



**The Carphone Warehouse Group PLC**  
Annual Report 2004

The Carphone Warehouse is Europe's leading independent retailer of mobile phones and services, with over 1,200 stores in 10 countries.

**Our strategy** builds on our track record in retailing and allows us to move quickly when we see new market opportunities arise. Our objective at all times remains the creation of significant and sustainable shareholder value.

**Our strategic objectives are:**

- To continue to grow retail market share by investing in new stores and by generating like-for-like growth from our existing estate

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- To develop incremental income streams from our customer relationships, with residential fixed line services representing a major new opportunity

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- To grow our business-to-business fixed line operations organically and through acquisition

**Contents**

1	Financial Highlights
2	Chairman's Statement
3	Group Overview
4	Chief Executive's Review
6	Operating and Financial Review
14	Corporate Responsibility
17	Board of Directors and Group Advisors
18	Corporate Governance
20	Remuneration Report
24	Directors' Report
25	Statement of Directors' Responsibilities
25	Independent Auditors' Report
26	Consolidated Profit and Loss Account
26	Consolidated Statement of Total Recognised Gains and Losses
27	Consolidated Balance Sheet
28	Company Balance Sheet
29	Consolidated Cash Flow Statement
30	Notes to the Financial Statements
47	Five Year Record
48	Financial Calendar

## Financial Highlights

	2004 £m	2003 £m
Turnover	<b>1,849.0</b>	1,841.5
Turnover (ex Wholesale)	<b>1,670.9</b>	1,034.9
<b>Headline results*</b>		
EBITDA	<b>122.8</b>	90.0
Profit before tax	<b>76.3</b>	57.0
Earnings per share	<b>6.81p</b>	5.25p
<b>Statutory results</b>		
Profit before tax	<b>44.5</b>	34.5
Earnings per share	<b>3.17p</b>	2.60p
Exceptional items	<b>(6.4)</b>	(1.9)
Dividend per share	<b>1.3p</b>	1.0p

\*Headline figures are shown before exceptional items and amortisation of goodwill (see note 10 to the financial statements).

## Operational Highlights

Further strong growth in profits and earnings per share

Continued market share growth across Europe

Total connections of 5.35 million

Growth in high quality subscription connections of 26.4%

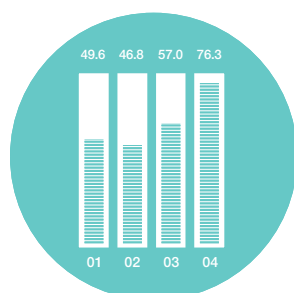
Successful launch of TalkTalk with decisive moves into other European fixed line markets

Acquisition and integration of Hutchison Telecommunications

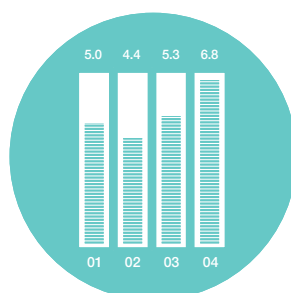
Recurring revenues generating 55.3% of total contribution

UK fixed line traffic doubled to over 5.5 billion minutes

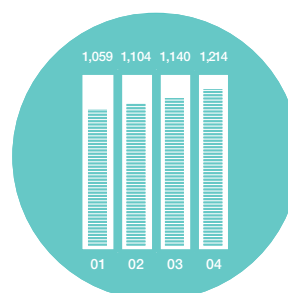
Headline profit before tax (£m)



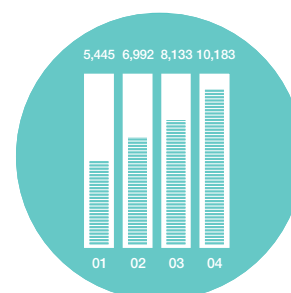
Headline earnings per share (pence)



Stores (number)



Employees (number)



## Chairman's Statement

**“We continue to take a long-term approach to the creation of shareholder value, by investing in businesses that we believe will support attractive growth in Group earnings and cash generation in the years to come.”**

*Hans Roger Snook, Chairman*

The last 12 months have been a period of dynamic growth and rapid change for The Carphone Warehouse, achieved in the context of a mobile phone market that has strengthened markedly and a fixed line market in which deregulation has heralded a major opportunity for us. We achieved organic growth in turnover of 28.9% in our core operations, with headline profit before tax increasing by 33.8%. Earnings per share on the same basis increased by 29.7%, while statutory earnings per share increased by 21.9%.

Our strategy of developing recurring income streams from providing a range of services to our network and end-user customers continues to bear fruit. 55.3% of Group contribution came from recurring business, up from just 27.5% four years ago. As a result we have succeeded in both improving the quality of our earnings and maximising the potential for future earnings growth.

In addition, we continue to take a long-term approach to the creation of shareholder value, by investing in businesses that we believe will support attractive growth in Group earnings and cash generation in the years to come. In the past year we incurred start-up losses of £11.0m in TalkTalk, our new residential fixed line service, because of our firm belief that we are investing in a significant long-term opportunity. The acquisitions of fixed line providers in Spain and Switzerland just before the year end demonstrate our commitment to this new market, which has a natural affinity with our mobile retail proposition.

Our acquisition of Hutchison Telecommunications GmbH, a German mobile service provider in June 2003 also typified our determination to build sustainable businesses, and our ability to take the difficult decisions that give due consideration to long-term potential rather than simply

finding 'quick fixes'. Our German retail chain is now sharing in the lifetime value of the customers it recruits and will break even this year if its current progress continues.

During the year the Group underwent an important internal restructuring, with the UK and non-UK distribution operations now being managed as a single unit under Geoffroy Roux de Bezieux as Chief Operating Officer, Distribution. We are already beginning to see tangible benefits, both in the negotiation of supplier agreements and in the consolidation of retail best practice. In addition, David Goldie, formerly Chief Executive Officer of Opal Telecom, has been appointed Chief Operating Officer, Telecoms, so that his expertise can be most effectively put to use across all of the Group's telecoms businesses.

There were two changes to the Board in the last twelve months. We were sorry to say farewell to Des Wilson, who retired from his non-executive role after three years of valuable service. At the same time we were very pleased to appoint Martin Dawes to the Board as a Non-Executive Director during the year.

We are confident of our prospects in the coming year. Competition between mobile operators and continued innovation by handset manufacturers are set to continue to stimulate the market. In fixed line telecoms, we expect this to be the year when TalkTalk establishes itself as the natural alternative to BT in the UK residential market.

The significant progress we have made this year would not have been possible without the efforts of all of our employees. Loyalty and dedication to The Carphone Warehouse is evident in the quality of everyone's contributions and the low levels of employee turnover. Our employees are the key to our continued success and it is my honour to express the Board's gratitude to them.



Hans Roger Snook, Chairman

# Group Overview

The Carphone Warehouse is organised into two core divisions. The Distribution division comprises our Retail operations and other directly-related business streams. The Telecoms Services division comprises our Mobile Services operations and our Fixed Line businesses, addressing the SME and residential markets.

## Distribution

- Retail
- Online
- Insurance
- Ongoing revenue

The sale of network connections, handsets and accessories through 1,214 stores across Europe and via direct channels. Mobile phone insurance services and share of customer call revenue.

### Stores by country

United Kingdom	509
France	176
Spain	164
Netherlands	87
Germany	72
Sweden	58
Portugal	47
Belgium	40
Ireland	32
Switzerland	29

## Telecoms Services – Business Fixed Line

The provision of voice and value added services to small and medium-sized enterprises in the UK (Opal) and Spain (Xtra).

## Telecoms Services – Mobile

The provision of services to mobile phone customers through both our own service provision business and contracts to manage customers on behalf of network operators.

## Telecoms Services – Residential Fixed Line

The provision of voice services to residential customers in the UK, under the TalkTalk brand, Spain and Switzerland.

## Chief Executive's Review

**“Our focus on impartial advice and customer service is translating into ongoing market share gains and increasing levels of repeat business. Our move into fixed line has been decisive and successful and provides the Group with a further avenue for long-term growth.”**

*Charles Dunstone, Chief Executive Officer*

The Carphone Warehouse has changed significantly over the last five years, from a company that generated almost all of its income from its UK retail operations, to a multinational retail group making profits from a range of related services across ten geographical markets. We are now able to achieve increasing returns on our fixed cost base and invested capital by extending our customer relationships beyond the point of sale. As a result, the Group now has a much more stable base from which to pursue consistent long-term profitable growth and the maximisation of shareholder value.

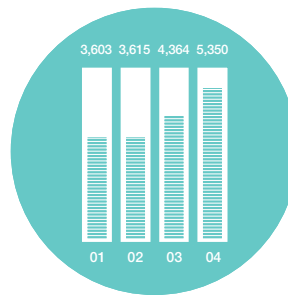
Throughout this period of change, the retail portfolio has remained at the heart of everything we do. With the continued proliferation of handsets, networks and services making the purchasing decision more complex than ever, our customers are quite rightly making increasingly rigorous demands on our sales consultants' knowledge. In this context it has been another year of strong growth and rapid development for the Group. Our continued focus on impartial advice and customer service is translating into continued market share gains and increasing levels of repeat business. Our move into fixed line has been decisive and successful and provides the Group with a further avenue for long-term growth.

### Developing a broad-based telecoms group

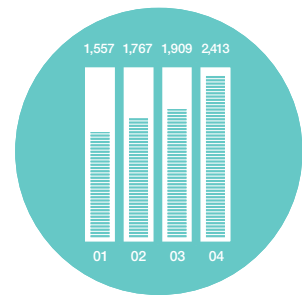
We have a clear strategy designed to build on our track record in retailing and to allow us to move quickly when we see new market opportunities arise, as befits our entrepreneurial roots. Our objective at all times remains the creation of significant and sustainable shareholder value. There are three key elements of our Group strategy:

- To continue to grow retail market share in all our geographical markets both by investing in new store

**Total connections**  
Retail and Online (000s)



**Subscription connections**  
Retail and Online (000s)



openings and by generating like-for-like growth from our existing estate;

- To develop incremental income streams from our customer relationships. We have achieved this historically through our insurance services and network revenue sharing agreements, and now see a significant opportunity in residential fixed line services; and
- To grow our business-to-business fixed line operations organically and through acquisition.

I am pleased to report that we have made good progress on each part of this strategy during the last twelve months, as I will outline below.

### Growing our retail presence

Our retail business had a very strong year. Undoubtedly we benefited from buoyant markets across much of Europe, but without exception we outperformed these markets and made good progress in our market share. Further market share gains remain at the top of the strategic agenda because of the additional influence this gives us in our commercial agreements with mobile operators and handset manufacturers.

We connected 5.35m mobile phones during the period, an increase of 22.6% on 2003. More significantly, we achieved 26.4% growth in subscription connections to 2.41m, extending our track record to 21.8% compound growth over the last four years.

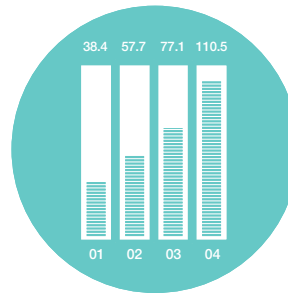
We also continued to invest heavily in our store portfolio, and opened a total of 74 new stores, net of closures and disposals. In the coming year we intend to accelerate our store opening programme with a particular focus on our biggest markets – the UK, Spain and France. New stores are generating very strong incremental returns on capital, and the growing profile of our brand outside the UK is speeding up the rate of payback.

### Developing incremental revenue streams from customer relationships

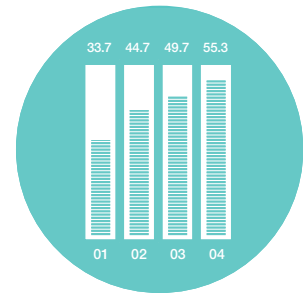
We launched TalkTalk, our UK residential fixed line service, in February 2003. By March 2004 we had attracted 385,000 customers, with the rate of customer acquisition accelerating throughout the year. Our goal is to become the natural alternative to BT in the fixed line market, and we anticipate that our introduction of unlimited free calls between all TalkTalk customers from April 2004 will help us achieve this.

Our fixed line aspirations are not limited to the UK as we see an opportunity to leverage our retail presence and brand in other markets by introducing a similar service. Towards the year end we completed acquisitions in Spain and Switzerland that will allow us to tackle those residential markets, and we have also negotiated terms to enter the French market as a pure reseller.

Contribution from recurring revenues (£m)



Contribution from recurring revenues (% of total)



In mobile services we further developed our customer management operations with the acquisition of Hutchison Telecommunications GmbH in Germany in June 2003. The acquisition gives us over 600,000 mobile customers and an important recurring revenue stream in a market in which our retail operations have historically struggled through lack of scale. The combined operations are now profitable and provide a stable platform for future growth in Germany. Overall, we now manage nearly two million mobile customer relationships across Germany, the UK and France.

Finally, it is worth noting that in spite of the heightened activity of launching new services during the year, our other recurring businesses did not suffer. On the contrary, we added a record 0.26m new insurance customers, taking the total to 1.32m, and grew profits in our insurance business by 27.4%. This is testament to our sales consultants' ability to offer new services without compromising sales of more established products, and proof of the wider viability of our business model.

**Growing our business-to-business fixed line operations**

In its first full year within the Group, Opal performed outstandingly well and exceeded all our expectations, with traffic over the network growing by 100.5% on a pro forma basis. The combination of engineering excellence and a rigorous sales and marketing focus is proving to be a powerful one.

Looking forward, we are confident that we can continue to grow Opal both organically and through acquisition. We expect consolidation in the sector to accelerate over the next twelve months and we will explore appropriate opportunities.

**Outlook**

The outlook for our core businesses is promising. We are once again operating in a handset market demonstrating strong growth. The rapid increase in the volume of our 3G connections since the start of 2004 gives some indication of likely future demand, and we are now seeing the incumbent operators start to come to market with their own 3G services. At the same time the rate of innovation and renewal from the handset manufacturers continues to stimulate consumer demand.

These are good market conditions for The Carphone Warehouse as customers not only rely on our advice for the most appropriate handset and tariff, but also progressively require educating in maximising the functionality of their chosen mobile phone. We therefore expect to continue to strengthen our position through market share gains and new store openings.

On the fixed line side, we anticipate further strong growth in our TalkTalk customer base as the appeal of our free calls proposition becomes more widely recognised. We anticipate that we will have over 900,000 customers by March 2005. Our fledgling fixed line operations outside the UK will start

**The outlook for our core businesses is promising. We are once again operating in a handset market demonstrating strong growth. The rate of innovation and renewal from the handset manufacturers continues to stimulate consumer demand.**

to recruit customers in the coming months and should break even in the first year, with good growth in profits anticipated over the medium term.

Opal has had an outstanding 12 months. We remain confident that Opal can continue to grow revenues at an attractive rate in the year ahead, and maximise efficiency through increased interconnection and strict control of operating costs.

