year was the purchase of Opal Telecom plc, a provider of value-added fixed line telecoms services to business customers, for an initial consideration of £67.6m, with up to a further £18.0m payable over two years subject to performance. Opal has generated a contribution of £8.3m on turnover of £75.9m since acquisition.

Pre-tax profits for the Group, before exceptional items and goodwill amortisation, were £57.0m, an increase of 21.8% on the year to March 2002. Earnings per share on the same basis grew by 19.0% to 5.25p.

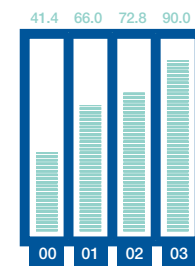
Free cash flow, before the acquisition of Opal, the sale of our London offices and investment in new stores, was £50.8m (2002: £0.5m).

Two exceptional items arose during the year. We generated an exceptional profit of £13.2m on the sale for cash of the freehold on our London offices for £36.6m. We also incurred a further non-cash writedown of £15.1m to the carrying value of the investments in our wireless investment portfolio.

Revenue
(ex wholesale)
(£m)



Headline EBITDA
(£m)



Revenues, profits and earnings per share all grew significantly and the Group generated encouraging levels of free cash flow. The quality of earnings also improved, with nearly half of Group contribution being derived from our recurring revenue businesses.

Distribution

	2003 £m	2002 £m
Turnover	876.1	742.4
Retail	738.3	623.2
Online	41.9	36.7
Insurance	66.8	60.5
Ongoing	29.1	22.0
Contribution	121.7	109.1
Retail	67.2	60.2
Online	3.4	5.1
Insurance	22.0	21.8
Ongoing	29.1	22.0
Support costs	(52.4)	(47.7)
EBITDA	69.3	61.4
Depreciation	(25.3)	(22.4)
EBIT	44.0	39.0

Before amortisation of goodwill and exceptional items.

Divisional performance

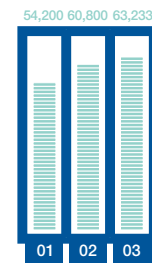
We have altered the presentation of our results this year to better reflect the source of revenues and to allocate support costs and depreciation on a divisional basis. There has been no change to individual business stream revenue or contribution numbers as a result. Distribution now comprises Retail, Online, Insurance and Ongoing business streams.

The Distribution division registered another year of strong performance. The division generated revenues of £876.1m and EBIT (after full allocation of support costs) of £44.0m, representing growth of 18.0% and 12.8% respectively on the prior year.

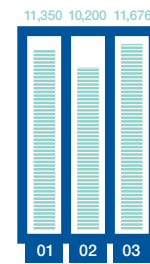
Retail and Online

Including SIM-free handset sales, the Group achieved 4.36m connections during the year, up by 20.7% on the previous year. Within these figures, 0.26m connections were made through our Online channel (inbound call centre, interactive TV and website). Overall, we estimate that the Western European handset market declined by about 10% in volume terms in the year to March 2003, so this performance reflects further significant market share gains.

Average selling space
(sqm)



Sales per square metre
(£)



Our retail operations outside the UK have clearly benefited from the restructuring exercise we undertook in 2002. The adoption of group-wide best practices for back office processes and retail proposition has delivered a strong pick-up in our business across much of continental Europe.

Connections (000s)

	2003	2002
Subscription	1,909	1,767
Pre-pay	1,972	1,613
SIM-free	483	235
Total	4,364	3,615
of which Online	261	200

We continued to achieve good growth in new subscription connections, which are the lifeblood of our recurring revenue businesses. Total subscription connections grew by 8.1% to 1.91m. Although the first half was relatively slow for subscription growth, this accelerated in the second half and growth in the fourth quarter was 17.9%.

In the first half of the year the networks showed a renewed appetite for pre-pay customers and some subsidy returned to that segment of the market. As a result, pre-pay connection growth was very strong at 22.3%, although this was flattered to some extent by a very weak comparative period.

The first full year of our SIM-free offer, where we sell a handset without a network connection, was highly successful, with 0.48m handsets sold without a SIM card, more than double the figure in 2002. As a result of these relative growth rates our subscription mix deteriorated from 48.9% to 43.7% but this was offset by the overall higher level of connections growth than we had anticipated.

We continued to expand and upgrade our store portfolio during the year. By March 2003 we were trading out of 1,140 stores (2002: 1,104 stores), having opened 90 stores and closed 54 underperforming stores during the year. Total average selling space increased by 4.0% from 60,800 sqm to 63,233 sqm.

Total retail revenues grew by 18.5%. Like-for-like, revenues grew by 11.6% and gross profit by 4.8%. This was achieved through a significant improvement in average connections per store from 3,219 to 3,688, and a strong performance on high value accessories such as Bluetooth headsets and camera attachments. Average revenue per connection fell by 4.2% and average gross profit per connection fell by 11.9%, both held back by the shift in the business mix towards pre-pay connections and SIM-free sales.

Retail gross profit increased by 10.9% to £234.5m but the gross margin deteriorated by 210 basis points to 31.8%.

This was mainly as a result of the change in terms of trade with certain networks near the start of the year, whereby we exchanged an element of upfront commission for a greater share of ongoing ARPU. This is reflected in the strong performance of Ongoing revenue described below.

Contribution from the retail business grew by 11.7% to £67.2m, with contribution margin decreasing from 9.7% to 9.1%. The leverage to fixed costs, achieved by higher sales volumes, was offset by the lower gross margin and a higher cost of customer handset repairs than in previous years.

In the UK, our store portfolio increased from 461 stores to 475 stores. Within this net movement, we opened 42 stores and closed 28, through a series of site upgrades and relocations. In the summer we opened Europe's largest mobile phone store in London's Oxford Street and at Christmas a further major store in the centre of Leeds. We expect to open a few additional 'experience' stores in major city centres in the coming year. The bulk of our new openings in the UK will be in retail parks, where we have been very pleased with the level of store profitability and the rate of payback on investment.

Our retail operations outside the UK have clearly benefited this year from the restructuring exercise we undertook in 2002. The adoption of group-wide best practices for back office processes and retail proposition has delivered a strong pick-up in our business across much of continental Europe, aided latterly by a recovering market. We have continued to build on the good work started in the previous year, particularly in the area of shared service processing.

Our business in France continued to perform well despite a weak market. We opened 15 new stores and 5 franchise outlets, and closed 2 stores, taking the total in France to 169, and we expect to accelerate the opening programme in the new year both through directly operated stores and franchise outlets. We remain under-represented in the French market relative to its population and market size and we believe there is a significant opportunity to gain market share.

In Spain, we achieved very strong growth supported by a recovering market and the aggressive pursuit of market share by our network partners. Spain is a key growth market for the Group and will be the focus of a significant store opening programme in the coming year.

Operating & Financial Review continued

Both Sweden and The Netherlands performed very well after disappointing results in the year to March 2002, thanks to improved management focus and robust competition between networks. Our businesses in the smaller markets of Portugal and Ireland continued to trade well, while the Swiss operation gained significant market share over the year. We sold our small business in Poland just before the year end.

Our business in Germany continued to make losses but at a significantly reduced level from the previous year. Despite some operational improvements we did not believe that the business was a viable concern in its existing form, so as a result we were pleased to announce our intention to acquire Hutchison Telecommunications GmbH (HTG) after the year end. HTG is a service provision business managing over 500,000 high quality subscription customers and generating significant recurring revenues. The combined operations provide the Group with a strong platform for future growth in the German market.

Our Online business, covering our direct sales team and website operations, continues to make progress and achieved 0.26m connections during the year. Revenues grew by 14.4% to £41.9m. We continue to explore opportunities to replicate the success of our UK direct channel in our other markets.

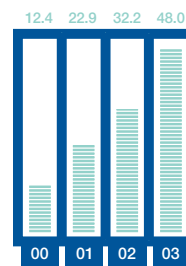
Insurance

Our Insurance business enjoyed another year of good performance. We continue to succeed in providing excellent customer service with over 90% of claims settled, most of them with a single phone call. At the same time the insurance operations contribute significant profits to the Group.

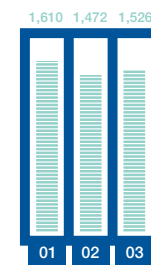
During the year our Insurance customer base increased by 12.9% to 1.06m. The rapid growth of our non-UK operations has been very satisfying, with the base growing by 18.9% and now representing 34.3% of the total. Insurance revenues grew by 10.5% to £66.8m. Claims numbers have shown an encouraging downward trend, notably since the launch of an industry-wide initiative in the UK to clamp down on mobile phone crime. However, contribution from Insurance rose by only 0.9% to £22.0m, with growth in profitability held back by an increasing proportion of higher value claims.

In the coming year we see additional opportunities arising for this part of the business, particularly in the leverage of our specialist underwriting and customer management

Contribution from non-UK operations (£m)



Subscription connections per store



We exchanged contracts on HTG, a German service provision business, in June 2003. We are confident that our combined German operations will represent a stable and profitable platform for future growth.

skills to develop insurance services for third parties in the mobile sector.

Ongoing

Ongoing represents the share in customer call spend (or ARPU) we receive as a result of connecting customers to certain networks.

Ongoing revenues grew by 32.1% to £29.1m in the year to March 2003. This exceptional level of growth reflects the change in terms of trade with certain networks last year, under which we now receive a greater share of ongoing customer call spend in exchange for a reduced upfront commission. We anticipate that growth in Ongoing revenues will return to steadier levels in the coming year.

Wholesale

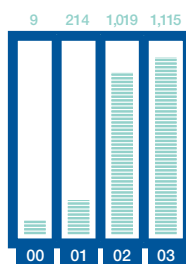
	2003 £m	2002 £m
Turnover	806.6	343.0
Contribution	7.5	6.0
Support costs	(2.4)	(1.7)
EBITDA	5.1	4.3
Depreciation	(1.0)	(0.8)
EBIT	4.1	3.5

Our Wholesale division experienced very strong growth, with turnover more than doubling. However, margins remain very thin in this business and the volume of trading is volatile. Wholesale continues to benefit the retail channel through its ability to source inventory at best prices, and to sell excess stock back into the channel when the need arises.

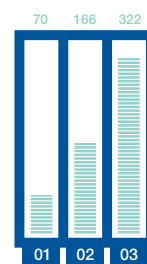
Since the year end we have significantly scaled back our European wholesale trading activities amidst uncertainty surrounding the implications of the recent Budget announcement on the recovery of VAT on mobile phone trading. The announcement provides for a consultation period on the Statement of Practice and we have made a submission to HM Customs & Excise setting out our interpretation of best practice and seeking further clarity. Until such time as we receive a response to our submission, we will continue to restrict our wholesale trading activities.

We have also conducted a comprehensive review of all our historical wholesale activities and procedures. As a result of this review a potential liability has been identified relating to

Mobile managed base
(000s)



Opal switched minutes
(m)



Average ARPU on our UK customer base increased by 20% during the year, thus demonstrating our ability to create meaningful value for the networks.

inadequate VAT documentation in one of our overseas subsidiaries from trading in the period ending March 2000. We believe that this could give rise to a liability of £2.4m and have therefore provided for this amount within the result of the Wholesale division.

The other activities included within Wholesale, our voucher distribution business and the wholesale shipment of trade-in handsets, continue as normal.