As always, our continued success is down to the dedication and expertise of all of our employees. Recruitment and training remain as important as ever and in the last 12 months over 1,500 people joined the Group, bringing the total to nearly 11,000. I am delighted to welcome all of these new recruits, including those who have joined as a result of our acquisitions in Germany, Spain and Switzerland. With our accelerated store opening plans, the continued expansion of our customer service activities and our investment in the infrastructure to support future growth, we expect to create a further 1,000 jobs across Europe in the current year.

I would also like to extend my thanks to all of our customers, suppliers and investors for their continued support as we grow through what are very exciting times. I am confident that over the next year we will extend our position as the leading independent mobile phone retailer in Europe, continue to execute on our fixed line strategy, and deliver further profitable growth.

Charles Dunstone, Chief Executive Officer

## Operating and Financial Review

The Group achieved another strong result, producing good growth through a buoyant handset market, market share gains and excellent performances from our two most recent acquisitions, Opal Telecom and Hutchison Telecommunications. The quality of earnings continued to improve, with 55.3% of group contribution coming from recurring sources.

Group turnover for the period was £1,849.0m, compared to £1,841.5m for the prior year. Excluding Wholesale operations and the impact of acquisitions, underlying growth in turnover was 28.9%.

The principal acquisition during the year was Hutchison Telecommunications GmbH, a mobile service provider operating in Germany, acquired for a net cash consideration of £30.9m. Hutchison has generated an operating profit of £9.1m on revenues of £211.1m since acquisition. Most importantly it enabled us to restructure our German operations, leading to the generation of operating profit in that key market of £5.2m compared to an operating loss of £7.4m last year.

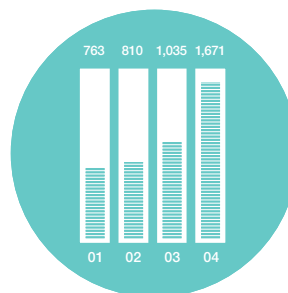
There were four further acquisitions during the year. In April 2003 we acquired the mobile customer base of Sainsbury's and reached agreement to provide mobile and fixed line services to Sainsbury's customers. In January 2004 we acquired E2Save, an off-the-page retailer in the UK, as part of our strategy to build up our Online activities. Finally, we made two small fixed line acquisitions in Spain (Xtra Telecom) and Switzerland (N Tel Com) just before the year end, with negligible contributions to reported results for the year.

Headline profit before tax was £76.3m, an increase of 33.8% on the year to March 2003. Earnings per share on the same basis grew by 29.7% to 6.81p. Statutory profit before tax increased by 29.0% from £34.5m to £44.5m, while statutory earnings per share increased by 21.9% from 2.60p to 3.17p.

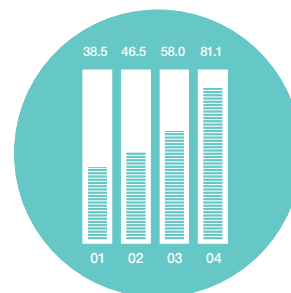
Free cash flow, before acquisitions, dividend payments, the purchase of the Acton Support Centre and Birchwood freeholds and investment in new stores, was £57.0m (2003: £50.8m).

There were two exceptional items during the year. The restructuring in Germany resulted in a charge of £4.7m relating to the closure of our Munich head office and 15 stores. In addition we incurred a non-cash charge of £1.7m in respect of a loss on the partial disposal of our wireless investment portfolio.

Revenue (ex Wholesale) (£m)



Headline operating profit (£m)



### Distribution Division

“Growing our physical presence remains a central element of our Group strategy and we expect to accelerate our store opening programme in the coming year.”

Geoffroy Roux de Bezieux, Chief Operating Officer, Distribution

#### Overview

##### Retail

1,214 stores across 10 countries, selling mobile phones, accessories, insurance, and fixed line services. Major physical expansion in 2004/5.

##### Online

All direct operations, including inbound call centres, web, and 'off the page' activities. Looking to expand from the UK into other markets.

##### Insurance

The provision of insurance services protecting against loss, theft, damage and illegal usage. Over 1.3m customers across Europe.

##### Ongoing

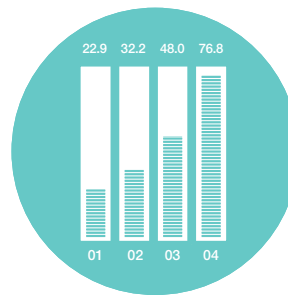
Customer airtime revenue sharing agreements in place with over 70% of all network partners.

#### Distribution

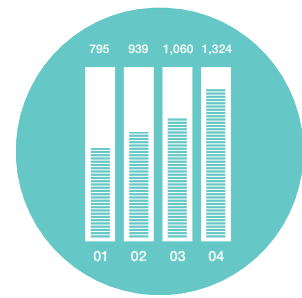
	2004 £m	2003 £m
<b>Turnover</b>	<b>1,128.9</b>	876.1
Retail	<b>946.4</b>	738.3
Online	<b>64.5</b>	41.9
Insurance	<b>78.6</b>	66.8
Ongoing	<b>39.4</b>	29.1
<b>Contribution</b>	<b>154.9</b>	121.7
Retail	<b>83.0</b>	67.2
Online	<b>4.5</b>	3.4
Insurance	<b>28.0</b>	22.0
Ongoing	<b>39.4</b>	29.1
Support costs	<b>(57.4)</b>	(52.4)
<b>EBITDA</b>	<b>97.5</b>	69.3
Depreciation	<b>(30.6)</b>	(25.3)
<b>EBIT</b>	<b>66.9</b>	44.0
<b>EBIT %</b>	<b>5.9%</b>	5.0%

Before exceptional items and amortisation of goodwill.

Contribution from non-UK operations (£m)



Insurance base (000s)



The Distribution division comprises our Retail operations and all directly-related business streams.

#### Divisional performance

Distribution revenues grew by 28.9% in the year to £1,128.9m, and the division generated EBIT of £66.9m, a rise of 52.0% on the prior year. Growth was consistently strong across all business units within Distribution.

#### Retail and Online

The Group achieved 5.35m connections during the year, representing year-on-year growth of 22.6%. Within these figures, 0.31m connections were made through our Online channels (inbound call centre, interactive TV and website). We estimate that the Western European handset market grew by 18% in the year to March 2004, so once again the Group achieved meaningful market share gains during the period, particularly in the high value subscription market.

#### Connections (000s)

	2004	2003
Subscription	<b>2,413</b>	1,909
Pre-pay	<b>2,520</b>	1,972
SIM-free	<b>417</b>	483
Total	<b>5,350</b>	4,364
Of which Online	<b>307</b>	261

In the key metric of subscription connections, we achieved growth of 26.4% to 2.41m, with the rate of growth accelerating throughout the year. In the fourth quarter, subscription growth was 32.4%. Our subscription mix improved by 1.4 percentage points to 45.1%. This strong performance was driven by increasing network competition for high value customers, an exciting range of new handsets from manufacturers, and our own reputation for providing the widest choice and impartial advice to customers.

Growth in pre-pay connections was also robust, particularly over the Christmas period and into the fourth quarter of our financial year. Retail prices came down to levels not seen for three or four years because of the wide availability of cheap entry-level handsets from manufacturers and a renewed focus from network operators. As a result we witnessed high levels of replacement in the market.

As a direct consequence of these lower pre-pay prices, our SIM-free handset sales fell during the year. From a financial perspective there is no material difference to the Group between a pre-pay connection and a SIM-free sale.

We opened 158 new stores during the year and closed or sold 84. The total number of stores increased from 1,140 at March 2003 to 1,214 by March 2004. The total includes 26 franchise stores (March 2003: 11 franchises). Total average selling space increased by 4.6% to 66,170 sqm (2003: 63,233 sqm) and sales per square metre increased by 22.5% to £14,303 (2003: £11,676).

**In the key metric of subscription connections, we achieved growth of 26.4% to 2.41m, with the rate of growth accelerating throughout the year. In the fourth quarter, subscription growth was 32.4%.**

Growing our store portfolio remains a central element of our Group strategy and we expect to accelerate our store opening programme in the coming year, with 200 new stores planned. This will enable us to grow market share and to continue to improve our competitive position in all of our markets. With the sale of the Czech business to management shortly before the year end, we are now focused on ten markets, which will form the platform for future growth in Retail and other business streams.

Total Retail revenues grew by 28.2% and gross profit by 20.4%. Like-for-like, after stripping out the impact of new store openings, revenues grew by 21.0% and gross profit by 14.2%. The increase in revenues was for the most part driven through the strong connections growth through the year, but average revenues per connection also grew by 4.3% as customers tended to trade up to higher value handsets as network subsidies made them more affordable.

As expected, average cash gross profit per connection fell by 2.0% from £57.1 to £56.0. Although we benefited in part from an improvement in the business mix, average gross profit on subscription connections fell by 3.3%, as anticipated, as a greater proportion of customers sought to upgrade on their existing network rather than switch network. We make a lower gross profit on upgrades than on new subscriptions.

The Retail business remains focused on generating a target cash gross profit on subscription and pre-pay connections rather than on a target gross margin. In this way we believe we will maximise growth in profits from our Retail business by achieving the right balance between volume and value. Hence, when revenues per connection rise, the deterioration in our gross margin is exaggerated, but the converse will be true in an environment of falling revenues per connection.

Contribution (see note 10 to the financial statements) from Retail grew by 23.5% to £83.0m. The contribution margin fell from 9.1% to 8.8%. However, the ratio between contribution and gross profit, which gives a more meaningful indication of cost efficiency given the variability of revenues per connection, improved from 28.7% to 29.4%. Overall Retail direct costs grew by 19.2%, driven by the greater store base, a significant number of rent reviews, and higher levels of commission payments to our sales consultants in the strong market environment.

## Operating and Financial Review continued

In the UK, our store portfolio increased from 475 stores to 509 stores. Many of these new stores are on arterial routes or out-of-town retail parks, where we are able to generate an attractive return on investment without cannibalising existing store performance. We are the dominant independent mobile phone retailer in the UK market but we believe there is significant scope for further store openings and market share gains. Approximately half of the new stores planned for the Group this year will be in the UK.

Outside the UK we have witnessed a number of outstanding performances. Aided by strong demand for new handsets, many of our overseas operations are now becoming substantial businesses in their own right. The management time and effort invested in improving retail and operational processes across Europe is beginning to pay dividends and we are very excited about the long-term growth prospects that many of these markets now offer the Group. The recent move to combine overall responsibility for UK and non-UK Distribution is already creating efficiencies and highlighting growth opportunities.

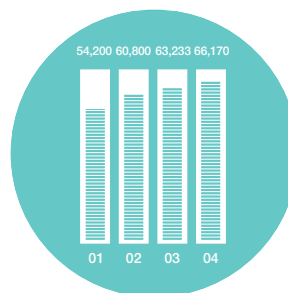
Our French and Spanish businesses both had very good years and represent the most significant opportunities for retail expansion outside the UK. In France we opened 7 net new stores in the period, taking the total to 176, and connections grew by 19.9% year-on-year. In Spain we opened 34 stores, taking us to a total of 164 stores, with connections growing by 65.9% over the year. Taken together, these two markets represented 23.3% of all Group connections during the year, up from 20.3% in the prior period.

In Sweden and The Netherlands we continued to make good progress, supported by ongoing competition between network operators. Both countries experienced a very aggressive pre-pay market during the year, especially at the low end, but we continued to grow subscriptions strongly and strengthened our overall market position.

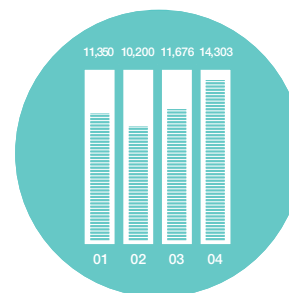
In Germany our prospects have been significantly improved by the acquisition of Hutchison Telecommunications, which we announced in June 2003. Hutchison is a mobile service provider operating in a regulated market that requires incumbent mobile operators to offer its tariffs at wholesale rates for resale. Hutchison has a base of 0.69m customers of which 0.54m are on contracts of up to two years.

The two businesses are now fully integrated and managed out of a single head office in Munster. The Phone House

Average selling space (sqm)



Sales per square metre (£)



stores are recruiting customers onto the Hutchison service provision base to complement Hutchison's other customer acquisition channels. In return, the retail chain benefits from a share in the call revenue of each customer. Overall our German operations made an operating profit of £5.2m during the year (2003: loss of £7.4m) and we have built a platform for a sustainable business in that important market.

Our Online channel achieved another year of impressive growth, with connections increasing by 17.9% year-on-year to 0.31m. Revenues were £64.5m (2003: £41.9m) and contribution was £4.5m (2003: £3.4m). Now that our retail operations are performing consistently well and The Phone House brand outside the UK is becoming more widely recognised, we plan to launch direct and internet sales businesses in a number of other countries in the current financial year. These have proved to be successful channels for our UK business and we are confident that we can repeat this success elsewhere. Meanwhile we made a significant addition to our UK Online operations with the acquisition of E2Save, an 'off-the-page' retailer generating connections predominantly via newspaper advertising with supporting call centres and a website.

### Insurance

The Group offers a range of insurance products to its retail customers, providing protection against the replacement cost of a lost, stolen or broken handset, as well as cover for any outstanding contractual liability and the cost of any calls made if a mobile phone falls into the wrong hands. Insurance is a core element of the Group's customer proposition and a substantial contributor to Group profitability.

Our Insurance customer base continued to grow strongly during the year. Overall we added 0.26m new customers, taking the total to 1.32m. The UK base grew by 19.0% to 0.83m and the non-UK base grew by 36.2% to 0.49m. The non-UK base now represents 37.4% of the total.

Insurance revenues grew 17.7% to £78.6m (2003: £66.8m) and contribution increased by 27.4% to £28.0m (2003: £22.0m). The improvement in margins was attributable to a reduction in the number of claims per policyholder following an industry-wide campaign against mobile phone crime in the UK. During the year the business underwent significant change as it relocated from the Isle of Man to Dublin. We now underwrite substantially all of our own business directly through our New Technology Insurance subsidiary, whereas previously all of our business was by way of reinsurance.

Looking forward, we will continue to work hard on retaining insurance customers as well as attracting new ones. As previously indicated, we see additional opportunities arising in the provision of underwriting and administration services to third parties who wish to offer insurance to their customers but do not have the necessary expertise.

### Ongoing

Ongoing represents the share in customer call spend (or ARPU) we receive as a result of connecting subscription customers to certain networks. We are typically contractually entitled to our share of revenue for as long as a customer is active on the number and network that we connected him or her to, so this income stream represents an important element of our overall commercial agreement with many networks.

Ongoing revenues grew by 35.3% to £39.4m during the year (2003: £29.1m), on top of a 32.1% growth rate in the previous year. This performance reflects the strong subscription connections growth over the last twelve months, as well as the continued effect of our change in terms of trade with certain networks two years ago. Under these changed agreements we exchanged an element of upfront commission for a greater ARPU share over the customer lifetime, thus improving the quality of our earnings and aligning our interests more closely with those of the network operators.

## Telecoms Services

“The opportunities for growth in all aspects of our Telecoms Services operations are very exciting.”

David Goldie, *Chief Operating Officer, Telecoms*

### Overview

#### Fixed: Opal

Providing voice telecoms and value-added services to SMEs in the UK, and providing the network infrastructure for TalkTalk.

#### Fixed: TalkTalk

Residential fixed line services for 0.4m customers in the UK. New services launching in Spain, France and Switzerland.

#### Mobile: Facilities Management

Managing customer relationships for over 1.1m customers in the UK and France on behalf of network operators.

#### Mobile: Own Customers

Recruiting and servicing over 0.8m customers through our newly acquired service provision business in Germany and our MVNO in the UK.

### Telecoms Services

	2004 £m	2003 £m
<b>Turnover</b>	<b>554.5</b>	158.8
Mobile	305.9	82.7
Fixed	248.6	76.1
<b>Contribution</b>	<b>43.2</b>	26.0
Mobile	23.5	18.0
Fixed	19.7	8.0
Support costs	(18.1)	(10.4)
<b>EBITDA</b>	<b>25.1</b>	15.6
Depreciation	(10.1)	(5.7)
<b>EBIT</b>	<b>15.0</b>	9.9
<b>EBIT %</b>	<b>2.7%</b>	6.2%

Before exceptional items and amortisation of goodwill.

The Group's Telecoms Services operations are split into two businesses, Mobile and Fixed. The Mobile business encompasses our facilities management ('FM') operations, managing customers on behalf of networks, and our own

## Operating and Financial Review continued

customers, including our virtual network, Fresh, and our German service provision business, Hutchison (now renamed The Phone House Telecom). The Fixed business comprises Opal, our business-to-business network, and TalkTalk, our residential service, both in the UK. Going forward as we build up our non-UK fixed line operations, these will be split between business and residential as appropriate.

Telecoms Services revenues grew by 249.3% year-on-year to £554.5m (2003: £158.8m), boosted by the full year impact of acquiring Opal and the acquisition of Hutchison in June 2003. EBIT increased by 51.9% to £15.0m (2003: £9.9m). The EBIT margin declined from 6.2% to 2.7% as a result of the lower margin Phone House Telecom revenues, and the start-up losses in TalkTalk of £11.0m.

### Mobile

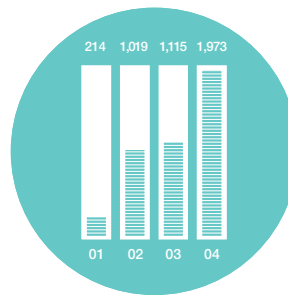
We work increasingly closely with network operators to attract and retain high quality customers, and to generate more value from our customers beyond the point of sale. Overall we achieved revenue growth of 270.0% to £305.9m (2003: £82.7m), with contribution up 30.8% to £23.5m (2003: £18.0m). Stripping out the effect of the Hutchison acquisition, revenues grew by 14.6% to £94.8m and contribution fell by 28.9% to £12.8m. Overall profitability for this business was negatively affected year-on-year by the transfer of a service provision base back to SFR in France just before the previous year end.

We achieved good organic growth in our UK FM business with customers managed on behalf of O2 and Vodafone growing by 42.5% to 0.56m (2003: 0.39m). This was boosted in part by an agreement with Sainsbury's, the supermarket chain, to provide mobile services to its customers in association with O2. We continue to manage 0.6m customers in France on behalf of Orange and SFR.

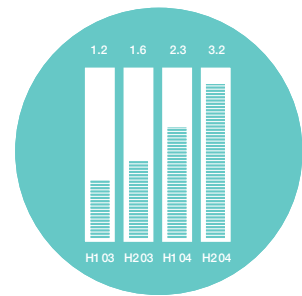
The key drivers of our FM businesses are the number of customers under management, the customer ARPU, and the efficiency with which we manage our call centres and bad debt. During the year we opened a second UK contact centre in Birchwood to address the additional volumes of FM and TalkTalk customers under management.

Within our operations managing our own customers, the major highlight of the year was the acquisition of Hutchison in Germany. This now represents by far the most significant element of our own customer operations, and recorded

Mobile managed base (000s)



Opal switched minutes (bn)



revenues of £211.1m and an operating profit of £9.1m in its first ten months within the Group. In the current year we intend to invest in growing the current base of 0.69m customers more aggressively.

Our other own customer operations, predominantly Fresh, our UK virtual network, suffered during the year as the incumbent networks continued to make aggressive offers in the pre-pay market. Total customer numbers were flat on the year at 0.12m.

### Fixed

Our fixed line operations have had a very successful year. Opal, our business-to-business network provider which underpins all of our fixed line activity in the UK, generated revenues of £218.4m and contribution of £30.6m in its first full year within the Group. Opal continued to win new clients through a combination of bespoke value-added services and its ability to offer very competitive voice tariffs to the SME market.

Total business traffic over the network increased by 64.3% on a pro forma basis to 4.51bn minutes. The difference between revenue growth and traffic growth in Opal arose from a change in business mix during the year, with high per-minute revenue, low margin premium rate business representing a lower proportion of traffic than in the previous year. Including TalkTalk activity, total traffic increased by 100.5% to 5.52bn minutes.

Opal has a clearly focused engineering strategy that directs investment towards those elements of the network that create cost efficiency and allow us to add value to customers. During the year it provisioned two switches, taking the total to six, with plans for a further four in the coming year. Investment in switches not only allows Opal to manage the rapid rise in call traffic but also to build its own software layer into the network through which it provides a number of services to corporate customers, particularly in the areas of call recording, call queuing services and database management.

The other main area of investment for Opal is in the development of a deeper level of interconnect into the BT exchange infrastructure, since the extent to which the Opal network is connected into the BT network has a significant impact on the price we pay BT for carrying calls. A call that is originated onto the Opal network at the local exchange level is 27% cheaper than a call originating at the regional exchange level. By March 2004 we had aimed to originate 30% of traffic at the local exchange layer but actually hit 60%, creating significant additional network efficiency. We are targeting a figure of 75% for the coming year.

The final element of network infrastructure – the fibre backbone connecting our switches – is leased from a number of operators. There continues to be significant excess fibre capacity in the UK market and the cost

to us of leasing the bandwidth we require is a very small proportion of our overall network cost.

The outlook for Opal continues to be promising. We are building up our sales resource to drive further organic growth and investing further in building network capacity. We plan to resize the network to carry 2 billion minutes per month to meet future demand while retaining capex near the levels of the last 12 months. This will allow us to continue to grow the business and offer competitive tariffs through increased network efficiency.

Our residential fixed line service, TalkTalk, which was launched in February 2003, made excellent progress during the year. By March 2004 we had attracted 385,000 customers to our service. In its first full year, TalkTalk generated revenue of £30.2m and incurred a loss of £11.0m after marketing and customer recruitment costs of £20.3m. As the base continues to grow, the profitability of existing customers will comfortably offset the cost of recruiting new customers and we are confident that TalkTalk will become a major contributor to overall Group earnings in the years ahead.

We identified a significant opportunity in the residential fixed line market arising from a major change in regulation in 2002. The introduction of automated Carrier Pre-Select ('CPS') made it much easier for new entrants to switch customers from BT, with no requirement to change telephone numbers, dial prefixes or install dialler boxes. The acquisition of Opal in November 2002 allowed us to enter this market supported by a highly efficient network, meaning that we can offer very competitive tariffs while still achieving attractive margins. The cost of customer recruitment is a key consideration for alternative providers, and the combination of our trusted telecoms brand with our physical presence of over 500 stores across the UK gives us a significant advantage in this respect.

Approximately 150,000-200,000 customers are switching from BT to CPS providers each month at present, and by the year end TalkTalk was capturing over 30% of this market on a monthly basis. On 1 April 2004 we launched a major new proposition offering free calls between TalkTalk customers regardless of time of day or duration. We believe this enhancement to the service will accelerate the growth of our customer base and help to establish TalkTalk as the number one alternative to BT in the residential market. In addition, we anticipate that further regulatory changes in the next twelve months will enable us to offer our customers line rental and broadband services.

The early success of TalkTalk has prompted us to consider the development of fixed line operations outside the UK. Although different geographical markets are at varying stages of deregulation, our strengthening brand and increasing physical presence give us two material advantages in the creation of profitable fixed line businesses.

## Opal has a clearly focused engineering strategy that directs investment towards those elements of the network that create cost efficiency and allow us to add value to customers.

To this end, we made two acquisitions close to the year end. In Spain we acquired Xtra Telecom, an alternative telecoms carrier with national coverage in Spain. It has three switches and low cost, leased infrastructure with a high level of interconnect into the Telefonica network. It is currently carrying approximately 45 million minutes of traffic per month for business and wholesale customers and the international pre-pay market. The existing Xtra sales team will continue to pursue new business in the SME market and will benefit in the medium term from the expertise and product portfolio of Opal. In addition, The Phone House will be launching a residential fixed line service in Spain using the Xtra network in September 2004.

In Switzerland we acquired N Tel, a switchless reseller with a base of 44,000 customers of whom approximately 90% were residential. N Tel is achieving good organic growth in its own right and will continue to be run as a stand-alone business, but we intend to enhance its long-term potential by developing tariffs to be distributed through our Phone House stores. We also intend to use N Tel as the platform for organic growth into other markets, including Germany.

In addition to these two acquisitions, we have also negotiated network terms in France to develop our own reseller business, which was launched in May 2004. We expect our non-UK residential operations to break even in the year to March 2005.

### Wholesale

	2004 £m	2003 £m
<b>Turnover</b>	<b>178.1</b>	806.6
<b>Contribution</b>	<b>1.8</b>	7.5
Support costs	(1.7)	(2.4)
<b>EBITDA</b>	<b>0.1</b>	5.1
Depreciation	(0.9)	(1.0)
EBIT	(0.8)	4.1
<b>EBIT %</b>	<b>(0.5%)</b>	0.5%

Wholesale operations in the year predominantly comprised our pre-pay voucher distribution business and the wholesale shipment of trade-in handsets. The substantial majority of the prior year's turnover related to mobile phone wholesale trading activities. In view of the continued uncertainty regarding the actual implementation of joint and several

## Operating and Financial Review continued

liability by HM Customs & Excise in relation to mobile phone wholesale trading, we have not undertaken any wholesaling of mobile phones since April 2003 and do not foresee entering the market again in the coming year. We understand that HM Customs & Excise continue to investigate the recovery of VAT in the industry. Having undertaken a detailed internal investigation and taken advice, we continue to believe that we have no financial exposure to this issue within the financial statements.

### Exceptional items

There were two exceptional items during the year, representing a total charge of £6.4m.

We incurred an exceptional charge of £4.7m in our German business in the first half of the year, relating to the planned closure of 15 stores, the integration of the head office operations of The Phone House Germany and Hutchison, the closure of the existing German head office in Munich, and associated fixed asset write-offs.

In the second half of the year we recognised a non-cash charge of £1.7m on the disposal of part of our interest in our wireless internet portfolio. The carrying value of this fund on the balance sheet is now £5.4m.

### Eliminations

Included within Retail revenue is £12.5m of commissions from the Group's German service provision business for customers connected onto our own base. Retail revenue is reported gross to avoid distortion of performance.

### Interest and tax

Net interest of £4.9m was payable during the year, compared to a charge of £1.0m in the prior year. This movement reflects the impact of the acquisitions made over the last eighteen months and increased capital expenditure, as well as the purchase of the freeholds on our London offices and the Birchwood call centre site.

The effective tax rate before amortisation and exceptionals was 22%, as in the prior year. The tax 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 £64.4m arose during the period, relating to the acquisitions made. The total goodwill amortisation charge for the year was £25.4m (2003: £20.6m).

### Earnings per share (EPS)

Headline EPS was 6.81p (2003: 5.25p). Statutory EPS was 3.17p (2003: 2.60p).

### Cash flow and dividend

At 27 March 2004, the Group had net debt of £40.6m (2003: net funds of £29.1m). During the year the Group generated cash flow from operations of £102.7m (2003: £77.7m), and total free cash flow before acquisitions, new stores, dividend payments and the purchase of the London and Birchwood freeholds of £57.0m (2003: £50.8m).

Cash generation is a prime objective of the Group and we expect to continue to generate significant levels of free cash flow in the future, allowing us to reinvest in the growth of the business and pursue a progressive dividend policy. We are proposing a final dividend of 0.9p per share, taking the total dividend for the financial year to 1.3p and representing growth of 30.0% over last year's maiden 1.0p distribution, reflecting underlying EPS growth.

### Net (debt) funds

	2004 £m	2003 £m
Operating cash flow	102.7	77.7
Tax and interest	(7.2)	(1.5)
Capex (ex new stores and freeholds)	(38.5)	(25.4)
<b>Free cash flow</b>	<b>57.0</b>	50.8
New store capex	(13.7)	(10.9)
Freehold (acquisitions) disposals	(47.3)	31.5
Acquisitions and investments	(59.3)	(62.1)
Dividends	(12.2)	–
<b>Net cash (outflow) inflow</b>	<b>(75.5)</b>	9.3
Opening net funds*	29.1	34.6
Shares and foreign exchange	5.8	(14.8)
Closing net (debt) funds*	(40.6)	29.1

\* including short-term investments.

### Balance sheet

Acquisitions and capital investment during the period are reflected in an increase in fixed assets from £511.7m to £604.7m year-on-year. Debtors and short-term creditors also increased substantially from March 2003 to March 2004, reflecting acquisitions during the period, together with growth in turnover ex Wholesale of 61.5%. The increase in long-term creditors from £49.4m to £117.7m year-on-year principally reflects the introduction of the term loan noted below.

### Financing and treasury

The Group's operations are financed by committed bank facilities, retained profits and equity. During the period, the Group agreed a £120m term loan facility, which amortises between January 2005 and July 2008. The Group was in compliance with the covenant conditions of the existing £180m revolving credit facility and the new facility throughout the period.

Net borrowings peaked during the year at £166m mainly as a result of acquisitions and high working capital levels during the peak Christmas trading period. The Group seeks to maintain comfortable headroom on committed facilities at all times and all future contractual commitments can be covered by the existing facilities.

The Group also has a number of uncommitted loan facilities, overdrafts and guarantee lines, all technically repayable on demand, 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, of £42.6m at the period end (2003: £34.2m), is invested to maximise returns whilst ensuring at all times that such investments are within acceptable risk parameters.

Funding of our subsidiaries is arranged and monitored centrally. All cross-border funding is provided on an arm's length basis and currency risk is hedged using foreign exchange swaps or currency borrowings, as appropriate, at all times. Balance sheet translational risk is not specifically 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.

Treasury policy permits the use of long-term derivative treasury products for the management of currency and interest rate risk; however, with the current low levels of Group debt, almost all debt is liable to floating rate interest. The interest cover covenant was comfortably exceeded at the period end and, whilst low levels of debt persist, movements in interest rates will have a limited impact on Group profits. The Group does not trade or speculate in any financial instruments.