Telecoms Services

	2003 £m	2002 £m
Turnover	158.8	67.3
Mobile	82.7	67.3
Fixed	76.1	–
Contribution	26.0	13.9
Mobile	18.0	13.9
Fixed	8.0	–
Support costs	(10.4)	(6.7)
EBITDA	15.6	7.2
Depreciation	(5.7)	(3.2)
EBIT	9.9	4.0

Before amortisation of goodwill and exceptional items.

The Group's Telecoms Services division is split into two businesses, Mobile and Fixed. The Mobile business encompasses our facilities management operations, managing customers on behalf of networks, and our own customers including our MVNO, Fresh. The Fixed business comprises Opal Telecom's core business fixed line service and the new residential service, talktalk™. Turnover for the division grew 135.7% year-on-year, and EBIT grew 150.3%, both boosted by the acquisition of Opal in November 2002.

Mobile

The management of customers beyond the point of sale is an important element of our strategy to align our interests more closely with our network partners and generate more value from our customers throughout their mobile lifetimes. We continued to make progress in Mobile Telecoms Services during the year. Turnover grew 22.8% to £82.7m, and contribution grew by 29.7% to £18.0m. The key drivers of this business are the customer bases we manage, the ARPU on those bases, and the efficiency with which we provide our management services.

Customer numbers in our FM operations increased 15.1% to 994,000. This was achieved through the organic growth of our Vodafone and O₂ customer bases in the UK, which increased by 49.6% to 394,000. We continue to manage 600,000 customers on behalf of Orange and SFR in France.

Average ARPU on our UK customer base increased by 20% during the year, thus demonstrating our ability to create meaningful value for the networks. Meanwhile we continue to seek to improve our bad debt management performance, and are exploring ways to make our call centre operations more efficient.

We continue to pursue opportunities to manage customers on behalf of third parties in the UK and France, while also assessing potential means of developing a similar model in some of our other major markets. Just after the year end we were delighted to sign an agreement with Sainsbury's to provide mobile and fixed line services for the supermarket chain's 11 million UK customers.

Our own MVNO, Fresh, had a satisfactory year. To our surprise, the networks demonstrated a renewed interest in the pre-pay market, to the extent that pricing became very competitive and our core Fresh product was a relatively less attractive customer proposition. Nevertheless our Fresh customer base grew from 92,000 to 120,000.

Our strategy for Fresh is to avoid heavily subsidising the product, but rather to take advantage of profitable niche opportunities in the market as and when they arise. A further example of this strategy was the launch, just after the year end, of a new Fresh contract product aimed at the first-time subscription customer seeking a low monthly line rental.

Within our own customer base we have been managing a number of service provision customers on behalf of SFR, a base we acquired as part of the acquisition of CMC in May 2001. Just prior to the year end, this base was transferred back to SFR as part of an arrangement made at the time of the acquisition.

Fixed

We have been delighted with the progress made by Opal since it became part of the Group in November 2002. It has continued to generate the impressive rates of growth it had demonstrated prior to acquisition, with significant new business wins and growth in the number of minutes switched through the Opal network.

New corporate customers since November include Travis Perkins, National Express and Securicor. In March 2003, Opal's network switched over 320 million minutes, an increase of 94% on March 2002. Revenues at Opal in the five months since acquisition were £75.9m and operating profit before amortisation of goodwill was £5.9m. Revenue growth over the equivalent period in the prior year was 58.6%.

One of Opal's competitive advantages is its focus on interconnecting its network as deeply as possible into BT's own network, because this has a direct bearing on the rate that BT can charge Opal for carrying its calls. The greater the level of interconnectivity with BT, the lower the average cost that Opal has to pay BT for carrying calls. Opal continues to make good progress with this strategy.

A key strategic objective for the Group in acquiring Opal was to launch its own residential fixed line service. Regulatory change in the fixed line telecoms market has presented a significant opportunity for new entrants to take market share from BT. The advent of automated Carrier Pre-Select ('CPS') means that customers who wish to use an alternative provider can instruct BT to switch their calls through another network. The customer retains his telephone number and no longer needs to dial a prefix number or have a dialler box installed to access his new provider – calls are switched automatically.

To this end, we were delighted to launch talktalk™, our simple and good value fixed line service for residential customers, as early as February 2003. Only three months after the acquisition of Opal, this represents a significant achievement by all those involved and demonstrates that Carphone Warehouse continues to have the entrepreneurial spirit and management depth to execute rapidly and successfully. By the year end we had received over 32,000 applications to join the service.

We are optimistic about the prospects for talktalk™ in the coming year, which we will sell not only through our own stores but also, further to our recent agreement, through Sainsbury's stores. We anticipate reaching further affiliate distribution agreements during the year.

The Group is heavily focused on cash generation and working capital management, as reflected in this strong performance. As a result we are delighted to be proposing our maiden dividend for the year to March 2003.

Exceptional items

The following exceptional items arose in the year to 29 March 2003:

Exceptional profit on sale and leaseback of the Group's London offices

The Group sold the freehold on its London offices during the year for a cash consideration of £36.6m. The profit arising on this transaction was £13.2m.

Amounts written off fixed asset investments

At the year end a further £15.1m was written off the Group's share of Wireless Frontiers, an independently managed wireless technology fund. The writedown reflects the decline in the value of the underlying investments within the fund.

Post balance sheet events

As noted above, the Group has significantly scaled back wholesale trading activities since the year end.

Additionally, the Group exchanged contracts with Orange Holdings Limited to acquire Hutchison Telecommunications GmbH, a mobile service provision business in Germany, for a net cash consideration of £32.4m. The Group has also closed a further 10 retail stores and commenced the closure of its support centre in Munich. A restructuring provision of £4.5m has been booked since the year end to cover these items.

Interest and tax

Net interest of £1.0m was payable during the year, compared to interest receivable of £0.3m in the prior period. This movement reflects the financing of the Opal acquisition and the additional working capital demands made by the increased activity in our Wholesale operations.

The effective tax rate before amortisation and exceptionals was 22%, as in the prior period. The rate continued to benefit from the utilisation of tax losses incurred in earlier years and the effect of profit within low tax rate jurisdictions.

Goodwill amortisation

Goodwill of £102.1m arose during the period, of which £98.1m related to the Opal acquisition in November 2002. The total goodwill amortisation charge for the year to March 2003 was £20.6m, compared to £14.7m in the year to March 2002. Included within this charge was a one-off goodwill write-off of £3.0m relating to the buy-out of minority interests in the Group's wireless investment fund.

Earnings per share (EPS)

Headline EPS, before amortisation of goodwill and exceptional items, was 5.25p, compared with 4.41p in the previous period. Basic EPS was 2.60p (2002: loss per share of 3.39p).

Balance sheet, cash flow and dividend

At 29 March 2003, the Group had net cash and short term investments of £29.1m, compared to £53.0m (including £18.4m in respect of the Group's London offices) at the end of the previous period. During the year the Group generated cash flow from operations of £77.7m (2002: £29.4m), and total free cash flow (excluding the capital cost of new stores and before acquisitions) of £50.8m (2002: £0.5m).

The Group is heavily focused on cash generation and working capital management, as reflected in this strong performance. As a result we are delighted to be proposing our maiden dividend for the March 2003 year of 1.0p per share, which will be satisfied wholly in cash. This decision reflects confidence in our ability to generate sufficient funds both to return cash to shareholders and to continue to invest in the future growth of the Group.

Net funds

	2003 £m	2002 £m
Operating cash inflows	77.7	29.4
Tax and interest	(1.5)	(9.1)
Capex (ex-new stores)	(25.4)	(19.8)
Free cash flow	50.8	0.5
New store capex	(10.9)	(18.5)
London offices	31.5	(7.0)
Acquisitions	(62.1)	(43.4)
Net cash inflow (outflow)	9.3	(68.4)
Opening net funds	34.6	102.9
Shares and foreign exchange	(14.8)	0.1
Closing net funds	29.1	34.6

Financing and treasury

The Group's operations are largely financed by retained profits and equity. During the year, the Group's existing £150m revolving credit facility (expiring April 2003) was replaced with a new committed facility of £180m maturing in August 2005, of which £27.4m was utilised at the year end (2002: £24.7m). The Group was in compliance with the covenant conditions of the new facility at the year end.

Borrowings peaked during the year at £108m due to the Opal acquisition and investment in working capital during the peak Christmas trading period.

In addition to the revolving credit facility, the Group has a number of uncommitted loan facilities, overdrafts and guarantee lines which enable it to optimise cash management efficiency, particularly at times of peak working capital requirements. Surplus cash that cannot be utilised to offset other Group debt, or which is ring-fenced for insurance purposes, was £34.2m at the period end (2002: £29.4m).

Funding of our subsidiaries is arranged and monitored centrally and on an arm's length basis. Currency risk on inter-company funding is hedged using foreign exchange swaps or currency borrowings, as appropriate, at all times. Other than inter-company loans, balance sheet translational risk is not hedged against adverse movements in exchange rates and the results of any such movements are taken to reserves. The Group is exposed to limited cross-border transactional commitments and where significant, these are hedged at inception using forward currency contracts.

The Group does not trade or speculate in any financial instruments.

Shareholders' funds and return on shareholders' funds

Total shareholders' funds at March 2003 were £459.5m (2002: £407.3m).

Post-tax earnings before amortisation and exceptional items generated a return on average shareholders' funds, excluding goodwill on minority interests acquired in the period to March 2001, of 15.8% (2002: 14.1%).

Roger Taylor, Chief Financial Officer

We are particularly proud of our track record in charitable activities which benefit from a high level of involvement by our employees.

Commitment to responsible growth

The Group is committed 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.

Charitable activities

This year the Group's two main charities have continued to be Get Connected and Macmillan Cancer Relief.

Get Connected

Get Connected is a free helpline finding young people the best help whatever the problem. Trained helpline workers provide emotional support whilst informing callers of the options available. Callers can then be connected for free to local or national services, or have information texted to their mobile phones. Available throughout the UK, the helpline is contacted by 1,200 young people a month about a range of serious emotional issues, including relationships, abuse, sexuality and mental health.

The innovative and unique partnership between Get Connected and The Carphone Warehouse was launched in September 2001. The Carphone Warehouse provides Get Connected with purpose built offices, including a fully equipped helpline, and covers its office costs.

By providing financial security, improved facilities, fundraising, marketing and service provision support, The Carphone Warehouse has enabled Get Connected to increase its user base by one fifth and expand the employee team by 50%. The Group also funded the production and launch of two research reports published by Get Connected in 2002, "Nowhere To Turn", and "Still No Idea".

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 8,500 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 a 3,300 mile row across the Atlantic, 40 employees trekking 112km across the Sahara desert and 30 employees trekking along the Inca Trail in Peru. The campaign has raised in excess of £300,000 to date.

This substantial funding has led to the creation of initiatives that work to improve the quality of life for people living with cancer. Currently over one million people are living with cancer in the UK and, if current trends continue, more than five million will be diagnosed between now and 2020. Macmillan offers life support by providing the expert care and practical support that makes a difference to people living with cancer.

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. The Group is a member of the Park Royal Partnership and as one of the largest employers in Park Royal we are keen to become more involved with the local community. In May 2003, Carphone Warehouse hosted an Art Auction on behalf of the Park Royal Partnership and Schools Link project, where companies bid for a piece of artwork of their choice, from an outstanding array of items from the most promising and upcoming young local artists. All monies raised for works of art were returned to the participating schools.