#### Accounting policies

The accounting policies adopted during the period are set out on page 30 and are consistent with those applied in the prior period with the exception of UITF 38 which was applied in this period and gave rise to a prior period adjustment as detailed in note 12 to the financial statements.

#### International Financial Reporting Standards

The Group will be required, subject to enabling UK legislation, to adopt International Financial Reporting Standards (IFRS) for the year ending 1 April 2006. The Group will continue to assess the impact of adopting IFRS on an ongoing basis given that both UK and International Standards are undergoing a period of rapid change to assist harmonisation.

#### Return of capital employed

Total shareholders' funds at 27 March 2004 were £471.8m, compared to £455.6m at March 2003. After taking into

### Cash generation is a prime objective of the Group and we expect to generate significant levels of free cash flow in the future, allowing us to reinvest in the growth of the business and pursue a progressive dividend policy.

account average net debt, and adjusting for goodwill amortisation on acquisitions and minorities, the Group generated a return on capital employed of 17.6% (2003: 17.2%).

Assuming a weighted average cost of capital for the period ended 27 March 2004 of 7.1% (2003: 7.0%), this represents an increase in economic value added from £26.8m to £37.8m, being 10.2% and 10.5% respectively.

Roger Taylor, Chief Financial Officer

## Corporate Responsibility

The Group takes its corporate responsibility seriously. During the year, renewed focus was brought to these activities, with the establishment of two committees composed of executives from across the Group. One committee oversees all our charitable and community activities, while the other is dedicated to wider ethical and regulatory issues. We have appointed a Corporate and Social Responsibility ('CSR') manager to coordinate strategy and actions across both elements, and Martin Dawes has agreed to sponsor our initiatives at Board level.

### Charitable activities

We have continued our support of Macmillan Cancer Relief and Get Connected over the last year as well as supporting smaller charities and projects nominated by our employees. In addition to corporate donations, funds have been raised through sponsored employee activities, events and Give As You Earn.

### Get Connected

Get Connected is a free helpline for young people. Trained volunteer helpline workers provide emotional support whilst informing callers of the options available. Callers can then get a connection to over 13,000 local or national services for free, or have information texted to their mobile phones. The service is available daily throughout the UK and over 1,250 young people a month currently contact the helpline. Anyone under 25 years old can contact Get Connected, with 66% aged between 13 and 17 years old. Get Connected helps young people with a range of serious emotional issues, including relationships, abuse, sexuality and mental health.

Since September 2001 The Carphone Warehouse has supported Get Connected by providing financial security, a fully equipped helpline facility and office space, and fundraising, marketing and service provision support. This has enabled Get Connected to increase its user base by 30% since the relationship started and to increase the small employee team by 75%. This unique relationship was named Corporate Partnership of the Year at the UK Charity Awards 2003, with the judges describing it as 'a true partnership in every sense.'

Our continued support of Get Connected also includes employee fundraising activities and volunteering. This has enabled Get Connected to continue to develop and expand the range of services it provides, including the successful launch of an e-mail service.

**We are particularly proud of our track record in charitable activities, which benefit from a high level of employee involvement.**

### Employee volunteering

There is a strong culture of volunteering amongst employees, encouraged by incentives that grant employees additional holiday entitlements in return for voluntary work for Get Connected.

The Carphone Warehouse actively promotes the School Governors One Stop Shop, encouraging and facilitating employees to become volunteer governors. School governors have a vital role to play in helping to improve educational standards and as schools become more autonomous, governors with business skills can add real value to a governing body. This year the number of volunteers exceeded 100, making us the fourth largest provider of school governors in the UK. This was recognised by David Milliband, the Schools Minister, at a reception at the House of Commons.

We plan to expand our volunteering programme by identifying and promoting opportunities to reflect the abilities and interests of all our employees and offering them an opportunity for vocational and personal development.

### Mobile Cup

In 2003 the Mobile Cup was staged for the second time and the industry golf tournament continues to prosper and grow. The featured charity was the Make-a-Wish Foundation, for which over £30,000 was raised, representing the proceeds of various fundraising activities taking place during the tournament. In 2004 the charity selected to benefit from the event is Get Connected.

### Community projects

We have been particularly keen to respond to activities where mobile technology can be used to assist marginalised people. We have recently supplied handsets to refugee camps in Northern Uganda to enable communication between camp leaders and UN bodies who provide essential nutritional and medical support to those in the camps who have been forced to evacuate their homes because of the conflict in the north of their country. Closer to home we supplied handsets to Crisis Open Christmas to enable better coordination of activities between Crisis employees and volunteers working in the shelters.

### Social responsibility and regulatory activities

Martin Dawes represents the Group on social, environmental and ethical ('SEE') matters at Board level. The committee referred to above is responsible for identifying and assessing SEE matters, and working with the appropriate business units to manage any issues arising.

This committee is composed of individuals from a variety of roles within the business, including operations, human resources, legal and investor relations. The objective for 2004/05 is to meet formally every three months, and to submit a written report to the Board at the same intervals, highlighting and seeking guidance on key issues. In this respect the committee will work closely, where necessary, with the Group Risk team that also reports regularly to the Board on a wide variety of business risk issues, to put in place effective systems and controls for managing SEE-related risks.

Below we have identified the key SEE-related risks currently affecting the Group. The list is not intended to be exhaustive but to address those that are most material to the business.

#### Environment

We are fully committed to assessing, monitoring and minimising the impact of our activities upon the environment.

During 2004 we are launching a major handset-recycling scheme in an effort to prevent the estimated 2.8 million redundant handsets in the UK going to landfill. In addition to reducing environmental impact we hope to raise substantial funds for a new partner charity as well as providing finance for smaller charities and projects that directly affect the lives of our employees or the communities where we have a presence. We are currently consulting with all employees to involve them in the selection of our new partner charity.

As well as handset reuse and recycling, we are now focusing on how we manage other waste created in our offices and stores. We continue to manufacture our carrier bags from low-density recyclable polythene and the monthly buyers' guide is printed on chlorine-free paper made from wood from sustainable forests.

#### Waste Electrical and Electronic Equipment Directive ('WEEE Directive')

The WEEE Directive comes into force on 13 August 2004 and we will be required to comply with the obligations imposed on us by the Directive with effect from 13 August 2005. We are currently awaiting a final draft of the legislation in the UK and the other markets in which we operate and are liaising with networks and suppliers to ensure that we are able to comply by the deadline.

#### Mobile phone crime

The Carphone Warehouse has continued its commitment to working with industry, police and government to combat mobile phone crime. The Group raised campaign funds of £1.5 million and from March 2003 to January 2004

spearheaded a publicity campaign across the UK that aimed to reduce mobile phone crime.

The campaign, called "Immobilise", was launched by the Home Secretary and highlighted the message that Stolen Phones Don't Work Any More, with the networks now blacklisting mobile phone identity numbers, known as IMEIs, across all networks, rendering stolen handsets useless.

In addition to spearheading the campaign, The Carphone Warehouse set up a central customer information line, providing details of how to report stolen handsets. In April 2004, we set up a joint industry, police and government Immobilise Marketing Forum. The Forum meets every month with the aim of ensuring that the Immobilise message continues to be spread across all possible marketing channels.

#### Mobile phones and health

The Carphone Warehouse recognises that there is customer confusion surrounding health and mobile phones. In 1998 the Group launched an independent service regarding the issue, including regularly updated fact sheets. Currently on its tenth issue, the leaflet sets out all the facts relating to health and mobile phones, including new medical research, government announcements and industry comments. This allows customers to make their own choices in relation to health and mobile phones. In addition, we list the Specific Absorption Rate (a measure of radio wave emissions) for each handset in our UK monthly buyers' guide.

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."

Following on from The Stewart Report's call for additional research, an independent research programme costing £7.5 million has been commissioned, half of it funded jointly by industry and government. The Carphone Warehouse has made a considerable financial contribution to this programme and the first stage results of this research are due out at the end of 2004.

#### Mobile phones and driving

The increasing use of handheld mobile phones whilst driving has become a major safety issue, with drivers reportedly four times more likely to have an accident as a result of driving while using a mobile phone.

In September 2003, The Carphone Warehouse launched the biggest ever industry safe driving campaign called "Hang Up or Go Hands Free". The aim of the campaign, which cost over £2 million, was to educate customers about safe driving and to inform them about the new legislation coming into effect from 1 December 2003, that would make it illegal to hold a mobile phone whilst driving.

## Corporate Responsibility continued

During the year, the UK business joined forces with the Capital Radio Group, promoting Hang Up or Go Hands Free throughout the breakfast and drivetime shows, and handing out free handsfree kits to the first 100 listeners to get to a specified Carphone Warehouse store. We also joined up with The Sun newspaper offering all readers a free handsfree pack, and promoted safe driving across the UK through our radio advertising.

Since the UK law changed in December 2003, the UK business has run an ongoing PR campaign to encourage safe driving and all UK stores now display safe driving leaflets, informing customers of the risks and of the new legislation.

To encourage our own employees to drive safely the UK business installs a free handsfree kit in 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.

### Mobile phones and adult content

With the advent of mass market availability of colour screen handsets, improving bandwidth and falling prices, the development of content-based business models focused on the distribution of pornography via mobile phones is already accelerating. There is a clear risk that adult content will become easily accessible by under-age mobile phone users.

In the UK, network operators have collectively developed a code of practice for the self-regulation of new forms of content on mobiles. As part of this, they will appoint an independent classification body to provide a framework for classifying commercial content that is unsuitable for customers under the age of 18. Within the retail business we have now adopted a policy of taking date of birth details on all sales, including pre-pay, so that the network operators will know if users are under 18 and will be able to filter content accordingly.

### Ethical supplier policy

We have introduced an ethical purchasing policy for the procurement of all goods and services to ensure that we are operating to the highest standards both legally and morally. The policy provides guidance on identified criteria as well as requesting audits and activity reviews in order to demonstrate a supplier's compliance.

### Disability discrimination

We are constantly reviewing and improving our websites and stores to provide greater accessibility for our disabled customers. We have a special needs section on our website providing clear impartial advice as well as offering a dedicated e-mail address enabling our special needs champions to provide the best advice. A dedicated special needs phone number will go live in June 2004.

We keep up to date with advances in technology and consult with appropriate charities to provide the best possible advice on handsets and other accessories and services. We also provide training for all retail employees on these matters and our obligations under the Disability Discrimination Act.

The majority of our stores offer disabled access and at the few that do not we publish information on the nearest alternative store with disabled access while a solution is sought in time for October 2004, when the act comes into force. Induction loops and drop counters are now being installed in new stores as standard and by October 2004 they will be available in all stores.

### Employee policies

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 and recruits through ethnic and female targeted media as well as advertising all roles internally to aid transparency. All employees have the right to apply for a more flexible pattern of working in terms of hours, times or place of work.

2004 will see the fifth year of Backchat, a comprehensive survey of Carphone Warehouse employees across the Group, soliciting their views on many issues, from work / life balance to understanding Group aims. There was an unprecedented 85% participation rate in the UK, with 81% of employees stating that they are proud to work for The Carphone Warehouse. This was reflected in our inclusion in the Sunday Times 100 Best Companies to Work For in 2003. The results of the survey are published and analysed against external benchmarks by a committee representing all areas of the business, and appropriate action is taken to address any areas of concern.

# Board of Directors and Group Advisors

## EXECUTIVE DIRECTORS

### **Charles Dunstone** **Chief Executive Officer**

Age 39. 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** **Deputy Chairman**

Age 38. Deputy Chairman with responsibility for the strategic development of the Group. Prior to this, he was Chief Operating Officer between 1990 and July 2003 and was responsible for the Group's activities in mainland Europe. He is Non-Executive Chairman of National Express Group PLC and a Non-Executive Director of Trinity Mirror PLC and Big Yellow Group PLC.

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

Age 41. Joined the Group in 1996 and was appointed to the Board in June 2000. He is responsible for the Group's Distribution activities. Prior to joining the Group 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 39. 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 64. 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.

## COMPANY SECRETARY

T S Morris

## BOARD COMMITTEES

### **Audit Committee:**

Adrian Martin (Chairman)  
John Gildersleeve  
Sir Brian Pitman

### **Remuneration Committee:**

John Gildersleeve (Chairman)  
Sir Brian Pitman  
Martin Dawes

### **Nomination Committee:**

Sir Brian Pitman (Chairman)  
John Gildersleeve  
David Ross

## NON-EXECUTIVE DIRECTORS

### **Hans Roger Snook** **Chairman**

Age 56. 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 59. Joined the Board in June 2000. He was an Executive Director of Tesco PLC until he retired in February 2004. He is Non-Executive Chairman of Gallaher Group PLC and Deputy Chairman of EMI 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 54. Joined the Board in November 2000. He is Chief Executive of Reynolds Porter Chamberlain Solicitors and a Non-Executive Director of one privately controlled company. He was appointed a Non-Executive Director of M & C Saatchi PLC in 2004. Previously he was UK Managing Partner of BDO Stoy Hayward, where he was also Chairman of its International Policy Board.

### **Sir Brian Pitman**

Age 72. Joined the Board in January 2001 and is the Senior Independent Director. A senior adviser to Morgan Stanley, he is also Non-Executive Director of Tomkins PLC, ITV PLC and Singapore Airlines Limited. He retired in 2001 from Lloyds TSB Group 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 60. 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 sold to BT Cellnet in 1999. He was Non-Executive Deputy Chairman of Opal Telecom PLC until its acquisition by the Group in November 2002.

## ADVISORS

### **Bankers**

HSBC Bank PLC  
ING Bank NV – London Branch  
Deutsche Bank AG – London Branch

### **Legal Advisors**

Ashurst Morris Crisp  
Clyde & Co  
DLA  
Osborne Clarke

### **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 LLP  
London

### **Registered Office**

1 Portal Way  
London W3 6RS  
Registered number: 3253714

# Corporate Governance

## Introduction

The Board of Directors recognises the importance of high standards of corporate governance. This Report and the Remuneration Report set out on pages 20 to 23 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

During the period the Financial Reporting Council issued a new Combined Code, which comes into effect for reporting years beginning on or after 1 November 2003. Whilst the Board has considered the principles and provisions of the new Combined Code, and will report on compliance with it in next year's Annual Report, the information in this Report is given in relation to the version of the Combined Code applicable for the period ended 27 March 2004.

## Board

The Company has a well-balanced Board. There are five Executive Directors and five Non-Executive Directors. Directors' names and brief biographies are set out on page 17. During the period, the appointment of Martin Dawes as a Non-Executive Director became effective on 2 June 2003 and Des Wilson resigned as a Non-Executive Director on 31 July 2003.