Give As You Earn

The Group's Give As You Earn programme allows employees to donate to charities of their choice directly from their gross salary. The programme has been promoted heavily in the past year and a new on-line process has been established to make it easier for employees to sign up, in addition to regular sign-up sessions at the Support Centre.

The Mobile Cup

In 2002 the Group launched the first non-profit making industry golf tournament, which was a resounding success raising £32,000 for four children's charities, WhizzKids, Babes in Arms, RNID & Honeypot Homes. The Group is holding The Mobile Cup 2003 in July, with all profits being donated to the children's charity Make-a-Wish Foundation. The Make-a-Wish Foundation provides children living with life-threatening illnesses the opportunity to turn their wishes into reality.

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 seven 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.

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 old mobile phone batteries are disposed of by a licensed waste management and recycling company.

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 company cars have been changed to diesel in order to lower emissions.

Mobile phone crime

The Carphone Warehouse has continued its commitment to working with industry, police and government to combat mobile phone crime. In March 2003, the Group spearheaded a publicity campaign across London that aimed to reduce mobile phone crime. The "Immobilise" campaign highlighted the message that "Stolen Phones Don't Work Any More", with all the UK networks now blacklisting mobile phone identity numbers, rendering stolen handsets useless. The publicity campaign will be rolling out across the UK in the summer. In addition to spearheading the campaign, The Carphone Warehouse has set up a hotline to provide customers with information on how to report stolen mobile phones. It also provides informative literature through leaflets, posters and stickers in all UK stores and the Company's website, carphonewarehouse.com.

Mobile phones and health concerns

The Carphone Warehouse has for a number of years recognised that there is customer confusion surrounding health and mobile phones. In May 1998 the Group launched an independent service regarding the issue, including regularly updated fact sheets. 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 UK 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 in its UK monthly buyers' guide.

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. It is also 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.

Board of Directors

EXECUTIVE DIRECTORS

Charles Dunstone Chief Executive Officer

Age 38. Founder and Chief Executive Officer of the Group since 1989. He is also responsible for new business development and strategic initiatives. He is a Non-Executive Director of HBOS PLC and The Daily Mail and General Trust PLC. He is also Chairman of The Prince's Trust Trading Board and a member of its Council.

David Ross ACA Chief Operating Officer

Age 37. He will take up his new role as Deputy Chairman of the Group with effect from the Annual General Meeting. His responsibilities for mainland Europe will pass to existing management, and he will then focus more closely on the strategic development of the Group.

Geoffroy Roux de Bezieux ESSEC (MBA) Chief Operating Officer, European Distribution

Age 40. Joined the Group in 1996 and was appointed to the Board in June 2000. He is responsible for the Group's European distribution business. He was UK Marketing Director for L'Oreal and Managing Director of L'Oreal's Polish operations between 1994 and 1996.

Roger Taylor ACA Chief Financial Officer

Age 38. 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.

James Dale FCA Executive Chairman of Carphone Warehouse Insurance

Age 63. Joined the Group in January 1997 and appointed to the Board in March 2001. Executive Chairman of Carphone Warehouse Insurance, and responsible for the management of the Group's insurance operations.

NON-EXECUTIVE DIRECTORS

Hans Roger Snook Chairman

Age 55. Joined the Board in May 2002 as Chairman. He was the founding Chief Executive of Orange. Under his leadership Orange launched in 1994 and by June 1996 became the youngest ever company to enter the FTSE 100.

John Gildersleeve

Age 58. 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 Group PLC from 1998 to 2000.

Adrian Martin

Age 53. Joined the Board in November 2000. He is currently Chief Executive of Reynolds Porter Chamberlain Solicitors and a Non-Executive Director of two privately controlled companies. Previously he was UK Managing Partner of BDO Stoy Hayward, where he was also Chairman of its International Policy Board.

Des Wilson

Age 62. Joined the Board in June 2000. He retired from BAA PLC in 2000, 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.

Sir Brian Pitman

Age 71. Joined the Board in January 2001 and is the Senior Independent Director. He is also Non-Executive Director of Carlton Communications PLC and Tomkins PLC, and is a Senior Adviser to Morgan Stanley. He retired in 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 to 2002.

Martin Dawes

Age 59. Joined the Board in June 2003. He has been involved in the mobile telecommunications industry since 1985 when he launched Martin Dawes Telecommunications which was subsequently sold to BT Cellnet in 1995. He was Non-Executive Deputy Chairman of Opal Telecom PLC until its acquisition by The Carphone Warehouse in November 2002.

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 H Martin
J Gildersleeve
M Dawes

Company Secretary

T S Morris

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

Advisors

Bankers

HSBC Bank PLC
Poultry
London EC2P 2BX

Corporate Brokers

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

Deutsche Bank
1 Great Winchester Street
London EC2N 2DB

Registrars

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA

Auditors

Deloitte & Touche
London

Registered Office

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

Introduction

The Board recognises the importance of high standards of corporate governance. This report and the Remuneration Report set out on pages 16 to 19 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.

Board

The Company has a well-balanced Board. There are five Executive Directors and, after the appointment of Martin Dawes on 2 June 2003, there are six Non-Executive Directors. Directors' names and brief biographies are set out on page 12. There were no changes to the Board in the period, except the appointment of Hans Roger Snook became effective on 1 May 2002.

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 and Martin Dawes, 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 majority of Non-Executive Directors are therefore independent.

Hans Roger Snook is not considered independent due to the fact that he holds 1 million share options in the Company. Martin Dawes is currently not considered independent because as a previous shareholder of Opal Telecom plc which was acquired by the Group in November 2002, he is entitled to receive part of any additional consideration payable in respect of Opal's performance in the two financial periods ending 27 March 2004. The Board will review his independence at the end of such period.

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 13.

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 Remuneration Report is set out on pages 16 to 19.

III Nomination Committee

The Nomination Committee comprises two Non-Executive Directors and David Ross and is chaired by Des Wilson. It advises generally on Board appointments and the composition of the Board. It advised the Board on the appointment of Martin Dawes as a Non-Executive Director.

During the period the Nomination Committee also proposed, and the Company adopted, a policy that each Non-Executive Director should serve a maximum of two three year terms of office, unless there are exceptional circumstances for their continued appointment. Non-Executive Directors will continue to be subject to re-election every three years and will be entitled to no compensation for loss of office.

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 cpwplc.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 monitors 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 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 Deloitte & Touche are:

- Audit related services – these are areas of the Group's work that, in their position as the Group's auditors, Deloitte & Touche 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 Deloitte & Touche 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. Deloitte & Touche are only permitted to tender when the Audit Committee and Deloitte & Touche 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.

Deloitte & Touche 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

Compliance

This Remuneration Report has been prepared in accordance with the Directors' Remuneration Regulations 2002 ("Regulations") and The Combined Code, appended to the Listing Rules, as issued by the Financial Services Authority ("Combined Code"). The constitution and operation of the Remuneration Committee are in compliance with the Principles of Corporate Governance and the Code of Best Practice contained in the Combined Code. In framing its remuneration policy the Committee has given full consideration to the matters set out in Schedules A and B to the Combined Code. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting to be held on 31 July 2003.

The Regulations require the Auditors to report to the Company's members on the "auditable part" (indicated *) of this report and to state in their opinion, that part of the Report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations).

Remuneration Committee

Responsibility for the establishment of overall remuneration policy lies with the full Board. The Remuneration Committee is responsible for making recommendations to the Board on the remuneration of Executive Directors and senior management. The Committee is composed exclusively of independent Non-Executive Directors. None of the members of the Committee has any personal financial interest, other than as shareholders, in the matters to be decided by the Committee, no potential conflicts of interest arising from cross-memberships and no day-to-day involvement in running the Group's business.

Remuneration policy

The primary aim of the Committee is to ensure that remuneration aligns the interests of management and shareholders and reinforces behaviour which 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 through independent external market comparisons;
- The growing international nature of the Group.

During the year independent reports from IDS, Monks Partnership and the Reward Group on the reward levels applicable in the markets relevant to the Company were utilised by the Committee.

The Group Director of Human Resources provided internal advice to the Committee on all aspects of the Company's reward policies and structures.

Deloitte & Touche provided advice to the Remuneration Committee.

No Director plays a part in any discussion about his or her own remuneration.

The overall remuneration policy is to provide competitive remuneration packages to attract, retain and motivate executives of the calibre required, and to align their interests with those of shareholders by relating a significant element of the remuneration package to specific performance measures. The approach is to set fixed remuneration at market median levels and to offer variable rewards which are linked to the performance of the Group. For Executive Directors approximately 30% of total on target cash remuneration is performance related.

The main fixed and performance related elements of remuneration for Executive Directors are as follows:

- basic salary, including benefits and pension contributions (fixed);
- annual performance bonus based on Earnings Per Share ("EPS") growth (variable); and
- share option scheme based on 3 years' relative Total Shareholder Return ("TSR") (variable).

The Company operates a minimum shareholding policy, requiring the Executive Directors to build up and retain a shareholding in the Company equal to 100% of their annual salaries.

Components of remuneration

The main components of the remuneration package for the Executive Directors are:

Salaries & benefits

Executive Directors' base salaries are reviewed annually and take into account the roles, responsibilities, performance and experience of the individual and information obtained from published market data on the salary rates for similar positions. Executive Directors also receive market median benefits in respect of cars or car allowances, private medical cover and a defined contribution pension scheme.

Aggregate remuneration*

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

Director	Basic salary/ Fees £'000	Taxable benefits (iii) £'000	Annual bonuses (iv) £'000	2003 Total £'000	2002 Total £'000
Executive					
C W Dunstone (i)	250	13	150	413	262
D P J Ross (i) & (ii)	265	3	150	418	250
C G Johnson	–	–	–	–	73
R W Taylor	200	9	100	309	208
G Roux de Bezieux	190	12	95	297	166
J H Dale	100	1	50	151	120
Non-Executive					
Hans Roger Snook	138	1	–	139	–
Sir Brian Pitman	25	–	–	25	25
J Gildersleeve	25	–	–	25	25
A H Martin	25	–	–	25	25
D Wilson	25	–	–	25	33
Aggregate emoluments	1,243	39	545	1,827	1,187

(i) Charles Dunstone and David Ross each waived emoluments of £50,000 during the period ended 29 March 2003. The original level salary of £300,000 per annum was reinstated with effect from the beginning of April 2003.

(ii) Includes a salary supplement of £15,000 in lieu of pension.

(iii) The taxable benefits provided consist of a company car or car allowance and private medical cover.

(iv) Annual bonuses for the period ending 29 March 2003 were accrued during the year and will be paid in June 2003.

Pensions*

The schedule below sets out payments to defined contribution pension schemes. Charles Dunstone and Roger Taylor are members of a UK stakeholder pension scheme with Norwich Union. Under this scheme a fixed proportion of salary is paid by the Company, together with a fixed proportion by the Executive Director. Both amounts are invested on behalf of the Executive Director. Pension benefits are then funded by the total investment. David Ross receives an allowance in lieu of pension which is included in the aggregate remuneration table above. No provision is made for other Directors. Levels are reviewed annually against published market data. None of the Directors was a member of a defined benefit pension scheme. Pension entitlements are based on basic salary only.

Director	2003 £'000	2002 £'000
C W Dunstone	15	17
D P J Ross	–	16
C G Johnson	–	6
R W Taylor	10	10
J H Dale	6	–
Total	31	49

Annual Performance Bonus

The Company operates a bonus scheme designed to reflect the performance of the Group. Bonuses are governed by performance conditions set by the Remuneration Committee to ensure that maximum variable rewards are paid only for exceptional performance.

For the period ended 29 March 2003, the annual bonus is based on improvements in EPS with a payment of up to a maximum of 60% of annual salary. The threshold level of bonus is 30% of annual salary which is payable at an EPS level of 4.6p with a maximum of 60% of annual salary paid at an EPS level of 5.5p. For every 0.03p increase in EPS between the threshold and maximum levels, bonus increases by 1% on a straight line basis.

This performance measure was chosen to focus the Executive Directors on the key financial indicators that reflect the Group's short-term performance thereby aligning the Executive Directors' interests with those of shareholders.

No bonus payments were made during the period ended 29 March 2003. Bonus payments in respect of the period ended 29 March 2003 will be made in June 2003 following approval by the Remuneration Committee and are included in the aggregate remuneration table above.

An Annual Deferred Bonus Plan has also been established under which the Executive Directors have the option of taking some or all of their annual performance bonus in the form of a deferred share award. No Executive Director has elected to defer their bonus for the period ended 29 March 2003. The rights to deferred shares cannot be exercised for 12 months. Matching shares may also be awarded if the deferred share award is not exercised for up to a further two years. The number of matching shares awarded equates to 12.5% of the deferred amount at the beginning of each year. The share equivalent of dividends which would have been paid on the shares is added to the deferred share award each year.

Share Options

The Company has a performance related share option scheme for Executive Directors and senior managers both in the UK and overseas. Subject to satisfactory personal performance as determined by an Annual Performance Review, share options are granted on an annual allocation basis as a percentage of base salary. For Executive Directors the annual target level of allocation is 100% of salary with a maximum of 200% of salary for upper quartile performance. Normally options can be exercised only after they have been held for a minimum period of three years. Options granted from April 2002 are subject to the achievement of a performance condition which is measured over the three year performance period and is based on the Group's TSR against a comparator group comprising certain companies within the UK FTSE General Retailers Index and the MSCI European Telecoms Index. Measuring the Group's performance against the companies in these indices recognises the importance for shareholders that the Group outperforms its sector.

Remuneration Report continued

For options granted since June 2002, if the Group performs at the median level or above 100% of the allocation is made. If the Group performs at the upper quartile or above an additional 100% of the allocation will be made. If the Group performs below median the award will be reduced by 50% unless the Group is in the lower quartile in which case the award will be cancelled. For Options granted after April 2003 the performance criteria have been amended such that if the Group performs below the median, the award will be cancelled. Therefore no awards will be made if the Group is below median performance.

Executive Directors may only exercise share options provided they hold a minimum of 100% of salary in shares. No exercises were made by Executive Directors in the period ended 29 March 2003.

A UK savings related share option scheme is open to all eligible employees including Executive Directors in the UK. No Executive Director participates in the scheme.

Share options*

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

Director	30 March 2002	Granted during the period	29 March 2003	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
			250,000	250,000	0.83	11/06/05
		250,000 (i)	250,000	0.83	11/06/05	11/06/12
	1,390,000	500,000	1,890,000			
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
		237,500	237,500	0.83	11/06/05	11/06/12
		237,500 (i)	237,500	0.83	11/06/05	11/06/12
	3,620,000	475,000	4,095,000			
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
		150,000	150,000	0.83	11/06/05	11/06/12
			150,000 (i)	150,000	0.83	11/06/05
	696,000	300,000	996,000			
Hans Roger Snook	1,000,000		1,000,000	0.80	25/03/05	25/03/12
	1,000,000		1,000,000			

Notes

(i) Options granted from April 2002 are subject to the performance conditions described in the Share Options section above. These options will only be delivered if the Group's performance is in the upper quartile for the relevant period.

(ii) The market price per share was 63.0p as at 29 March 2003. The market price during the year varied between 105.5p and 50.1p.

Executive Directors' service contracts

All Executive Directors have service contracts which are terminable by the Company or the Executive Director with twelve months notice or less. The dates of each contract are set out below and none provides for compensation for early termination or has any unexpired term.

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 with no provision for compensation on early termination.

The dates of each contract are set out below and none has any unexpired term.

Directors' interests in shares and dates of service contracts

Director	Ordinary shares of 0.1p		
	29 March 2003	30 March 2002	Date of contract
C W Dunstone	309,028,535	309,028,535	26 June 2000
D P J Ross	216,590,759	216,590,759	4 July 2002
R W Taylor	2,276,806	2,276,806	2 March 2000
G Roux de Bezieux	13,038,670	13,038,670	26 June 2000
J H Dale	150,500	150,500	30 March 2001
Hans Roger Snook	50,000	50,000	1 May 2002
Sir Brian Pitman	5,000	5,000	4 July 2001
J Gildersleeve	45,000	45,000	31 May 2000
A H Martin	12,461	12,461	15 November 2000
D Wilson	50,000	50,000	31 May 2000

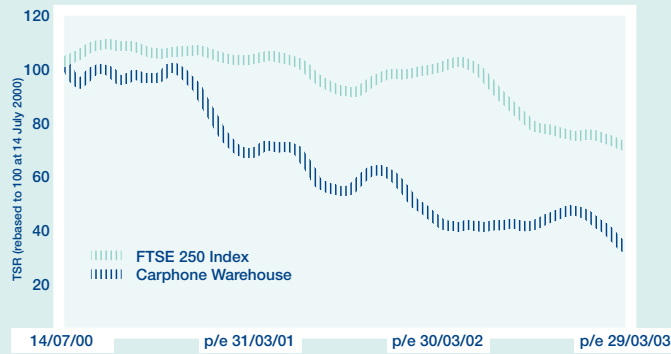
Martin Dawes held 6,460,714 shares in the Company at 29 March 2003, and his contract is dated 2 June 2003.

There was no movement in the above shareholdings between 29 March 2003 and 2 June 2003.

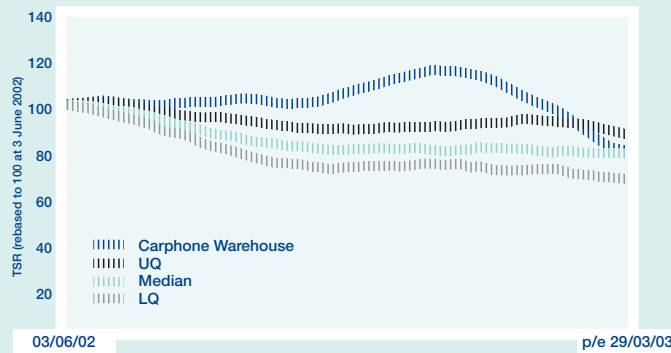
Performance graph

The following graph shows the Group's performance measured by TSR, compared with the performance of the FTSE 250 Index also measured by TSR since flotation in July 2000 to 29 March 2003. A three month rolling average has been applied.

The FTSE 250 was selected as it is a broad market index of which the Group is a member. In addition, the Group uses that group of companies amongst others for comparison of pay and benefit levels.



The following chart shows the Company's performance measured by TSR compared with a sector comparator group comprising a group of UK general retailers and European telecoms companies for the period 3 June 2002 to 29 March 2003. A three month rolling average has been applied.



This report was approved by the Board on 29 May 2003.

J Gildersleeve

29 May 2003

Directors' Report

The Directors have pleasure in presenting the Annual Report and financial statements of The Carphone Warehouse Group PLC for the 52 weeks ended 29 March 2003.

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, Wholesale and Telecoms Services.

The subsidiary undertakings principally affecting the results or net assets of the Group in the period are listed in note 14 to the financial statements.

Results

The profit or loss before tax for the financial period increased from a loss of £23.0m in the prior period to a profit of £34.5m. No interim dividend was paid in the period (2002 – nil). The Directors recommend the payment of a final dividend of 1.0p per share (2002 – nil). Subject to shareholders' approval at the Annual General Meeting, the final dividend will be paid during the week commencing 4 August 2003 to shareholders on the register at the close of business on 4 July 2003. Details of significant events since the balance sheet date are contained in note 31 to the financial statements.

Directors

The names and brief biographical details of the Directors are shown on page 12. 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 16 to 19.

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

Non-Executive Directors

H R Snook Appointed on 25 March 2002 with effect from 1 May 2002
M Dawes Appointed on 2 June 2003

The appointment of Hans Roger Snook was approved 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 retired by rotation and were re-elected at such 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 28 days (2002 – 44 days). The Company did not have any trade creditors at 29 March 2003 or 30 March 2002.

Donations

The Group made charitable donations of £25,000 during the period (2002 – £87,000). No political donations were made during either period.

Contracts with controlling shareholders

There are no material contracts with controlling shareholders.

Share capital

Details of the movements in authorised and issued share capital during the period are provided in note 23 to the financial statements.

Tangible fixed assets

Movements in tangible fixed assets are set out in note 13 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 £1.0m. The Group's liability to taxation if such assets were sold at that value would be insignificant.

Significant shareholdings

As at 2 June 2003 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 16 to 19, and Guy Johnson, who holds 70,758,611 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

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

Deloitte & Touche has informed the Directors that they are intending to transfer their business to a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000, to be known as Deloitte & Touche LLP. It is the current intention of the Directors to use the Company's statutory power to give consent to the appointment of Deloitte & Touche being treated as extending to Deloitte & Touche LLP at the appropriate time.