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

The Board considers that, other than Hans Roger Snook, each of the Non-Executive Directors is independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. The 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 was not considered independent during the period because as a previous shareholder of Opal Telecom plc, which was acquired by the Group in November 2002, he was entitled to receive part of any additional consideration payable in respect of Opal's performance in the two financial periods ended 27 March 2004. The amount of such additional consideration has now been calculated and as such the Board believes that Martin Dawes is now independent in character and is free from any relationship with the Company that could materially interfere with his independent judgement.

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

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

## Board Committees

The Board has established three principal committees to consider various aspects of the Group's operations in more detail than would be the case within full Board meetings. Details of the members of each committee are given on page 17.

## I Audit Committee

The Audit Committee comprises three independent 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 Report 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 independent 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 bonus plans and executive share option awards for Executive Directors and senior management. The Remuneration Report is set out on pages 20 to 23.

## III Nomination Committee

The Nomination Committee comprises two Non-Executive Directors and David Ross and is chaired by Sir Brian Pitman. It advises generally on Board appointments and the composition of the Board.

The Company's policy is 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 at [www.cpwplc.com](http://www.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 three year period. These plans are challenged and approved by the Executive Board of Directors.

The Board receives comprehensive monthly information including financial and business performance showing variances against budget and key performance indicators.

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 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 cannot be compromised.

In particular, the Group's procedures in respect of services provided by Deloitte & Touche LLP are:

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

During the period the Financial Reporting Council issued a new Combined Code which comes into effect for reporting years beginning on or after 1 November 2003. The Remuneration Committee has considered the new Combined Code and next year's Remuneration Report will be prepared in accordance with it. This Remuneration Report has been prepared in accordance with the Directors' Remuneration Regulations 2002 ('Regulations') and the Combined Code, applicable for the period ended 27 March 2004 ('Original Combined Code'). Except as stated below, 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 Original 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 Original Combined Code. As required by the Regulations, a resolution to approve this Report will be proposed at the Annual General Meeting to be held on 28 July 2004.

The Regulations require the Auditors to report to the Company's members on the "auditable part" (indicated \*) of this Report and to state that 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 Board of Directors. 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: John Gildersleeve, Sir Brian Pitman and Martin Dawes. Martin Dawes was appointed to the Committee during the period and notwithstanding the disclosure on page 18 of the Annual Report regarding his independence during the period, the Board of Directors and the Committee believe that Martin Dawes was, for the purpose of dealing with Committee matters during the period, independent in character and judgement and that there were no relationships or circumstances which were likely to affect or could appear to have affected his judgement when dealing with matters of the Committee, primarily because the Committee did not consider any matters that may have affected any additional consideration payable in respect of the acquisition of Opal Telecom plc. Consequently, none of the members of the Committee has, or had during the period, 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.

During the period New Bridge Street Consultants (NBSC) were appointed as lead advisors to the Committee and conducted a Total Reward Survey for Executive Directors and other senior management. Deloitte & Touche LLP provided advice to the Remuneration Committee on the administration of Share Option and Save As You Earn schemes.

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

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

## 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;
- The development of new business streams.

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.

## Components of remuneration

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);
- share option scheme based on 3 years' relative Total Shareholder Return ('TSR') (variable); and
- long-term incentive plan based on 3 years' EPS and relative 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 at least 100% of their annual salaries.

## Salaries & benefits

Executive Directors' base salaries are reviewed annually and take into account the roles, responsibilities, performance and experience of the individuals and information obtained from published market data on the salary rates for similar positions. As a result of such a review, all the Executive Directors received salary increases effective from January 2004. 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 (ii) £'000	Annual bonuses (iii) £'000	2004 Total £'000	2003 Total £'000
<b>Executive</b>					
C W Dunstone	319	13	300	632	413
D P J Ross (i)	336	4	280	620	418
R W Taylor	218	14	216	448	309
G Roux de Bezieux	203	14	192	409	297
J H Dale	121	10	120	251	151
<b>Non-Executive</b>					
Hans Roger Snook	150	–	–	150	139
Sir Brian Pitman	33	–	–	33	25
J Gildersleeve	33	–	–	33	25
A H Martin	42	–	–	42	25
D Wilson	8	–	–	8	25
M Dawes	23	–	–	23	–
Aggregate emoluments	1,486	55	1,108	2,649	1,827

(i) Includes a salary supplement in lieu of pension and company car.

(ii) Taxable benefits consist of a company car or car allowance and private medical cover.

(iii) Annual bonuses for the period ended 27 March 2004 were accrued during the period and will be paid in June 2004.

### Pensions\*

The schedule below sets out payments to defined contribution pension schemes. Charles Dunstone withdrew from the scheme in April 2003. Geoffroy Roux de Bezieux 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. 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	2004 £'000	2003 £'000
C W Dunstone	–	15
G Roux de Bezieux (i)	15	–
R W Taylor	11	10
J H Dale	6	6
Total	32	31

(i) Includes arrears of pension contributions from prior periods.

### 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 27 March 2004, the annual bonus was based on improvements in Headline EPS (see note 10). This performance measure was chosen to align the Executive Directors' interests with those of shareholders.

Headline EPS growth for the period meant that a bonus of 80% of year-end salary was earned. Bonus payments in respect of the period ended 27 March 2004 will be made in June 2004 following approval by the Remuneration Committee and are included in the aggregate remuneration table above. The bonus scheme for the next financial period will be of a similar structure with a maximum potential bonus of 100% of salary and with targets based on Headline EPS. Any bonus in excess of 60% will be paid in the form of market purchased shares under the Annual Deferred Bonus Plan.

### Annual Deferred Bonus Plan

It will be proposed at the Annual General Meeting that the Company introduce an Annual Deferred Bonus Plan under which Executive Directors and other senior management will be provided with the option of taking some or all of their annual performance bonus in the form of a deferred share award. Further details on this plan are contained in the Notice of the Annual General Meeting accompanying this Report. No Executive Director or member of senior management has elected to defer their bonus for the period ended 27 March 2004.

### Share options

The Company has a performance related share option scheme, previously under The Carphone Warehouse Group PLC Executive Incentive Scheme and currently under The Carphone Warehouse Group Company Share Option Plan, for Executive Directors and senior management 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 are subject to the achievement of a performance condition which is measured over the three year performance period (with no retesting) 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. The TSR calculation is independently calculated by Deloitte & Touche LLP. Measuring the Group's performance against the companies in these indices recognises the importance for shareholders that the Group outperforms its sector.

Options are subject to the TSR performance conditions indicated below.

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 27 March 2004.

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.

## Remuneration Report continued

### Performance Share Plan

It will be proposed at the Annual General Meeting that the Company introduce a Performance Share Plan for Executive Directors and senior management. Under the plan, selected Executive Directors and members of senior management will receive shares in the Company that will only vest when certain targets have been achieved. Further details of the plan are contained in the Notice of the Annual General Meeting accompanying this Report.

### Amendments to share option schemes

The Board is seeking approval for amendments to The Carphone Warehouse Group Company Share Option Plan and to The Carphone Warehouse Group PLC Executive Incentive Scheme ('the Schemes').

At the Annual General Meeting, shareholders will be asked to approve an amendment to each of the Schemes to enable greater flexibility with regard to the allocation of incentives under discretionary employees' share schemes.

The current rules of both of the Schemes, adopted prior to the flotation of the Company in 2000, impose an overriding limit on the allocation in any ten year period of 10% of the ordinary share capital of the Company under Employees' Share Schemes and the Schemes.

A further restriction preventing more than 5% of the ordinary share capital of the Company being allocated in any ten year period under discretionary employees' share schemes and the Schemes is also imposed under the current rules. Updated guidelines published by the Association of British Insurers in 2002 now indicate that, provided that the overriding 10% limit on the allocation of shares is maintained, companies may allow the proportion of such shares allocated under discretionary schemes to exceed 5% where the vesting of options under such discretionary schemes is dependent on the achievement of more stretching performance criteria.

The Remuneration Committee will continue to ensure that no more than 10% of the ordinary share capital of the Company is allocated under all employees' schemes in any ten year period. The Remuneration Committee considers, however, that to enable the Company to reward employees achieving more stretching performance criteria it is appropriate for the 5% restriction under both Schemes on the allocation of shares to such employees under discretionary schemes be withdrawn.

### Share options\*

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

Director	29 March 2003	Granted during the period	27 March 2004	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
	500,000 (i)		500,000	0.83	11/06/05	11/06/12
		444,444 (ii)	444,444	0.90	06/06/06	06/06/13
	1,890,000	444,444	2,334,444			
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
	475,000 (i)		475,000	0.83	11/06/05	11/06/12
			422,222 (ii)	422,222	0.90	06/06/06
	4,095,000	422,222	4,517,222			
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
	300,000 (i)		300,000	0.83	11/06/05	11/06/12
			222,222 (ii)	222,222	0.90	06/06/06
	996,000	222,222	1,218,222			
Hans Roger Snook	1,000,000		1,000,000	0.80	23/03/05	25/03/12
	1,000,000		1,000,000			

### Notes

(i) Options granted in June 2002 are subject to performance conditions. 100% are exercisable if the Group achieves upper quartile TSR performance over the three year performance period, 50% for median performance, and 25% for performance between median and lower quartile. None will be exercisable for lower quartile performance. The interests in options listed above assume upper quartile performance.

(ii) Options granted in June 2003 have the same performance conditions as those granted in June 2002, except that if the TSR performance is below the median the award is cancelled. The interests in options listed above assume upper quartile performance.

The market price per share was 144p as at 27 March 2004. The market price during the period varied between 61p and 153p.

### Executive Directors' service contracts

All Executive Directors have service contracts that 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 one of the contracts specifically provides for compensation for early termination. Executive Directors are allowed to hold other Non-Executive positions at the discretion of the Board.

### 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.

**Directors' interests in shares and dates of service contracts**

Director	Ordinary shares of 0.1p		
	27 March 2004	29 March 2003	Date of contract
C W Dunstone	306,528,535	309,028,535	26 June 2000
D P J Ross	214,840,759	216,590,759	4 July 2002
R W Taylor	2,276,806	2,276,806	2 March 2000
G Roux de Bezieux	12,038,670	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
M Dawes	6,460,714	6,460,714	2 June 2003

On 1 August 2003, G Roux de Bezieux sold 500,000 shares.

On 17 December 2003, C W Dunstone and D P J Ross agreed to gift 2,500,000 shares and 1,750,000 shares respectively to certain senior executives of the Group.

On 18 February 2004, G Roux de Bezieux sold 500,000 shares.

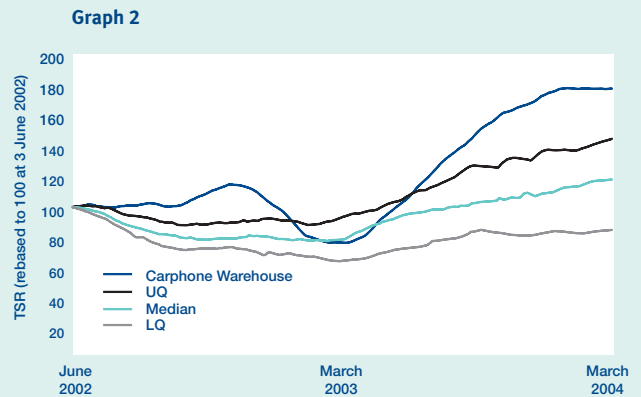
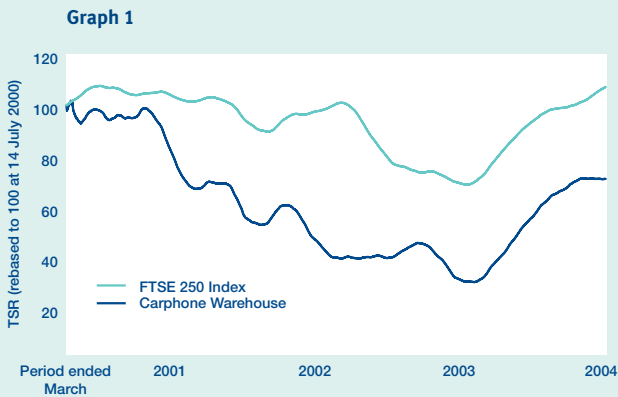
On 1 April 2004, C W Dunstone transferred 450,000 shares by way of gift into The Charles Dunstone Charitable Trust and D P J Ross sold 15,000,000 shares. Otherwise there were no movements in the shareholdings above between 27 March 2004 and 3 June 2004.

**Performance graphs**

Graph 1 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 27 March 2004. 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.

Graph 2 shows the Company's performance measured by TSR compared with a sector comparator group comprising a number of UK general retailers and European telecoms companies for the period 3 June 2002 to 27 March 2004. A three month rolling average has been applied.



This Report was approved by the Board on 27 May 2004.

**J Gildersleeve**

27 May 2004

# 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 27 March 2004.

## Principal activities

The principal activities of the Group are the provision of mobile communication products and services and fixed line communication services. For the purposes of segmental reporting, operations are classified into three divisions, being Distribution, Telecoms Services and Wholesale.

The subsidiary undertakings principally affecting the results or net assets of the Group in the period are listed in note 15 to the financial statements.

## Results

The profit before tax for the financial period increased from £34.5m in the prior period to £44.5m. An interim dividend of 0.4p per share was paid in the period (2003 – nil). The Directors recommend the payment of a final dividend of 0.9p per share (2003 – 1.0p). Subject to shareholders' approval at the Annual General Meeting, the final dividend will be paid on 6 August 2004 to shareholders on the register at the close of business on 9 July 2004.

## Directors

The names and brief biographical details of the Directors are shown on page 17. 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 20 to 23.

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

Non-Executive Directors

M Dawes Appointed on 2 June 2003

D Wilson Resigned 31 July 2003

The appointment of Martin Dawes was approved in accordance with the Company's articles of association at the Annual General Meeting on 31 July 2003. David Ross and Geoffroy Roux de Bezieux 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 42 days (2003 – 28 days). The Company did not have any trade creditors at 27 March 2004 or 29 March 2003.

## Donations

The Group made charitable donations of £85,000 during the period (2003 – £25,000). No political donations were made during either period.

## Contracts with controlling shareholders

There are no material contracts with controlling shareholders except for service agreements, details of which are set out in the Remuneration Report on pages 20 to 23.

## Share capital

Details of the movements in authorised and issued share capital during the period are provided in note 24 to the financial statements.

## Tangible fixed assets

Movements in tangible fixed assets are set out in note 14 to the financial statements. In the opinion of the Directors the current open market value of the Group's interests in freehold land and buildings exceeds the book value by £4.6m at 27 March 2004. The Group's liability to taxation if such assets were sold at that value would be insignificant.

## Significant shareholdings

The following interests appeared on the Register of Members or had been notified to the Company in accordance with sections 198 to 208 of the Companies Act 1985 on 3 June 2004:

	Number of shares	Percentage of share capital
Morley Fund Management Ltd (UK)	40,542,277	4.64%
Liontrust Asset Management	32,928,817	3.77%

The total interests of the Directors are detailed in the Directors' Remuneration Report on pages 20 to 23.

## 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

In accordance with Section 385 of the Companies Act 1985 a resolution proposing the re-election of Deloitte & Touche LLP as the auditors of the Company will be put to the Annual General Meeting.

On 1 August 2003, Deloitte & Touche transferred its business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from August 2003 under the provisions of Section 26(5) of the Companies Act 1989.

By order of the Board,  
The Carphone Warehouse Group PLC  
1 Portal Way  
London  
W3 6RS

## T S Morris

Company Secretary

3 June 2004

# Statement of Directors' Responsibilities

United Kingdom 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 members of The Carphone Warehouse Group PLC

We have audited the financial statements of The Carphone Warehouse Group PLC for the period ended 27 March 2004 which comprise the profit and loss account, the balance sheets, the cash flow statement, the reconciliation of operating profit to net cash inflow from operating activities, the statement of total recognised gains and losses, the statement of accounting policies, and the related notes 1 to 31. These financial statements have been prepared under the accounting policies set out therein. 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 period 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 27 March 2004 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 LLP

Chartered Accountants and Registered Auditors  
London

3 June 2004

# Consolidated Profit and Loss Account

For the 52 weeks ended 27 March 2004

	Notes	Before exceptional items and amortisation of goodwill 52 weeks ended 27 March 2004 £'000	Exceptional items and amortisation of goodwill 52 weeks ended 27 March 2004 £'000	After exceptional items and amortisation of goodwill 52 weeks ended 27 March 2004 £'000	52 weeks ended 29 March 2003 £'000
<b>Turnover</b>					
Existing operations		1,632,849		1,632,849	1,841,525
Acquisitions	2	216,162		216,162	–
	2	1,849,011		1,849,011	1,841,525
Cost of sales	3	(1,303,246)		(1,303,246)	(1,453,518)
<b>Gross profit</b>	3	545,765		545,765	388,007
Operating expenses excluding amortisation and depreciation	3	(422,934)	(4,733)	(427,667)	(298,017)
<b>EBITDA</b>	10	122,831	(4,733)	118,098	89,990
Depreciation	3,4	(41,684)		(41,684)	(31,977)
Amortisation of goodwill	3,4		(25,417)	(25,417)	(20,585)
<b>Operating profit</b>	2,3	81,147	(30,150)	50,997	37,428
Existing operations	3	71,442		42,633	37,428
Acquisitions	3	9,705		8,364	–
Profit on disposal of fixed assets	6			–	13,199
Loss on disposal of fixed asset investments	6		(1,652)	(1,652)	–
Amounts written off fixed asset investments	6			–	(15,145)
Profit before interest and taxation		81,147	(31,802)	49,345	35,482
Net interest payable	7	(4,858)		(4,858)	(995)
<b>Profit on ordinary activities before taxation</b>		76,289		44,487	34,487
Tax on profit on ordinary activities	8	(16,783)		(16,783)	(12,418)
<b>Profit for the financial period</b>		59,506		27,704	22,069
Equity dividends	9	(11,369)		(11,369)	(8,729)
<b>Retained profit for the financial period</b>		48,137		16,335	13,340
<b>Earnings per share</b>					
Basic	11	6.81p		3.17p	2.60p
Diluted	11	6.72p		3.13p	2.59p
<b>Headline earnings per share</b>					
Basic	11	6.81p			5.25p
Diluted	11	6.72p			5.23p

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 27 March 2004

	Notes	52 weeks ended 27 March 2004 £'000	52 weeks ended 29 March 2003 £'000
Profit for the financial period		27,704	22,069
Currency translation		(1,014)	3,021
Total recognised gains and losses relating to the period		26,690	25,090
Prior period adjustments	12	(3,949)	–
Total gains and losses recognised since last financial statements		22,741	25,090

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

# Consolidated Balance Sheet

As at 27 March 2004

	Notes	27 March 2004 £'000	Restated 29 March 2003 £'000
<b>Fixed assets</b>			
Intangible assets			
Goodwill	13	403,191	367,547
		403,191	367,547
Tangible assets	14	195,594	133,040
Investments	15	5,897	11,072
		604,682	511,659
<b>Current assets</b>			
Stock	16	78,298	56,351
Debtors	17	271,444	176,981
Short-term investments	18	10,805	26,276
Cash at bank and in hand		72,813	46,977
		433,360	306,585
<b>Creditors:</b> Amounts falling due within one year	19	(400,149)	(275,311)
<b>Net current assets</b>		33,211	31,274
<b>Total assets less current liabilities</b>			
		637,893	542,933
<b>Creditors:</b> Amounts falling due after more than one year	20	(117,737)	(49,383)
<b>Provisions for liabilities and charges</b>	22	(48,313)	(37,956)
<b>Net assets</b>		471,843	455,594
<b>Capital and reserves</b>			
Called-up share capital	24	874	873
Share premium	25	397,262	395,476
Capital redemption reserve	25	30	30
Profit and loss account	25	73,677	59,215
<b>Total capital employed</b>	26	471,843	455,594

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

The financial statements on pages 26 to 46 were approved by the Board on 3 June 2004 and signed on its behalf by:

**C W Dunstone**  
Chief Executive Officer

**R W Taylor**  
Chief Financial Officer

# Company Balance Sheet

As at 27 March 2004

	Notes	27 March 2004 £'000	29 March 2003 £'000
<b>Fixed assets</b>			
Investments	15	411,952	264,783
		411,952	264,783
<b>Current assets</b>			
Debtors	17	528,272	231,894
Cash at bank and in hand		36,443	17,926
		564,715	249,820
<b>Creditors: Amounts falling due within one year</b>	19	(344,544)	(75,347)
<b>Net current assets</b>		220,171	174,473
<b>Total assets less current liabilities</b>		632,123	439,256
<b>Creditors: Amounts falling due after more than one year</b>	20	(113,458)	(27,436)
<b>Net assets</b>		518,665	411,820
<b>Capital and reserves</b>			
Called-up share capital	24	874	873
Share premium	25	397,262	395,476
Profit and loss account	25	120,529	15,471
<b>Total capital employed</b>		518,665	411,820

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

The financial statements on pages 26 to 46 were approved by the Board on 3 June 2004 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 27 March 2004

	Notes	52 weeks ended 27 March 2004 £'000	52 weeks ended 29 March 2003 £'000
<b>Net cash inflow from operating activities</b>		102,657	77,678
Net cash outflow from returns on investments and servicing of finance	27a	(4,858)	(2,570)
Net cash (outflow) inflow from taxation	27b	(2,350)	1,059
Net cash (outflow) inflow from capital expenditure and financial investment	27c	(84,245)	18,244
Net cash outflow from acquisitions and disposals	27d	(59,050)	(37,892)
Equity dividends paid		(12,229)	–
<b>Net cash (outflow) inflow before financing</b>		(60,075)	56,519
Net cash inflow (outflow) from financing	27e	96,596	(42,623)
<b>Increase in cash in the period</b>		36,521	13,896

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

29

## Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	2004 £'000	2003 £'000
<b>Operating profit including exceptional items</b>	50,997	37,428
Depreciation of tangible fixed assets	41,684	31,977
Amortisation of goodwill	25,417	20,585
<b>EBITDA including exceptional items</b>	118,098	89,990
Loss (profit) on disposal of fixed assets	163	(912)
Decrease in provisions	(1,469)	(12,229)
Increase in stock	(20,684)	(4,024)
Increase in debtors	(53,621)	(1,803)
Increase in creditors	60,170	6,656
<b>Net cash inflow from operating activities</b>	102,657	77,678

# Notes to the Financial Statements

## 1 Accounting policies

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards under the historical cost convention. The following principal accounting policies have been applied consistently throughout the period and the preceding period with the exception of the change in accounting policy resulting from the adoption of Urgent Issues Task Force (UITF) 38 'Accounting for ESOP Trusts', as detailed in note 12.

### 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 communication products and services, commissions receivable on sales, ongoing revenue (share of customer airtime spend, and customer revenue and retention bonuses) and insurance premiums.

- 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 have been met.
- Ongoing revenue is recognised as it is earned over the life of the relevant customers.
- Insurance premiums are typically paid quarterly in advance. Initial administration fees, which are specified in the contract, are recognised at the point of sale. Insurance premium income is recognised over the life of the relevant policies.
- All other revenue 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.

#### *Wholesale:*

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

### b) Basis of consolidation

The consolidated financial statements incorporate the results of The Carphone Warehouse PLC and its subsidiary undertakings drawn up to 27 March 2004. 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 up to 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 hardware and software, 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 on an individual basis at cost less provision for impairment in value, other than investments that 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) Subscriber acquisition costs

Subscriber acquisition costs, being the direct third party costs of recruiting and retaining new customers, net of incentives from network operators and provision for in-contract churn, are capitalised and amortised over the minimum subscription period. Subscriber acquisition costs for customers with no minimum subscription commitment are taken to profit and loss as incurred.

### j) Software and website development costs

The Group capitalises both internal and external infrastructure and design costs incurred in the development of software for internal use and in the development of the functionality of its website. These costs are depreciated in accordance with the policy defined in note 1d.

### k) 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.

### l) 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.

### m) 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 17 'Employee Share Schemes' not to recognise any compensation charge in respect of these options.

## 2 Segmental analysis

Divisional results are analysed as follows:

	2004			2003		
	Turnover £'000	Profit before tax £'000	Net assets £'000	Turnover £'000	Profit before tax £'000	Restated Net assets £'000
Distribution	1,128,939	66,939	440,521	876,144	44,031	437,159
Telecoms Services	554,491	15,021	31,322	158,757	9,886	18,435
Wholesale	178,067	(813)	–	806,624	4,096	–
Eliminations	(12,486)	–	–	–	–	–
	1,849,011	81,147	471,843	1,841,525	58,013	455,594
Amortisation of goodwill		(25,417)			(20,585)	
Operating exceptional items		(4,733)			–	
		50,997			37,428	
Non-operating exceptional items		(1,652)			(1,946)	
Net interest payable		(4,858)			(995)	
Profit before tax		44,487			34,487	

Results by geographical location are analysed by origin as follows:

	2004			2003		
	Turnover £'000	Profit before tax £'000	Net assets £'000	Turnover £'000	Profit before tax £'000	Restated Net assets £'000
United Kingdom	1,102,185	49,836	177,144	1,368,244	40,537	367,719
Rest of Europe	746,826	31,311	294,699	473,281	17,476	87,875
	1,849,011	81,147	471,843	1,841,525	58,013	455,594
Amortisation of goodwill		(25,417)			(20,585)	
Operating exceptional items		(4,733)			–	
		50,997			37,428	
Non-operating exceptional items		(1,652)			(1,946)	
Net interest payable		(4,858)			(995)	
Profit before tax		44,487			34,487	

Turnover originating in the United Kingdom includes £25.3m (2003 – £591.1m) of sales to the Rest of Europe; otherwise there is not a material difference between turnover by destination and turnover by origin.

The information above includes the following amounts in respect of acquisitions during the period:

	Turnover £'000	Profit before tax £'000	Net assets (liabilities) £'000
Distribution	5,062	145	(16)
Telecoms Services	211,100	7,308	24,480
	216,162	7,453	24,464
United Kingdom	5,062	145	(16)
Rest of Europe	211,100	7,308	24,480
	216,162	7,453	24,464

Details of acquisitions are given in note 15.

## 3 Analysis of profit and loss account

	2004			2003
	Existing operations £'000	Acquisitions £'000	Total £'000	Total £'000
Cost of sales	(1,129,965)	(173,281)	(1,303,246)	(1,453,518)
Gross profit	502,884	42,881	545,765	388,007
Depreciation	(40,132)	(1,552)	(41,684)	(31,977)
Amortisation of goodwill	(24,076)	(1,341)	(25,417)	(20,585)
Exceptional operating expenses	(4,733)	–	(4,733)	–
Other operating expenses	(391,310)	(31,624)	(422,934)	(298,017)
Total operating expenses	(460,251)	(34,517)	(494,768)	(350,579)
Operating profit	42,633	8,364	50,997	37,428

Total operating expenses for statutory purposes are analysed as follows:

	2004			2003
	Existing operations £'000	Acquisitions £'000	Total £'000	Total £'000
Distribution costs	(358,706)	(28,837)	(387,543)	(269,907)
Administrative expenses	(96,812)	(5,680)	(102,492)	(80,672)
Exceptional operating expenses	(4,733)	–	(4,733)	–
Total operating expenses	(460,251)	(34,517)	(494,768)	(350,579)

#### 4 Profit on ordinary activities before taxation

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

	2004 £'000	2003 £'000
Amortisation of goodwill	25,417	20,585
Depreciation of tangible fixed assets	41,684	31,977
Rentals under operating leases – property	51,814	44,811
Operating loss (profit) on disposal of tangible fixed assets	163	(912)
Exceptional profit on disposal of tangible fixed assets	–	(13,199)
Auditors' remuneration – audit services	568	500
Auditors' remuneration – non-audit services	325	307

Further auditors' remuneration in respect of due diligence reviews of £225,000 (2003 – £53,000) has been capitalised within the cost of investments during the period.

#### 5 Employees

Employee costs consist of:

	2004 £'000	2003 £'000
Wages and salaries	194,614	144,568
Social security costs	33,147	24,691
Other pension costs	1,749	947
	229,510	170,206

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

	2004 Number	2003 Number
Administration	1,631	1,274
Selling and distribution	8,552	6,859
	10,183	8,133

Details of Directors' remuneration are provided in the Remuneration Report on pages 20 to 23.

At 27 March 2004 loans of £0.9m (2003 – £nil) were outstanding from certain Group executives, none of whom was a Director of the Company.

#### 6 Exceptional items

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

	Notes	2004 £'000	2003 £'000
Costs of operational reorganisation	(a)	(4,733)	–
Exceptional operating items		(4,733)	–
Profit on disposal of fixed assets	(b)	–	13,199
Loss on disposal of fixed asset investments	(c)	(1,652)	–
Amounts written off fixed asset investments	(d)	–	(15,145)
Total exceptional items		(6,385)	(1,946)

##### a) Costs of operational reorganisation

Following the acquisition of Hutchison Telecommunications GmbH ('HTG') in June 2003, the Group closed its support centre in Munich, closed a further 15 retail stores and commenced the integration of the retail business with HTG. A provision of £4.7m has been booked to cover the cost of this reorganisation, including the write down of tangible fixed assets.

##### b) Profit on disposal of fixed assets

During the period ended 29 March 2003 the Group completed the sale and leaseback of its freehold offices in London, generating a net profit on disposal of £13.2m.

##### c) Loss on disposal of fixed asset investments

During the period ended 27 March 2004 the Group disposed of 50% of its interest in Wireless Frontiers, an independently managed wireless investment fund. In exchange, the acquirer assumed the Group's commitment to make further contributions to Wireless Frontiers. The disposal resulted in a net loss of £1.7m.

##### d) Amounts written off fixed asset investments

During the period ended 29 March 2003, £15.1m was written off the Group's holding in Wireless Frontiers to reflect the diminution in the value of the fund at 29 March 2003.