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

2 June 2003

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; 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 29 March 2003 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the statement of accounting policies and the related notes 1 to 31. We have also audited the information in the part of the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of Directors and Auditors

As described in the Statement of Directors' Responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the Annual Report including the Directors' Remuneration Report. Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report described as having been audited have been 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 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 of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Directors' Report and the other information contained in the Annual Report for the above year as described in the contents section including the unaudited part of the Directors' Remuneration Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 and the part of the Directors' Remuneration Report described as having been audited. 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 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 and the part of the Directors' Remuneration Report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report described as having been audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 29 March 2003 and of the profit of the Group for the period then ended; and
- the financial statements and part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and Registered Auditors
London

2 June 2003

Consolidated Profit and Loss Account

For the 52 weeks ended 29 March 2003

	Notes	Before exceptional items and amortisation of goodwill 52 weeks ended 29 March 2003 £'000	Exceptional items and amortisation of goodwill 52 weeks ended 29 March 2003 £'000	After exceptional items and amortisation of goodwill 52 weeks ended 29 March 2003 £'000	52 weeks ended 30 March 2002 £'000
Turnover					
Existing operations		1,765,650		1,765,650	1,152,717
Acquisitions	2	75,875		75,875	–
	2	1,841,525		1,841,525	1,152,717
Cost of sales	3	(1,453,518)		(1,453,518)	(834,413)
Gross profit	3	388,007		388,007	318,304
Operating expenses excluding amortisation and depreciation	3	(298,017)		(298,017)	(270,363)
EBITDA		89,990		89,990	47,941
Depreciation	3,4	(31,977)		(31,977)	(26,335)
Amortisation of goodwill	3,4		(20,585)	(20,585)	(14,736)
Operating profit	2,3	58,013		37,428	6,870
Existing operations	3	52,114		33,605	6,870
Acquisitions	3	5,899		3,823	–
Profit (loss) on disposal of fixed assets	6		13,199	13,199	(6,336)
Amounts written off fixed asset investments	6		(15,145)	(15,145)	(18,681)
Cost of fundamental reorganisation	6			–	(5,210)
Profit (loss) before interest and taxation		58,013		35,482	(23,357)
Net interest (payable) receivable	7	(995)		(995)	342
Profit (loss) on ordinary activities before taxation		57,018		34,487	(23,015)
Tax on profit on ordinary activities	8	(12,418)		(12,418)	(6,162)
Profit (loss) on ordinary activities after taxation		44,600		22,069	(29,177)
Equity minority interests		–		–	915
Profit (loss) for the financial period		44,600		22,069	(28,262)
Equity dividends	9	(8,729)		(8,729)	–
Retained profit (loss) for the financial period	24	35,871		13,340	(28,262)
Earnings (loss) per share					
Basic	10	5.25p		2.60p	(3.39)p
Diluted	10	5.23p		2.59p	(3.39)p
Headline earnings per share					
Basic	10	5.25p			4.41p
Diluted	10	5.23p			4.39p

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 29 March 2003

	Notes	52 weeks ended 29 March 2003 £'000	52 weeks ended 30 March 2002 £'000
Profit (loss) for the financial period		22,069	(28,262)
Currency translation	24	3,021	(302)
Total recognised gains and losses relating to the period		25,090	(28,564)
Prior period adjustments	11	–	(3,941)
Total gains and losses recognised since last financial statements		25,090	(32,505)

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

Consolidated Balance Sheet

As at 29 March 2003

	Notes	29 March 2003 £'000	30 March 2002 £'000
Fixed assets			
Intangible assets			
Goodwill	12	367,547	274,798
		367,547	274,798
Tangible assets			
Investments	14	15,021	30,130
		515,608	416,582
Current assets			
Stock	15	56,351	50,088
Debtors due within one year	16	176,981	139,238
Short-term investments	17	26,276	67,637
Cash at bank and in hand		46,977	20,684
		306,585	277,647
Creditors: Amounts falling due within one year	18	(275,311)	(199,669)
Net current assets		31,274	77,978
Total assets less current liabilities			
		546,882	494,560
Creditors: Amounts falling due after more than one year	19	(49,383)	(39,050)
Provisions for liabilities and charges	21	(37,956)	(47,483)
Net assets		459,543	408,027
Capital and reserves			
Called-up share capital	23	873	835
Share premium	24	395,476	359,305
Capital redemption reserve	24	30	30
Profit and loss account	24	63,164	47,085
Equity shareholders' funds	25	459,543	407,255
Equity minority interests	26	–	772
Total capital employed		459,543	408,027

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

The financial statements on pages 22 to 38 were approved by the Board on 2 June 2003 and signed on its behalf by:

C W Dunstone
Chief Executive Officer

R W Taylor
Chief Financial Officer

Company Balance Sheet

As at 29 March 2003

	Notes	29 March 2003 £'000	30 March 2002 £'000
Fixed assets			
Investments	14	264,783	169,377
		264,783	169,377
Current assets			
Debtors due within one year	16	116,009	208,257
Debtors due after more than one year	16	115,885	128,226
Cash at bank and in hand		17,926	–
		249,820	336,483
Creditors: Amounts falling due within one year	18	(75,347)	(96,798)
Net current assets		174,473	239,685
Total assets less current liabilities			
Creditors: Amounts falling due after more than one year	19	(27,436)	(24,911)
Net assets		411,820	384,151
Capital and reserves			
Called-up share capital	23	873	835
Share premium	24	395,476	359,305
Profit and loss account	24	15,471	24,011
Total capital employed		411,820	384,151

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

The financial statements on pages 22 to 38 were approved by the Board on 2 June 2003 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 29 March 2003

	Notes	52 weeks ended 29 March 2003 £'000	52 weeks ended 30 March 2002 £'000
Net cash inflow from operating activities		77,678	29,352
Net cash (outflow) inflow from returns on investments and servicing of finance	27a	(2,570)	342
Net cash inflow (outflow) from taxation	27b	1,059	(9,398)
Net cash inflow (outflow) from capital expenditure and financial investment	27c	18,244	(48,742)
Net cash outflow from acquisitions and disposals	27d	(37,892)	(42,846)
Net cash inflow (outflow) before financing		56,519	(71,292)
Net cash (outflow) inflow from financing	27e	(42,623)	34,669
Increase (decrease) in cash in the period		13,896	(36,623)

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

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Reconciliation of Net Cash Inflow from Operating Activities to Operating Profit

	2003 £'000	2002 £'000
Operating profit excluding exceptional items	37,428	31,733
Operating exceptional items	–	(24,863)
Operating profit	37,428	6,870
Depreciation of tangible fixed assets	31,977	26,335
Amortisation of goodwill	20,585	14,736
EBITDA	89,990	47,941
Profit on disposal of fixed assets	(912)	(646)
(Decrease) increase in provisions	(12,229)	9,533
(Increase) decrease in stock	(4,024)	2,700
(Increase) decrease in debtors	(1,803)	26,422
Increase (decrease) in creditors	6,656	(56,598)
Net cash inflow from operating activities	77,678	29,352

Notes to the Financial Statements

1 Accounting policies

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

a) Turnover

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

Distribution:

Distribution turnover comprises revenue generated from the sale of mobile telephony products and services, commissions receivable on sales, ongoing revenue (share of customer airtime spend, and customer revenue and retention bonuses) and insurance premiums received.

- Commission receivable on sales is recognised when the sales to which the commission relates are made.
- Volume bonuses are recognised when the conditions on which they are earned are met.
- Ongoing revenue is recognised as it is earned over the life of the relevant customers.
- Insurance premium income is recognised as it is earned.
- All other revenue is recognised when sales are made.

Wholesale:

Wholesale turnover comprises revenue generated from the sale of mobile telephony products and is recognised when sales are made.

Telecoms Services:

Telecoms Services turnover comprises revenue generated from facilities management, revenue from mobile and fixed network services and ongoing revenue. All such revenue is recognised as it is earned over the life of the relevant customers.

b) Basis of consolidation

The consolidated financial statements incorporate the results of The Carphone Warehouse PLC and its subsidiary undertakings drawn up to 29 March 2003. 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:

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

2 Segmental analysis

Divisional results are analysed as follows:

	2003			2002		
	Turnover £'000	Profit before tax £'000	Net assets £'000	Turnover £'000	Profit (loss) before tax £'000	Net assets £'000
Distribution	876,144	44,031	441,108	742,372	39,024	379,152
Wholesale	806,624	4,096	–	343,003	3,495	–
Telecoms Services	158,757	9,886	18,435	67,342	3,950	28,875
	1,841,525	58,013	459,543	1,152,717	46,469	408,027
Amortisation		(20,585)			(14,736)	
Operating exceptional items		–			(24,863)	
		37,428			6,870	
Non-operating exceptional items		(1,946)			(30,227)	
Net interest (payable) receivable		(995)			342	
Profit (loss) before tax		34,487			(23,015)	

Divisional results for the period ended 30 March 2002 have been re-analysed to reflect the inclusion of the Group's ongoing revenue within Distribution and the allocation of common costs and depreciation to each division.

Results by geographical location are analysed by origin as follows:

	2003			2002		
	Turnover £'000	Profit before tax £'000	Net assets £'000	Turnover £'000	Profit (loss) before tax £'000	Net assets £'000
United Kingdom	1,368,244	40,537	371,668	777,872	35,372	329,639
Rest of Europe	473,281	17,476	87,875	374,845	11,097	78,388
	1,841,525	58,013	459,543	1,152,717	46,469	408,027
Amortisation		(20,585)			(14,736)	
Operating exceptional items		–			(24,863)	
		37,428			6,870	
Non-operating exceptional items		(1,946)			(30,227)	
Net interest (payable) receivable		(995)			342	
Profit (loss) before tax		34,487			(23,015)	

Geographical results for the period ended 30 March 2002 have been re-analysed to reflect the allocation of common costs and depreciation to each geographical segment.

Turnover originating in the United Kingdom includes £591.1m (2002 – £22.2m) of sales to the Rest of Europe; otherwise 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 liabilities £'000
Telecoms Services	75,875	3,540	(8,915)
United Kingdom	75,875	3,540	(8,915)

Details of acquisitions are given in note 14.

3 Analysis of profit and loss account

	2003			2002
	Existing operations £'000	Acquisitions £'000	Total £'000	Total £'000
Cost of sales	(1,396,543)	(56,975)	(1,453,518)	(834,413)
Gross profit	369,107	18,900	388,007	318,304
Depreciation	(29,557)	(2,420)	(31,977)	(26,335)
Amortisation	(18,509)	(2,076)	(20,585)	(14,736)
Exceptional operating expenses	–	–	–	(24,863)
Other operating expenses	(287,436)	(10,581)	(298,017)	(245,500)
Total operating expenses	(335,502)	(15,077)	(350,579)	(311,434)
Operating profit	33,605	3,823	37,428	6,870

Total operating expenses for statutory purposes are analysed as follows:

	2003			2002
	Existing operations £'000	Acquisitions £'000	Total £'000	Total £'000
Distribution costs	(255,997)	(13,910)	(269,907)	(216,389)
Administrative expenses	(79,505)	(1,167)	(80,672)	(70,182)
Exceptional operating expenses	–	–	–	(24,863)
Total operating expenses	(335,502)	(15,077)	(350,579)	(311,434)

4 Profit (loss) on ordinary activities before taxation

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

	2003 £'000	2002 £'000
Amortisation of goodwill	20,585	14,736
Depreciation of tangible fixed assets	31,977	26,335
Rentals under operating leases – property	44,811	38,713
Operating profit on disposal of fixed assets	(912)	(646)
Exceptional (profit) loss on disposal of fixed assets	(13,199)	6,336
Auditors' remuneration – audit services	500	450
Auditors' remuneration – non-audit services	360	250

5 Employees

Employee costs consist of:

	2003 £'000	2002 £'000
Wages and salaries	144,568	114,125
Social security costs	24,691	21,395
Other pension costs	947	1,632
	170,206	137,152

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

	2003 Number	2002 Number
Administration	1,274	1,113
Selling and distribution	6,859	5,879
	8,133	6,992

Details of Directors' remuneration are provided in the Remuneration Report on pages 16 to 19.

6 Exceptional items

Exceptional items include the following operating exceptional items, non-operating exceptional items and amounts written off investments:

	Note	2003 £'000	2002 £'000
Costs of operational reorganisation			
Store closures	(a)	–	(11,956)
Business closures and reorganisation	(a)	–	(12,907)
Exceptional operating items		–	(24,863)
Profit (loss) on disposal of fixed assets	(b)	13,199	(6,336)
Amounts written off fixed asset investments	(c)	(15,145)	(18,681)
Cost of fundamental reorganisation	(d)	–	(5,210)
Total exceptional items		(1,946)	(55,090)

(a) Costs of operational reorganisation

During the period ended 30 March 2002, the Group incurred costs in reorganising its operations across Europe. This reorganisation comprised:

- 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) Profit (loss) on disposal of fixed assets

In August 2002 the Group completed the sale and leaseback of its freehold offices in London for a consideration of £36.6m, generating a net profit on disposal of £13.2m.