#### Effect of exceptional items on taxation

Exceptional items had no effect on the amounts charged to the profit and loss account for taxation in either period.

## 7 Net interest payable

	2004 £'000	2003 £'000
Interest receivable and similar income	2,120	6,511
Interest payable and similar charges:		
Bank overdrafts and loans	(6,755)	(7,191)
Other loans	(223)	(315)
Interest payable and similar charges	(6,978)	(7,506)
Net interest payable	(4,858)	(995)

## 8 Tax on profit on ordinary activities

The tax charge comprises:

	2004 £'000	2003 £'000
Current tax:		
UK corporation tax	11,144	4,623
Overseas tax	3,247	4,011
	14,391	8,634
Adjustments in respect of prior periods:		
UK corporation tax	1,677	(56)
Overseas tax	(2,088)	429
Total current tax	13,980	9,007
Deferred tax:		
Origination and reversal of timing differences	2,803	3,411
Total deferred tax	2,803	3,411
Total tax on profit on ordinary activities	16,783	12,418

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 on ordinary activities before tax are as follows:

	2004 £'000	2003 £'000
Profit on ordinary activities before tax	44,487	34,487
Profit on ordinary activities before tax at 30%	13,346	10,346
Effect of:		
Amortisation of goodwill	6,984	6,176
Exceptional items attracting no tax relief or liability	1,916	584
Other items attracting no tax relief or liability	7,778	5,415
Use of tax losses brought forward and income taxed at lower rates	(12,830)	(10,476)
Adjustments in respect of prior periods	(411)	373
Other timing differences	(2,803)	(3,411)
Current tax charge for the period	13,980	9,007

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

Deferred tax assets of approximately £27 million (2003 – £22 million) for tax losses have not yet been recognised as there is insufficient evidence that there will be suitable taxable profits against which these losses can be recovered.

Details of deferred tax assets and liabilities are provided in note 23.

## 9 Equity dividends

	2004 £'000	2003 £'000
Interim dividend paid of 0.4p (2003 – Nil) per ordinary share	3,500	–
Final dividend proposed of 0.9p (2003 – 1.0p) per ordinary share	7,869	8,729
	11,369	8,729

## 10 Reconciliation of headline information to statutory information

	2004			2003		
	EBITDA £'000	Operating profit £'000	Profit before tax £'000	EBITDA £'000	Operating profit £'000	Profit before tax £'000
Headline	122,831	81,147	76,289	89,990	58,013	57,018
Amortisation of goodwill	–	(25,417)	(25,417)	–	(20,585)	(20,585)
Exceptional items (see note 6)	(4,733)	(4,733)	(6,385)	–	–	(1,946)
Statutory	118,098	50,997	44,487	89,990	37,428	34,487

EBITDA represents earnings before interest, taxation, depreciation and amortisation of goodwill. Contribution represents EBITDA before allocation of support costs.

### 11 Earnings per share

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

	2004 £'000	2003 £'000
Profit for the financial period	27,704	22,069
Amortisation of goodwill	25,417	20,585
Operating exceptional items (net of tax)	4,733	–
Non-operating exceptional items (net of tax)	1,652	1,946
Headline earnings (before amortisation of goodwill and exceptional items)	59,506	44,600
	<b>2004 Number of shares 000's</b>	<b>2003 Number of shares 000's</b>
<b>Weighted average number of shares:</b>		
For basic earnings per share	873,555	850,273
Dilutive effect of share options	11,318	2,166
For diluted earnings per share	884,873	852,439
	<b>Basic pence per share</b>	<b>Diluted pence per share</b>
	<b>2004</b>	<b>2003</b>
Earnings per share	3.17	2.60
Headline earnings per share	6.81	5.25
	<b>2004</b>	<b>2003</b>
	3.13	2.59
	6.72	5.23

Headline earnings per share is provided because the Directors consider that it gives a better indication of underlying performance than standard earnings per share.

### 12 Prior period adjustments

As explained in note 1, the Group has implemented UITF 38 during the period, and in accordance with the abstract has restated prior period figures to reflect this. The effect of the adjustment is to transfer the Group's investment in an Employee Share Ownership Trust from investments to reserves.

### 13 Intangible fixed assets – goodwill

Group	£'000
<b>Cost</b>	
At 29 March 2003	413,653
Acquisitions (see note 15)	64,383
Foreign exchange	(3,944)
At 27 March 2004	474,092
<b>Amortisation</b>	
At 29 March 2003	(46,106)
Charge for the period	(25,417)
Foreign exchange	622
At 27 March 2004	(70,901)
<b>Net book value</b>	
At 27 March 2004	403,191
At 29 March 2003	367,547

### 14 Tangible fixed assets

Group	Freehold land and buildings £'000	Short leasehold costs £'000	Computer hardware and software, network and office equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>						
At 29 March 2003	3,355	61,260	84,546	80,566	1,963	231,690
Additions	47,310	12,915	28,803	10,407	870	100,305
Disposals	–	(2,942)	(2,072)	(3,852)	(519)	(9,385)
Acquisitions (see note 15)	–	1,295	5,421	993	–	7,709
Foreign exchange	(95)	(1,101)	(493)	(1,439)	(15)	(3,143)
At 27 March 2004	50,570	71,427	116,205	86,675	2,299	327,176
<b>Depreciation</b>						
At 29 March 2003	(376)	(19,281)	(39,269)	(38,850)	(874)	(98,650)
Charge for the period	(759)	(6,240)	(19,132)	(14,960)	(593)	(41,684)
Disposals	–	2,352	1,721	2,845	374	7,292
Foreign exchange	17	293	325	816	9	1,460
At 27 March 2004	(1,118)	(22,876)	(56,355)	(50,149)	(1,084)	(131,582)
<b>Net book value</b>						
At 27 March 2004	49,452	48,551	59,850	36,526	1,215	195,594
At 29 March 2003	2,979	41,979	45,277	41,716	1,089	133,040

On 20 November 2003 the Group acquired the freehold of its London offices for a cash consideration of £39.5m.

## 15 Fixed asset investments

Group	£'000
At 29 March 2003 (restated)	11,072
Additions	257
Disposals (see note 6c)	(5,432)
At 27 March 2004	5,897

As explained in note 12, the Group's investment in an Employee Share Ownership Trust has been transferred to reserves as a prior year adjustment, in accordance with UITF 38.

Company	£'000
At 29 March 2003	264,783
Additions	155,203
Disposals	(4,750)
Foreign exchange	(3,284)
At 27 March 2004	411,952

### 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 give the Group an effective holding of 100% 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 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
Opal Telecom Limited*	England	Telecoms services
TalkTalk Telecom Limited*	England	Telecoms services
The Phone House Services Telecom-CMC SA	France	Telecoms services
The Phone House Telecom GmbH (formerly Hutchison Telecommunications GmbH)	Germany	Telecoms services
Xtra Telecom SA*	Spain	Telecoms services
N Tel Com GmbH*	Switzerland	Telecoms services
The Carphone Warehouse Insurance Limited	Isle of Man	Insurance underwriting
The Phone House Insurance Limited	Isle of Man	Insurance underwriting
New Technology Insurance Limited	Ireland	Insurance underwriting
Telecoms Insurance Services SA	Switzerland	Insurance brokerage
MViva Limited	England	Data services
Cooch 1020 Ltd	Isle of Man	Investment in commercial property
Ise-Net Solutions Limited	England	Information technology services
The Phone House Holdings (UK) Limited*	England	Holding company
Cellcom Limited	England	Holding company
Evergreen Services Holdings Limited	England	Holding company
Beheer-en Beleggingsmaatschappij Antika BV*	Netherlands	Holding company
The Phone House BV	Netherlands	Holding company

\*held directly by the Company.

## 15 Fixed asset investments continued

## Acquisitions

## a) Hutchison Telecommunications GmbH

On 2 June 2003, the Group acquired 100% of the issued share capital of Hutchison Telecommunications GmbH ('HTG'), a mobile telecoms service provider registered in Germany, for a gross consideration of £44.6m.

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
<b>Fixed assets</b>				
Tangible	6,174	(175)	–	5,999
<b>Current assets</b>				
Stock	1,971	–	–	1,971
Debtors	26,402	8,899	–	35,301
Cash	13,783	–	–	13,783
<b>Total assets</b>	48,330	8,724	–	57,054
<b>Creditors</b>				
Trade creditors	(20,585)	–	–	(20,585)
Other taxes	(1,381)	–	–	(1,381)
Accruals and deferred income	(7,204)	–	–	(7,204)
Provisions	(5,643)	(2,211)	(302)	(8,156)
<b>Total liabilities</b>	(34,813)	(2,211)	(302)	(37,326)
<b>Net assets</b>	13,517	6,513	(302)	19,728
Goodwill				24,911
<b>Satisfied by cash</b>				44,639

Net cash outflows in respect of the acquisition comprised:

	£'000
Gross cash consideration	44,639
Cash acquired	(13,783)
	30,856

Accounting policy alignments relate to depreciation of fixed assets in line with Group policy, the deferral of subscriber acquisition costs and the recognition of deferred tax liabilities. Other fair value adjustments relate to unrecorded potential liabilities.

HTG earned a profit after taxation of £13.5m in the 15 month period ended 27 March 2004 (year ended 31 December 2002 – £6.8m), of which £4.1m arose in the period from 1 January 2003 to 1 June 2003. The summarised profit and loss account for the period from 1 January 2003 to 1 June 2003, shown on the basis of the accounting policies of HTG prior to the acquisition, is as follows:

<b>Profit and loss account</b>	£'000
Turnover	96,487
Cost of sales	(78,569)
Gross profit	17,918
Operating expenses	(14,005)
Operating profit	3,913
Net interest receivable	147
Profit on ordinary activities before taxation	4,060
Tax on profit on ordinary activities	–
Profit on ordinary activities after taxation	4,060

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

## 15 Fixed asset investments continued

### b) N Tel Com GmbH

On 22 March 2004, the Group acquired 100% of the issued share capital of N Tel Com GmbH, a switchless fixed line reseller registered in Switzerland, for a gross consideration of £13.6m.

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	Fair value adjustments £'000	Fair value to Group £'000
<b>Fixed assets</b>			
Tangible	80	–	80
<b>Current assets</b>			
Debtors	4,637	–	4,637
Cash	164	–	164
<b>Total assets</b>	<b>4,881</b>	<b>–</b>	<b>4,881</b>
<b>Creditors</b>			
Trade creditors	(2,417)	–	(2,417)
Other taxes	(151)	–	(151)
Accruals and deferred income	(756)	(1,312)	(2,068)
<b>Total liabilities</b>	<b>(3,324)</b>	<b>(1,312)</b>	<b>(4,636)</b>
<b>Net assets</b>	<b>1,557</b>	<b>(1,312)</b>	<b>245</b>
Goodwill			13,334
<b>Satisfied by cash</b>			<b>13,579</b>

Net cash outflows in respect of the acquisition comprised:

	£'000
Gross cash consideration	13,579
Cash acquired	(164)
	<b>13,415</b>

Fair value adjustments relate to unrecorded potential liabilities.

### c) Xtra Telecom SA

On 8 March 2004, the Group acquired 100% of the issued share capital of Xtra Telecom SA, a fixed line service provider registered in Spain, for an initial gross consideration of £7.5m, with a further contingent deferred consideration expected to be up to £4.1m 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	Fair value adjustments £'000	Fair value to Group £'000
<b>Fixed assets</b>			
Tangible	1,272	–	1,272
<b>Current assets</b>			
Stock	28	–	28
Debtors	2,894	–	2,894
Cash	1,138	–	1,138
<b>Total assets</b>	<b>5,332</b>	<b>–</b>	<b>5,332</b>
<b>Creditors</b>			
Trade creditors	(4,940)	–	(4,940)
Other taxes	(122)	–	(122)
Accruals and deferred income	(902)	–	(902)
Provisions	–	(2,174)	(2,174)
<b>Total liabilities</b>	<b>(5,964)</b>	<b>(2,174)</b>	<b>(8,138)</b>
<b>Net liabilities</b>	<b>(632)</b>	<b>(2,174)</b>	<b>(2,806)</b>
Goodwill			14,342
			<b>11,536</b>
<b>Satisfied by</b>			
Cash			7,484
Deferred consideration			4,052
			<b>11,536</b>

Net cash outflows in respect of the acquisition comprised:

	£'000
Gross cash consideration	7,484
Cash acquired	(1,138)
	<b>6,346</b>

Fair value adjustments relate to unrecorded potential liabilities.

## 15 Fixed asset investments continued

## d) E2Save.com Limited

On 1 January 2004, the Group acquired 100% of the issued share capital of E2save.com Limited, a company registered in England, for an initial gross consideration of £1.4m, with a further contingent deferred consideration of up to £3.3m 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	Fair value to Group £'000
<b>Fixed assets</b>			
Tangible	489	(131)	358
<b>Current assets</b>			
Stock	484	(100)	384
Debtors	591	–	591
<b>Total assets</b>	1,564	(231)	1,333
<b>Creditors</b>			
Trade creditors	(988)	(73)	(1,061)
Other taxes	(180)	(21)	(201)
Accruals and deferred income	(232)	–	(232)
<b>Total liabilities</b>	(1,400)	(94)	(1,494)
<b>Net assets (liabilities)</b>	164	(325)	(161)
Goodwill			4,813
			4,652
<b>Satisfied by</b>			
Cash			1,377
Deferred consideration			3,275
			4,652

Net cash outflows in respect of the acquisition comprised:

	£'000
Gross cash consideration	1,377

Accounting policy alignments relate to the revaluation of fixed assets and provision for slow moving stock and unrecorded liabilities.

## e) Other acquisitions

In April 2003 the Group acquired the mobile customer base of J Sainsbury PLC and reached an agreement to provide mobile and fixed line services to its customers. Under the terms of the agreement, a net cash consideration of £1.5m was paid, with a further contingent deferred consideration of up to £4.5m payable in instalments over a three year period, giving rise to goodwill of £6.0m.

In July 2003, the Group paid £5.0m deferred consideration in respect of Opal Telecom plc, a fixed line telecommunications provider acquired in November 2002.

In addition, the Group made a number of other acquisitions for a gross cash consideration of £0.6m and contingent deferred consideration of up to £1.2m payable over the next two years. The other acquisitions resulted in goodwill of £1.0m. No cash was acquired through these transactions.

## 16 Stock

	<b>2004</b>	<b>Group</b>
	<b>£'000</b>	2003
		£'000
Finished goods and goods for resale	78,298	56,351

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

## 17 Debtors

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
Amounts falling due within one year:				
Trade debtors	224,949	135,930	–	–
Other debtors	18,746	17,954	–	–
Prepayments and accrued income	23,806	23,097	656	85
Amounts owed by Group undertakings	–	–	509,811	115,924
	267,501	176,981	510,467	116,009
Amounts falling due after more than one year:				
Other debtors	3,943	–	–	–
Amounts owed by Group undertakings	–	–	17,805	115,885
	271,444	176,981	528,272	231,894

Included within the Group other debtors falling due within one year are subscriber acquisition costs of £9.6m (2003 – £nil). Included within the Group other debtors falling due after more than one year are subscriber acquisition costs of £3.9m (2003 – £nil).