During the period ended 30 March 2002 fixed assets with a net book value of £6.3m were written down principally as a result of the withdrawal from non-key territories and store closures explained in note 6a.

(c) Amounts written off fixed asset investments

During the period ended 29 March 2003 a further £15.1m (2002 – £18.7m) has been written off the Group's holding in Wireless Frontiers, an independently managed wireless technology fund, to reflect the diminution in the value of the fund at 29 March 2003.

(d) Cost of fundamental reorganisation

A charge of £5.2m, reflecting the write-down of fixed assets and other restructuring costs, was made during the period ended 30 March 2002, principally in respect of the fundamental reorganisation of the Group's Data Services division, involving a significant downscaling of wireless internet portal activities.

6 Exceptional items continued

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	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Costs of operational reorganisation	–	(3,290)	–	–
Costs of fundamental reorganisation	–	(855)	–	(653)
Decrease in charge to profit and loss account	–	(4,145)	–	(653)

7 Net interest (payable) receivable

	2003 £'000	2002 £'000
Interest receivable and similar income	6,511	5,711
Interest payable and similar charges:		
Bank overdrafts and loans	(7,191)	(4,975)
Other loans	(315)	(394)
Interest payable and similar charges	(7,506)	(5,369)
Net interest (payable) receivable	(995)	342

8 Tax on profit on ordinary activities

The tax charge comprises:

	2003 £'000	2002 £'000
Current tax:		
UK corporation tax	4,623	6,930
Overseas tax	4,011	2,778
	8,634	9,708
Adjustments in respect of prior periods:		
UK corporation tax	(56)	(2,538)
Overseas tax	429	–
Total current tax	9,007	7,170
Deferred tax:		
Origination and reversal of timing differences	3,411	(1,008)
Total deferred tax	3,411	(1,008)
Total tax on profit on ordinary activities	12,418	6,162

The differences between the total current tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to profit or loss on ordinary activities before tax is as follows:

	2003 £'000	2002 £'000
Profit (loss) on ordinary activities before tax	34,487	(23,015)
Profit (loss) on ordinary activities before tax at 30%	10,346	(6,905)
Effect of:		
Amortisation of goodwill	6,176	4,421
Exceptional items attracting no tax relief or liability	584	12,420
Other items attracting no tax relief or liability	5,415	4,314
Income taxed at lower rates and utilisation of tax losses	(10,476)	(5,550)
Adjustments in respect of prior periods	373	(2,538)
Other timing differences	(3,411)	1,008
Current tax charge for the period	9,007	7,170

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

Deferred tax assets of approximately £22 million (2002 – £20 million) in respect of 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 22.

9 Dividends

	2003 £'000	2002 £'000
Final proposed dividend of 1.0p (2002 – Nil) per ordinary share	8,729	–

10 Earnings per share

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

	Basic and diluted			
	2003 £'000	2002 £'000		
Profit (loss) for the financial period	22,069	(28,262)		
Amortisation of goodwill	20,585	14,736		
Operating exceptional items (net of tax and minority interests)	–	21,573		
Non-operating exceptional items (net of tax and minority interests)	1,946	28,719		
Earnings before amortisation of goodwill and exceptional items	44,600	36,766		
	2003 Number of shares 000's	2002 Number of shares 000's		
Weighted average number of shares:				
For basic earnings per share	850,273	833,382		
Dilutive effect of share options	2,166	3,759		
For diluted earnings per share	852,439	837,141		
	Basic pence per share		Diluted pence per share	
	2003	2002	2003	2002
Earnings (loss) per share	2.60	(3.39)	2.59	(3.39)
Headline earnings per share	5.25	4.41	5.23	4.39

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.

11 Prior period adjustments

In the period ended 30 March 2002, the Group implemented FRS19 and in accordance with the standard, restated prior period figures to reflect this.

12 Intangible fixed assets – goodwill

Group	£'000
Cost	
At 30 March 2002	298,976
Acquisitions (see note 14)	102,117
Foreign exchange	12,560
At 29 March 2003	413,653
Amortisation	
At 30 March 2002	(24,178)
Charge for the period	(20,585)
Foreign exchange	(1,343)
At 29 March 2003	(46,106)
Net book value	
At 29 March 2003	367,547
At 30 March 2002	274,798

13 Tangible fixed assets

Group	Freehold land and buildings £'000	Short leasehold costs £'000	Computer, network and office equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost						
At 30 March 2002	4,567	54,062	53,085	61,276	1,263	174,253
Additions	600	3,980	18,999	14,988	844	39,411
Disposals	(1,844)	(414)	(114)	(265)	(222)	(2,859)
Acquisitions (see note 14)	–	–	10,649	130	–	10,779
Foreign exchange	32	3,632	1,927	4,437	78	10,106
At 29 March 2003	3,355	61,260	84,546	80,566	1,963	231,690
Depreciation						
At 30 March 2002	(400)	(12,940)	(25,194)	(23,532)	(533)	(62,599)
Charge for the period	(221)	(5,915)	(12,631)	(12,815)	(395)	(31,977)
Disposals	245	140	57	106	104	652
Foreign exchange	–	(566)	(1,501)	(2,609)	(50)	(4,726)
At 29 March 2003	(376)	(19,281)	(39,269)	(38,850)	(874)	(98,650)
Net book value						
At 29 March 2003	2,979	41,979	45,277	41,716	1,089	133,040
At 30 March 2002	4,167	41,122	27,891	37,744	730	111,654

14 Fixed asset investments

Group	Own shares £'000	Other investments £'000	Total £'000
At 30 March 2002	3,949	26,181	30,130
Additions	–	36	36
Amounts written off (see below)	–	(15,145)	(15,145)
At 29 March 2003	3,949	11,072	15,021

Own shares

The Group has an Employee Share Ownership Trust which holds 1,974,000 shares (2002 – 1,974,000) in the Company for the benefit of the Group's employees. At 29 March 2003 the shares had a market value of £1.2m (2002 – £1.9m). The Directors do not consider the impairment of the investment to be permanent.

Other investments

As explained in note 6c, £15.1m has been written off the Group's holding in Wireless Frontiers, to reflect the diminution in the value of the fund at 29 March 2003.

Company	£'000
At 30 March 2002	169,377
Additions	120,566
Disposals	(22,926)
Amounts written off	(2,234)
At 29 March 2003	264,783

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 have an effective holding of 100% to the Group on consolidation.

Name	Country of incorporation or registration	Nature of business
The Carphone Warehouse Limited*	England	Retail of mobile communication equipment
The Carphone Warehouse UK Limited	England	Retail of mobile communication equipment
The Phone House SA	Belgium	Retail of mobile communication equipment
The Phone House sro	Czech Republic	Retail of mobile communication equipment
The Phone House SA	France	Retail of mobile communication equipment
The Phone House Deutschland GmbH	Germany	Retail of mobile communication equipment
The Carphone Warehouse Limited	Ireland	Retail of mobile communication equipment
The Phone House Netherlands BV	Netherlands	Retail of mobile communication equipment
The Phone House Lda	Portugal	Retail of mobile communication equipment
The Phone House SL*	Spain	Retail of mobile communication equipment
GEAB Teleshop AB	Sweden	Retail of mobile communication equipment
The Phone House SA	Switzerland	Retail of mobile communication equipment
The Carphone Warehouse Services Limited	England	Telecoms services
Value Telecom Limited	England	Telecoms services
The Phone House Services Telecom-CMC SA	France	Telecoms services
Opal Telecom Limited*	England	Telecoms services
The Carphone Warehouse Insurance Limited	Isle of Man	Insurance underwriting
The Phone House Insurance Limited	Isle of Man	Insurance underwriting
Telecoms Insurance Services SA	Switzerland	Insurance brokerage
MViva Limited	England	Data services
ISe-Net Solutions Limited	England	Information technology services
The Phone House Holdings (UK) Limited*	England	Holding company
Wireless Internet Portfolio BV	Netherlands	Holding company
The Phone House BV	Netherlands	Holding company
Carphone Warehouse Investments SA*	Belgium	Holding company

*held directly by the Company.

14 Fixed asset investments continued*Acquisitions***a. Opal Telecom plc**

On 6 November 2002, the Group acquired 100% of the issued share capital of Opal Telecom plc, a fixed line telecommunications provider registered in England, for an initial gross consideration of £67.6m, with a further deferred consideration of up to £18.0m payable over two years. 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	12,912	–	(2,133)	10,779
Investments	360	–	(360)	–
Current assets				
Debtors	28,365	1,477	–	29,842
Total assets	41,637	1,477	(2,493)	40,621
Creditors				
Overdrafts	(5,335)	–	–	(5,335)
Loans	(24,136)	–	–	(24,136)
Trade creditors	(8,704)	–	–	(8,704)
Other taxes	(855)	–	–	(855)
Accruals and deferred income	(14,046)	–	–	(14,046)
Total liabilities	(53,076)	–	–	(53,076)
Net liabilities	(11,439)	1,477	(2,493)	(12,455)
Goodwill				98,100
				85,645
Satisfied by				
Cash				32,557
New shares issued				32,500
Loan notes				2,588
Deferred consideration				18,000
				85,645

Net cash outflows in respect of the acquisition comprised:

Gross cash consideration	32,557
Overdrafts acquired	5,335
	37,892

Accounting policy alignments relate to the recognition of deferred tax assets. Other fair value adjustments relate to the revaluation of tangible fixed assets and investments.

Deferred consideration is based on performance in the two financial periods ending 27 March 2004.

Opal Telecom plc earned a profit after taxation of £4.8m in the 15 month period ended 29 March 2003 (year ended 31 December 2001 – £4.5m loss), of which £1.2m arose in the period from 1 January 2002 to 6 November 2002. The summarised profit and loss account and the statement of total recognised gains and losses for the period from 1 January 2002 to 6 November 2002, shown on the basis of the accounting policies of Opal prior to the acquisition, are as follows:

Profit and loss account	£'000
Turnover	113,755
Cost of sales	(82,267)
Gross profit	31,488
Operating expenses	(26,811)
Operating profit	4,677
Net interest payable	(3,450)
Profit on ordinary activities before taxation	1,227
Tax on profit on ordinary activities	–
Profit on ordinary activities after taxation	1,227

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

b. Other acquisitions

During the period the Group acquired the remaining 15% of the issued share capital of MViva Limited, a company in which it already had an 85% stake, from AOL Europe S.A., in exchange for 3.3 million shares in the Company, giving rise to goodwill of £2.0m. No fair value adjustments arose from this acquisition.

In addition, further goodwill of £2.0m arose during the period, principally resulting from fair value adjustments in respect of previous acquisitions.

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

Gross cash consideration	32,557
Overdrafts acquired	5,335
	37,892

15 Stock

	Group	
	2003	2002
	£'000	£'000
Finished goods and goods for resale	56,351	50,088

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

16 Debtors

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Trade debtors	135,930	109,538	–	–
Other debtors	17,954	11,992	–	1,369
Prepayments and accrued income	23,097	17,708	85	306
Amounts owed by Group undertakings	–	–	115,924	206,582
	176,981	139,238	116,009	208,257
Amounts falling due after more than one year:				
Amounts owed by Group undertakings	–	–	115,885	128,226
	176,981	139,238	231,894	336,483

17 Short-term investments

	Group	
	2003	2002
	£'000	£'000
Short-term investments	26,276	67,637

Short-term investments include listed investments with a cost of £11.1m (2002 – £27.4m). The market value of these investments at 29 March 2003 is £11.3m (2002 – £27.8m).

18 Creditors: Amounts falling due within one year

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Loans and overdrafts	14,323	10,645	–	61,459
Amounts owed to subsidiary undertakings	–	–	62,928	33,604
Trade creditors	124,338	117,871	–	–
Corporation tax	18,013	7,982	–	–
Other taxes and social security costs	19,183	18,052	–	–
Other creditors	20,910	7,779	1,434	235
Accruals and deferred income	69,815	37,340	2,256	1,500
Proposed dividends	8,729	–	8,729	–
	275,311	199,669	75,347	96,798

19 Creditors: Amounts falling due after more than one year

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Loans	29,832	24,713	27,436	24,494
Other creditors	14,078	7,079	–	417
Accruals and deferred income	5,473	7,258	–	–
	49,383	39,050	27,436	24,911

The repayment profile of loans is provided in note 20.

20 Derivatives and other financial instruments

The Operating and Financial Review on pages 4 to 9 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 FRS13 'Derivatives and other financial instruments'.

As permitted by FRS13, short-term trade debtors and creditors have been excluded from the disclosures. This has no material effect on the currency 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, mainly denominated in Sterling, Euro and US Dollars. Foreign exchange swaps, used for hedging purposes, create an asset and a liability. For the purposes of this note, foreign exchange assets and liabilities have been netted against each other. 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.

	2003				2002			
	Sterling £m	Euro £m	Other £m	Total £m	Sterling £m	Euro £m	Other £m	Total £m
Financial assets								
By instrument								
Cash	32.8	10.2	4.0	47.0	10.1	8.1	2.5	20.7
Short-term investments	26.3	–	–	26.3	49.1	0.1	–	49.2
Total	59.1	10.2	4.0	73.3	59.2	8.2	2.5	69.9
By interest rate								
Floating rate	59.1	10.2	4.0	73.3	44.8	8.2	2.5	55.5
Fixed rate	–	–	–	–	14.4	–	–	14.4
Total	59.1	10.2	4.0	73.3	59.2	8.2	2.5	69.9
Financial liabilities								
By instrument								
Loans and overdrafts	(0.2)	(43.2)	(0.7)	(44.1)	(10.6)	(24.7)	–	(35.3)
Total	(0.2)	(43.2)	(0.7)	(44.1)	(10.6)	(24.7)	–	(35.3)
By interest rate								
Floating rate	(0.2)	(38.6)	(0.7)	(39.5)	(10.6)	(19.0)	–	(29.6)
Fixed rate	–	(4.6)	–	(4.6)	–	(5.7)	–	(5.7)
Total	(0.2)	(43.2)	(0.7)	(44.1)	(10.6)	(24.7)	–	(35.3)

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, bear weighted average interest rates of 4.84% (2002 – 4.81%) for weighted average periods of 0.7 years (2002 – 1.1 years).

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

(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:

	2003				2002			
	Sterling £m	Euro £m	Other £m	Total £m	Sterling £m	Euro £m	Other £m	Total £m
Functional currency of Group operation								
Sterling	–	4.2	3.1	7.3	–	1.0	0.2	1.2
Other	1.2	0.4	–	1.6	0.1	1.0	–	1.1
Total	1.2	4.6	3.1	8.9	0.1	2.0	0.2	2.3

(iii) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 29 March 2003 was as follows:

	2003 £m	2002 £m
In one year or less	(14.3)	(10.6)
In more than one year but not more than two years	(2.4)	(24.7)
In more than two years but less than five years	(27.4)	–
Total	(44.1)	(35.3)

(iv) Borrowing facilities

The Group had undrawn committed borrowing facilities at 29 March 2003, in respect of which all conditions precedent had been met, as follows:

	2003 £m	2002 £m
Expiring in more than one year but not more than two years	–	(117.8)
Expiring in more than two years	(152.6)	–
Total	(152.6)	(117.8)

20 Derivatives and other financial instruments continued

(v) Fair values

The book and fair values of the Group's financial assets and liabilities at 29 March 2003 are as follows:

	2003		2002	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Financial assets				
Cash	47.0	47.0	20.7	20.7
Short-term investments	26.3	26.5	49.2	49.9
Financial liabilities				
Loans and overdrafts	(44.1)	(44.1)	(35.3)	(35.3)
Interest rate swaps	–	(0.1)	–	(0.1)
Forward foreign currency contracts	–	(0.8)	–	0.8

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 29 March 2003, the Group had unrecognised net losses of £0.9m (2002 – net gains of £0.7m), of which £0.8m arose from timing differences connected with currency hedging. Unrecognised losses of £0.1m are expected to be recognised in the period ending 27 March 2004 and the remainder in future periods.

21 Provisions for liabilities and charges

Group	Insurance funds and reserves £'000	Restructuring provisions £'000	Deferred tax £'000	Other £'000	Total £'000
At 30 March 2002	13,159	21,399	1,264	11,661	47,483
Acquisition of subsidiary undertakings	–	–	(1,477)	–	(1,477)
Charge to profit and loss account	30,943	–	2,913	14,251	48,107
Utilised in the period	(30,760)	(10,333)	–	(15,795)	(56,888)
Foreign exchange	–	419	–	312	731
At 29 March 2003	13,342	11,485	2,700	10,429	37,956

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, during the period ended 30 March 2002, the Group provided for the exceptional cost of reorganising its operations across Europe.

Deferred tax

Details of movements on the deferred tax provision are given in note 22.

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.

22 Deferred tax

Group	2003 £'000	2002 £'000
Deferred tax liabilities		
Accelerated capital allowances	(468)	(1,698)
Other timing differences	(2,232)	434
	(2,700)	(1,264)
Deferred tax assets		
Other timing differences	1,132	1,446
	1,132	1,446
Total	(1,568)	182

23 Share capital

Group and Company	2003 million	2002 million	2003 £'000	2002 £'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	873	835	873	835

The Company issued 37.5m shares in respect of certain acquisitions during the period, as detailed in note 14. Other movements in share capital arise from the exercise of share options.

23 Share capital continued**Share options**

The Group has issued 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	
				2003	2002
01/04/99	0.25	14/07/00	01/04/09	1,435,000	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	10,000	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	329,000	349,000
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	200,000	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
19/05/00	1.50	19/05/02	19/05/10	9,107,200	9,250,200
19/05/00	2.00	19/05/02	19/05/10	600,000	850,000
21/05/01	1.25	21/05/04	21/05/11	6,977,809	7,509,646
01/12/01	1.30	01/12/04	01/12/11	430,648	430,648
25/03/02	0.80	25/03/05	25/03/12	1,000,000	1,000,000
11/06/02	0.83	11/06/05	11/06/12	7,949,761	–
28/11/02	0.86	28/11/05	28/11/12	181,977	–
				32,131,385	25,434,484

It is proposed to award a further 6,844,443 options in June 2003 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	
				2003	2002
31/12/99	–	01/01/01	31/12/09	343,600	357,950
05/06/00	1.50	01/01/02	05/06/10	430,200	514,300
				773,800	872,250

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 29 March 2003:

Date options granted	Exercise price per share £	Exercisable from	Expiry date	Number of options outstanding	
				2003	2002
30/05/01	1.00	30/05/04	30/11/04	777,654	1,540,703
30/05/01	1.00	30/05/06	30/11/06	526,486	1,080,350
03/07/02	0.67	03/07/05	03/01/06	1,331,480	–
03/07/02	0.67	03/07/07	03/01/08	555,169	–
				3,190,789	2,621,053

3. Other share options

At 29 March 2003 there were 4,000,000 (2002 – 4,000,000) options to subscribe for shares in the Company at an exercise price of £1.50 expiring on 24 June 2010.

24 Reserves

	Profit and loss account £'000	Share premium £'000	Capital redemption reserve £'000	Total £'000
Group				
At 30 March 2002	47,085	359,305	30	406,420
Retained profit for the financial period	13,340	–	–	13,340
Currency translation	3,021	–	–	3,021
Issue of share capital	(282)	36,171	–	35,889
At 29 March 2003	63,164	395,476	30	458,670
Company				
At 30 March 2002	24,011	359,305	–	383,316
Retained loss for the financial period	(8,540)	–	–	(8,540)
Issue of share capital	–	36,171	–	36,171
At 29 March 2003	15,471	395,476	–	410,947

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 the shareholders of the Company for the period is £0.2m (2002 – £23.5m).

25 Reconciliation of movements in shareholders' funds

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Profit (loss) for the financial period	22,069	(28,262)	189	23,500
Dividends	(8,729)	–	(8,729)	–
Currency translation	3,021	(302)	–	(169)
Issue of share capital	35,927	3,002	36,209	3,072
Net movement in shareholders' funds	52,288	(25,562)	27,669	26,403
Opening shareholders' funds	407,255	432,817	384,151	357,748
Closing shareholders' funds	459,543	407,255	411,820	384,151

26 Equity minority interests

Group	Equity interests £'000
At 30 March 2002	772
Acquisitions	(772)
At 29 March 2003	–

As explained in note 14b, during the period the Group acquired the remaining 15% of MViva Limited, a company in which it already had an 85% stake.

27 Analysis of cash flows

	2003 £'000	2002 £'000			
a. Returns on investments and servicing of finance					
Interest received	4,936	5,711			
Interest paid	(7,506)	(5,369)			
Net cash (outflow) inflow from returns on investments and servicing of finance	(2,570)	342			
b. Taxation					
Corporation tax received (paid)	1,059	(9,398)			
Net cash inflow (outflow) from taxation	1,059	(9,398)			
c. Capital expenditure and financial investment					
Payments to acquire fixed asset investments	(36)	(604)			
Payments to acquire tangible fixed assets	(39,411)	(41,377)			
Receipts from sale of (payments to acquire) short-term investments	54,572	(9,863)			
Receipts from sale of tangible fixed assets	3,119	3,102			
Net cash inflow (outflow) from capital expenditure and financial investment	18,244	(48,742)			
d. Acquisitions and disposals					
Purchase of subsidiary undertakings	(32,557)	(56,287)			
Net (overdrafts) cash acquired with subsidiary undertakings	(5,335)	13,441			
Net cash outflow from acquisitions and disposals	(37,892)	(42,846)			
e. Financing					
Net receipts from issuing shares	102	72			
(Decrease) increase on loans	(42,725)	34,597			
Net cash (outflow) inflow from financing	(42,623)	34,669			
f. Analysis of changes in net funds (debt)					
	At 30 March 2002 £'000	Cash flows £'000	Acquisitions £'000	Exchange movement £'000	At 29 March 2003 £'000
Cash at bank and in hand	20,684	25,250	–	1,043	46,977
Overdrafts	(213)	(11,354)	–	(25)	(11,592)
	20,471	13,896	–	1,018	35,385
Debt due within one year	(10,432)	14,828	–	(7,127)	(2,731)
Debt due after more than one year	(24,713)	27,897	(24,136)	(8,880)	(29,832)
Net (debt) funds	(14,674)	56,621	(24,136)	(14,989)	2,822

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

	2003 £'000	2002 £'000
Increase (decrease) in cash in the period	13,896	(36,623)
Cash outflow (inflow) from decrease (increase) in loans	42,725	(34,597)
Change in net funds (debt)	56,621	(71,220)
Loans acquired with subsidiary undertakings	(24,136)	–
Currency retranslation	(14,989)	–
Movement in net funds (debt) in the period	17,496	(71,220)
Net (debt) funds brought forward	(14,674)	56,546
Net funds (debt) carried forward	2,822	(14,674)

h. Acquisitions

Companies acquired in the period contributed £14.9m to the Group's net operating cashflows, paid £0.3m in respect of net returns on investments and servicing of finance, and utilised £5.7m for capital expenditure.

28 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:

	2003 £'000	2002 £'000
Operating leases which expire:		
Within one year	6,138	4,115
In two to five years	14,983	10,583
After five years	27,345	22,260
	48,466	36,958

29 Capital commitments

	2003 £'000	2002 £'000
Expenditure contracted, but not provided for in the financial statements of the Group	5,729	620

30 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 £0.9m (2002 – £1.6m).

Defined benefit schemes

On 5 April 2000 the Group commenced the winding up of a defined benefit pension 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 £nil (2002 – £49,000).

31 Post balance sheet events*Wholesale*

Since the period end, the Group has significantly scaled back its European wholesale trading activities, amidst uncertainty surrounding the implications of the recent UK budget announcement on the recovery of VAT on mobile phone trading. This uncertainty undermines the economics of what will always be a relatively low margin activity. The budget announcement provides for a consultation period on the UK Government's Statement of Practice and the implications of joint and several liability. The Group has therefore made a submission to UK Customs & Excise setting out its interpretation of best practice and seeking further clarity. Until such time as a response to this request has been received, the Group will continue to restrict its wholesale trading activities.

The Group has also conducted a comprehensive review of all its wholesale activities and procedures across Europe throughout the past few years. Whilst impracticable to precisely quantify any potential liabilities, the review has identified a potential exposure in one of the Group's overseas subsidiaries, relating to inadequate VAT documentation in respect of wholesale trading in the period ended 25 March 2000. A provision of £2.4m has been made in the period within the Wholesale division in respect of this exposure. As a result of this review the Directors believe that no unprovided liability is likely.

Germany

On 2 June 2003, the Group exchanged contracts with Orange Holdings Limited to acquire 100% of the issued share capital of Hutchison Telecommunications GmbH, a mobile service provision business incorporated in Germany, for a net cash consideration of £32.4m. Completion is subject to appropriate regulatory and other authority approvals being received by 31 August 2003. The Group has also closed a further 10 retail stores and commenced the closure of its support centre in Munich. A provision of £4.5m has been booked since the period end to cover these items.

Five Year Record

	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Results*					
Turnover	1,841.5	1,152.7	1,110.7	697.7	316.1
EBITDA	90.0	72.8	66.0	41.4	26.1
PBT	57.0	46.8	49.6	30.6	19.8
Assets employed					
Fixed assets	515.6	416.6	396.1	99.1	32.0
Net current assets	31.3	78.0	90.2	0.6	32.2
Creditors: Amounts falling due after more than one year	(49.4)	(39.1)	(15.4)	(22.3)	(15.3)
Provisions for liabilities and charges	(38.0)	(47.5)	(36.4)	(34.6)	(21.2)
Net assets	459.5	408.0	434.5	42.8	27.7
Financed by					
Shareholders' funds	459.5	407.2	432.8	43.6	28.4
Equity minority interests	–	0.8	1.7	(0.8)	(0.7)
Total capital employed	459.5	408.0	434.5	42.8	27.7
Earnings per share*					
Basic	5.3p	4.4p	5.0p	3.7p	2.1p
Diluted	5.2p	4.4p	4.9p	3.5p	2.1p

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

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 31 July 2003 at 11am to consider the following business:

Ordinary resolutions

1. That the accounts and reports of the Directors and auditors for the period ended 29 March 2003 be received.
2. That a final dividend of 1 pence per ordinary share for the period ended 29 March 2003 be declared.
3. That the Remuneration Report set out in the Annual Report 2003 be approved.
4. That Martin Dawes be elected as a Director.
5. That David Ross be re-elected as a Director.
6. That Geoffroy Roux de Bezieux be re-elected as a Director.
7. That Deloitte & Touche be re-appointed as auditors of the Company from the conclusion of this meeting until the conclusion of the next general meeting at which the accounts are laid before the Company and that the Board be authorised to determine the auditors' remuneration.

Special resolutions

8. 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 £127,135 being the aggregate nominal amount of the unissued ordinary share capital of the Company as at 29 March 2003 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 2004 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.
9. 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 8 as if section 89(1) of the Act did not apply to any such allotment, such power being limited to:
 - 9.1 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

- 9.2 The allotment (other than pursuant to the powers conferred pursuant to resolution 9.1) of equity securities up to an aggregate nominal amount equal to £43,643 being five per cent of the aggregate nominal amount of the issued share capital of the Company as at 29 March 2003, 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 2004 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.
10. That the Company be and is hereby unconditionally and generally authorised for the purposes of section 166 of the Act to make market purchases (as defined in section 163 of the Act) of Ordinary Shares provided that:-
 - 10.1 The maximum aggregate number of shares hereby authorised to be purchased is 87,286,455;
 - 10.2 The minimum price which may be paid is the 0.1p nominal value of each share;
 - 10.3 The maximum price (exclusive of expenses) which may be paid for such shares is an amount no more than 5% above the average of the middle market quotations of the Company's ordinary shares derived from the daily official list of the London Stock Exchange Plc for the five business days immediately before the day on which the purchase is made;
 - 10.4 This authority 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 2004; and
 - 10.5 The Company may make a contract or contracts to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts.

By order of the Board

T S Morris

Company Secretary

2 June 2003

Registered Office
North Acton Business Park
Wales Farm Road
London
W3 6RS

Explanatory Notes to the Resolutions

Dividend

Resolution 2

Final dividends must be approved by shareholders but must not exceed the amount recommended by Directors. If the meeting approves the final dividend then it will be paid in accordance with the financial calendar set out on the inside cover of the Annual Report.

Remuneration Report

Resolution 3

The Company is required under The Directors' Remuneration Report Regulations 2002 ("Regulations") to produce a remuneration report for shareholders which must comply with the Regulations, be approved by the Board and filed with the Registrar of Companies. The report must also be approved by the shareholders.

Directors

Resolutions 4, 5 and 6

Martin Dawes was appointed a Non-Executive Director on 2 June 2003 and is therefore required to be elected at this Annual General Meeting under the Company's Articles of Association adopted on 13 July 2000. Biographical details of Martin Dawes are given on page 12 and will also be available for inspection by shareholders at the Annual General Meeting.

David Ross and Geoffroy Roux de Bezieux are required to retire by rotation and to stand for re-election pursuant to the Company's Articles of Association adopted on 13 July 2000. Biographical details of these Directors are given on page 12 of the Annual Report and will be available at the Annual General Meeting.

The Company may terminate Martin Dawes's appointment with immediate effect without any compensation for loss of office. The Group may terminate both David Ross's and Geoffroy Roux de Bezieux's service agreements on 12 months notice.

Auditors

Resolution 7

The Company is required to appoint auditors at each general meeting at which accounts are presented, to hold office until the end of the next such meeting. This resolution is recommended by the Audit Committee and proposes the re-appointment of the Company's existing auditors Deloitte & Touche, and follows standard practice in giving authority to the Board to determine their remuneration.

Allotment of Shares

Resolutions 8 and 9

These resolutions renew the Directors' authority to issue relevant securities up to an aggregate nominal amount of £127,135 being all the unissued ordinary share capital of the Company at 29 March 2003 and to make a rights issue to existing holders of ordinary shares on the conventional basis without the need to comply with the technical requirements of the statutory provisions which can create problems especially with regard to overseas shareholders.

The Directors will also be able to make issues for cash on a non pre-emptive basis. The proposed limit of £43,643 represents 5% of the nominal amount of the issued ordinary share capital as at 29 March 2003.

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

Repurchase of Shares

Resolution 10

This grants the Company authority to purchase its own shares up to a maximum amount of 87,286,455 until the Annual General Meeting in 2004. The Companies Act 1985 permits a Company to purchase its own shares provided that the purchase has been authorised by the Company in a general meeting. It is common practice for listed companies to seek such authority and the Directors consider that it is prudent to seek such authority at the Annual General Meeting.

The amount represents 10% of the ordinary shares in issue as at 29 March 2003. The authority is limited to the stated upper and lower prices payable for the shares which reflects the requirements of the UK Listing Authority.

As at 2 June 2003 there were 40,095,974 outstanding options granted and unexercised under all share option schemes operated by the Company which, if exercised would represent 4.6% of the issued ordinary share capital of the Company. If this authority to repurchase was exercised in full, such options would represent approximately 5.1% of the issued share capital at such date.

The Directors would only propose to exercise their authority to make share purchases where the expected effect would be to increase earnings per share and having reviewed the overall financial position of the Company, such purchases were considered to be in the best interests of the shareholders generally.

General notes

1. Eligibility to attend

The Company specifies that only those shareholders on the register of members as at 11am on 29 July 2003 are entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after 11am on 29 July 2003 shall be disregarded in determining the right of any person to attend or vote at the meeting.

2. Proxy voting

A shareholder who is entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and, on a poll, to vote on his/her behalf. A proxy need not be a member of the Company. To be valid a form of proxy, a form of which is enclosed, and any power of attorney or the authority under which it is signed or a duly certified copy thereof must be lodged with the registrars of the Company, Lloyds TSB, whose details are found on page 13 of the Annual Report, before 11 am on 29 July 2003. Shareholders who return completed proxy voting forms may still attend the meeting instead of their proxies and vote in person if they wish. In the event of a poll in which the shareholder votes in person, his/her proxy votes lodged with the Company will be excluded.

3. Admission

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

4. Proof of identity

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

5. Directions

Directions to the address of the meeting are as follows:

From Central London

Take the A40(M) Westway (Oxford) until the exit marked North Circular Road (A406). Turn left at this exit marked North Circular Road West, Heathrow and Kew Bridge. In approximately 1.5 miles, turn left at the traffic lights (Junction A4020 Uxbridge Road). The Ramada Jarvis London West Hotel is immediately on the left.

From Heathrow

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

By Tube

The nearest tube station is Ealing Common (on the District line). As you leave the station take an immediate left and follow the road down to the main Junction. You will see The Ramada Jarvis London West Hotel on your right.

6. Information available for inspection

The following information is available for inspection at the registered office of the Company (weekends and public holidays excluded). It will also be available for inspection at the place of the Annual General Meeting from 10am on the day of the meeting until the conclusion of the meeting:

- Memorandum and Articles of Association of the Company;
- Copies of the Directors' service contracts and letters of appointment;
- Register of Directors' interests;
- Biographical details on those Directors being elected and re-elected.

7. Enquiries

If you have any questions regarding the meeting our Public Relations department will be pleased to help.

Their contact number is: 0845 604 1207.

8. Asking questions at the meeting

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

9. Special needs

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

10. Safety

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

11. Medical care

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

12. Smoking

Smoking will not be permitted in the auditorium.

The Carphone Warehouse Group PLC

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THE Carphone Warehouse

...for a better mobile life