## 18 Short-term investments

	<b>2004</b>	<b>Group</b>
	<b>£'000</b>	2003
		£'000
Short-term investments	10,805	26,276

Short-term investments include listed investments with a cost of £8.5m (2003 – £11.1m). The market value of these investments at 27 March 2004 was £9.6m (2003 – £11.3m).

## 19 Creditors: Amounts falling due within one year

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
Loans and overdrafts	16,274	14,323	15,000	–
Trade creditors	181,780	124,338	–	–
Amounts owed to subsidiary undertakings	–	–	314,152	62,928
Corporation tax	30,106	18,013	–	–
Other taxes and social security costs	26,668	19,183	–	–
Other creditors	38,988	20,910	1,230	1,434
Accruals and deferred income	98,464	69,815	6,293	2,256
Proposed dividends	7,869	8,729	7,869	8,729
	400,149	275,311	344,544	75,347

20 Creditors: Amounts falling due after more than one year

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Loans	107,916	29,832	107,826	27,436
Other creditors	7,469	14,078	5,632	–
Accruals and deferred income	2,352	5,473	–	–
	117,737	49,383	113,458	27,436

The repayment profile of loans is provided in note 21.

21 Derivatives and other financial instruments

The Operating and Financial Review on pages 6 to 13 provides an explanation of the role that financial instruments have in managing the Group's currency and interest rate risk. The disclosures below deal with financial assets and financial liabilities as defined in FRS 13 'Derivatives and other financial instruments'.

As permitted by FRS 13, short-term trade debtors and creditors have been excluded from these 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.

a) 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 several European currencies.

	2004				2003			
	Sterling £'000	Euro £'000	Other £'000	Total £'000	Sterling £'000	Euro £'000	Other £'000	Total £'000
<b>Financial assets</b>								
By instrument								
Cash	65,348	6,442	1,023	72,813	32,797	10,200	3,980	46,977
Short-term investments	10,805	–	–	10,805	26,276	–	–	26,276
<b>Total</b>	76,153	6,442	1,023	83,618	59,073	10,200	3,980	73,253
By interest rate								
Floating rate	76,153	6,442	1,023	83,618	59,073	10,200	3,980	73,253
<b>Total</b>	76,153	6,442	1,023	83,618	59,073	10,200	3,980	73,253
<b>Financial liabilities</b>								
By instrument								
Loans and overdrafts	–	(124,190)	–	(124,190)	(235)	(43,208)	(712)	(44,155)
<b>Total</b>	–	(124,190)	–	(124,190)	(235)	(43,208)	(712)	(44,155)
By interest rate								
Floating rate	–	(121,949)	–	(121,949)	(235)	(38,607)	(712)	(39,554)
Fixed rate	–	(2,241)	–	(2,241)	–	(4,601)	–	(4,601)
<b>Total</b>	–	(124,190)	–	(124,190)	(235)	(43,208)	(712)	(44,155)

Fixed rate financial liabilities bear weighted average interest rates of 4.84% (2003 – 4.84%) for weighted average periods of 0.3 years (2003 – 0.7 years).

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

## 21 Derivatives and other financial instruments continued

### b) Currency exposures

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

	2004				2003			
	Sterling £'000	Euro £'000	Other £'000	Total £'000	Sterling £'000	Euro £'000	Other £'000	Total £'000
Functional currency of Group operation								
Sterling	–	(124,694)	178	(124,516)	–	4,220	3,064	7,284
Other	338	320	–	658	1,245	397	–	1,642
<b>Total</b>	<b>338</b>	<b>(124,374)</b>	<b>178</b>	<b>(123,858)</b>	<b>1,245</b>	<b>4,617</b>	<b>3,064</b>	<b>8,926</b>

Euro liabilities held by companies operating in Sterling include the Group's £120m term loan, which is drawn in Euros to fund overseas investments.

### c) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 27 March 2004 was as follows:

	2004 £'000	2003 £'000
In one year or less	(19,190)	(14,318)
In more than one year but not more than two years	(30,000)	(2,401)
In two to five years	(75,000)	(27,436)
<b>Total</b>	<b>(124,190)</b>	<b>(44,155)</b>

### d) Borrowing facilities

The Group had undrawn committed borrowing facilities at 27 March 2004, in respect of which all conditions precedent had been met, as follows:

	2004 £'000	2003 £'000
Expiring in more than one year but not more than two years	(180,000)	–
Expiring in more than two years	–	(152,564)
<b>Total</b>	<b>(180,000)</b>	<b>(152,564)</b>

### e) Fair values

The book and fair values of the Group's financial assets and liabilities at 27 March 2004 were as follows:

	2004		2003	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Financial assets				
Cash	72,813	72,813	46,977	46,977
Short-term investments	10,805	11,907	26,276	26,489
Financial liabilities				
Loans and overdrafts	(124,190)	(124,190)	(44,155)	(44,155)
Interest rate swaps	–	–	–	(100)
Forward foreign currency contracts	–	200	–	(813)

Cash, loans and overdrafts have been included at carrying value; the fair value of short-term investments has been derived with reference to market values; other fair values have been arrived at by discounting future cashflows, assuming no early redemption, or marking deals to period-end market rates or rates as appropriate to the instrument.

### f) Gains and losses on hedges

At 27 March 2004, the Group had unrecognised gains of £1.3m (2003 – net losses of £0.9m), of which £0.2m arose from timing differences connected with currency hedging. Unrecognised gains of £1.3m are expected to be recognised in the period ending 2 April 2005.

**22 Provisions for liabilities and charges**

Group	Insurance £'000	Restructuring provisions £'000	Deferred tax £'000	Other £'000	Total £'000
At 29 March 2003	13,342	11,485	2,700	10,429	37,956
Acquisitions (see note 15)	–	–	2,189	8,141	10,330
Charge to profit and loss account	43,374	4,733	2,410	15,545	66,062
Utilised in the period	(41,795)	(7,224)	–	(16,708)	(65,727)
Foreign exchange	–	(110)	–	(198)	(308)
<b>At 27 March 2004</b>	<b>14,921</b>	<b>8,884</b>	<b>7,299</b>	<b>17,209</b>	<b>48,313</b>

**Insurance**

Insurance provisions represent unearned premium income and provision for known policy holder claims.

**Restructuring provisions**

Restructuring provisions at the start of the period relate to a reorganisation and store closure programme launched in the period ended 30 March 2002. As detailed in note 6a, during the period the Group provided for the exceptional cost of reorganising its operations in Germany following the acquisition of Hutchison Telecommunications GmbH, including provision for fixed asset write offs.

**Deferred tax**

Details of movements on the deferred tax provision are given in note 23.

**Other**

Other provisions include provisions against sales, principally being the anticipated costs of product warranties, customer returns, and network operator performance penalties; provision for dilapidations and similar property costs; and all other provisions, principally being the anticipated costs of unresolved tax issues and legal disputes.

**23 Deferred tax**

Group	2004 £'000	2003 £'000
<b>Deferred tax liabilities</b>		
Accelerated capital allowances	(2,321)	(468)
Other timing differences	(4,978)	(2,232)
	(7,299)	(2,700)
<b>Deferred tax assets</b>		
Other timing differences	717	1,132
	717	1,132
<b>Total</b>	<b>(6,582)</b>	<b>(1,568)</b>

## 24 Share capital

Group and Company	2004 million	2003 million	2004 £'000	2003 £'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	874	873	874	873

Movements in share capital in the period arose from the exercise of share options.

### Share options

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

#### a) Executive share option schemes

Date options granted	Exercise price per share £	Exercisable from	Expiry date	Number of options outstanding	
				2004	2003
01/04/99	0.25	14/07/00	01/04/09	950,000	1,435,000
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	10,000
01/04/99	0.50	14/07/00	01/04/09	540,000	890,000
25/07/99	0.50	14/07/00	25/07/09	319,000	329,000
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	200,000
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
24/06/00	1.50	24/06/02	24/06/10	4,000,000	4,000,000
19/05/00	1.50	19/05/02	19/05/10	5,992,900	9,107,200
19/05/00	2.00	19/05/02	19/05/10	600,000	600,000
21/05/01	1.25	21/05/04	21/05/11	6,201,391	6,977,809
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	7,430,034	7,949,761
11/06/02	0.83	11/06/05	11/06/12	(i) 7,430,034	7,949,761
28/11/02	0.86	28/11/05	28/11/12	126,744	181,977
06/06/03	0.90	06/06/06	06/06/13	6,958,221	–
06/06/03	0.90	06/06/06	06/06/13	(i) 6,958,221	–
07/11/03	1.35	07/11/06	07/11/13	165,000	–
07/11/03	1.35	07/11/06	07/11/03	(i) 165,000	–
20/01/04	1.44	20/01/07	20/01/14	(ii) 5,950,000	–
				58,447,183	44,081,146

(i) Options granted from April 2002 are subject to the same performance conditions as described in the Remuneration Report on pages 20 to 23. These options will only be exercisable in full if the Group's performance is in the upper quartile at the end of the relevant period.

(ii) Exercises of these options are conditional upon the achievement of performance targets specific to the Distribution business.

#### b) Employee share option schemes

Date options granted	Exercise price per share £	Exercisable from	Expiry date	Number of options outstanding	
				2004	2003
31/12/99	–	01/01/01	31/12/09	335,800	343,600
05/06/00	1.50	01/01/02	05/06/10	430,200	430,200
				766,000	773,800

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 27 March 2004:

Date options granted	Exercise price per share £	Exercisable from	Expiry date	Number of options outstanding	
				2004	2003
30/05/01	1.00	30/05/04	30/11/04	618,330	777,654
30/05/01	1.00	30/05/06	30/11/06	454,862	526,486
03/07/02	0.67	03/07/05	03/01/06	1,133,510	1,331,480
03/07/02	0.67	03/07/07	03/01/08	440,658	555,169
01/06/03	0.73	01/06/06	01/12/06	1,909,465	–
01/06/03	0.73	01/06/08	01/12/08	483,864	–
				5,040,689	3,190,789

25 Reserves

	Profit and loss account £'000	Share premium £'000	Capital redemption reserve £'000	Total £'000
<b>Group</b>				
At 29 March 2003 as previously stated	63,164	395,476	30	458,670
Prior period adjustments (see note 12)	(3,949)	–	–	(3,949)
At 29 March 2003 as restated	59,215	395,476	30	454,721
Retained profit for the financial period	16,335	–	–	16,335
Currency translation	(1,014)	–	–	(1,014)
Issue of share capital	(859)	1,786	–	927
<b>At 27 March 2004</b>	<b>73,677</b>	<b>397,262</b>	<b>30</b>	<b>470,969</b>
<b>Company</b>				
At 29 March 2003	15,471	395,476	–	410,947
Retained profit for the financial period	105,058	–	–	105,058
Issue of share capital	–	1,786	–	1,786
<b>At 27 March 2004</b>	<b>120,529</b>	<b>397,262</b>	<b>–</b>	<b>517,791</b>

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 £116.4m (2003 – £0.2m).

Own shares

As described in note 12, the Group has an Employee Share Ownership Trust ('ESOT') which holds 1,974,000 shares (2003 – 1,974,000) in the Company for the benefit of the Group's employees. None of the shares held by the ESOT were under option or conditionally gifted at 27 March 2004 (2003 – Nil). No dividends have been waived on shares held by the ESOT in either period. At 27 March 2004 the shares had a market value of £2.8m (2003 – £1.2m). The Directors do not consider the impairment of the investment to be permanent.

26 Reconciliation of movements in shareholders' funds

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Profit for the financial period	27,704	22,069	116,427	189
Dividends	(11,369)	(8,729)	(11,369)	(8,729)
Currency translation	(1,014)	3,021	–	–
Issue of share capital	928	35,927	1,787	36,209
Net movement in shareholders' funds	16,249	52,288	106,845	27,669
Opening shareholders' funds as previously stated	459,543	407,255	411,820	384,151
Prior period adjustments (see note 12)	(3,949)	(3,949)	–	–
Opening shareholders' funds as restated	455,594	403,306	411,820	384,151
Closing shareholders' funds	471,843	455,594	518,665	411,820

## 27 Analysis of cash flows

	2004 £'000	2003 £'000
<b>a) Returns on investments and servicing of finance</b>		
Interest received	2,120	4,936
Interest paid	(6,978)	(7,506)
<b>Net cash outflow from returns on investments and servicing of finance</b>	<b>(4,858)</b>	<b>(2,570)</b>
<b>b) Taxation</b>		
Corporation tax (paid) received	(2,350)	1,059
<b>Net cash (outflow) inflow from taxation</b>	<b>(2,350)</b>	<b>1,059</b>
<b>c) Capital expenditure and financial investment</b>		
Payments to acquire fixed asset investments	(257)	(36)
Payments to acquire tangible fixed assets	(100,305)	(39,411)
Receipts from sale of short-term investments	15,471	54,572
Receipts from sale of tangible fixed assets	846	3,119
<b>Net cash (outflow) inflow from capital expenditure and financial investment</b>	<b>(84,245)</b>	<b>18,244</b>
<b>d) Acquisitions and disposals</b>		
Purchase of subsidiary undertakings	(74,135)	(32,557)
Net cash (overdrafts) acquired with subsidiary undertakings	15,085	(5,335)
<b>Net cash outflow from acquisitions and disposals</b>	<b>(59,050)</b>	<b>(37,892)</b>
<b>e) Financing</b>		
Net receipts from issuing shares	928	102
Increase (decrease) in loans	95,668	(42,725)
<b>Net cash inflow (outflow) from financing</b>	<b>96,596</b>	<b>(42,623)</b>

### f) Analysis of changes in net funds (debt)

	At 29 March 2003 £'000	Cash flows £'000	Currency translation £'000	At 27 March 2004 £'000
<b>Cash at bank and in hand</b>	46,977	26,192	(356)	72,813
<b>Overdrafts</b>	(11,592)	10,329	88	(1,175)
	35,385	36,521	(268)	71,638
<b>Debt due within one year</b>	(2,731)	(12,402)	34	(15,099)
<b>Debt due after more than one year</b>	(29,832)	(83,266)	5,182	(107,916)
<b>Net funds (debt)</b>	<b>2,822</b>	<b>(59,147)</b>	<b>4,948</b>	<b>(51,377)</b>

### g) Reconciliation of net cash inflow to movements in net funds (debt)

	2004 £'000	2003 £'000
Increase in cash in the period	36,521	13,896
Cash (inflow) outflow from (increase) decrease in loans	(95,668)	42,725
Change in net (debt) funds	(59,147)	56,621
Loans acquired with subsidiary undertakings	–	(24,136)
Currency translation	4,948	(14,989)
Movement in net (debt) funds in the period	(54,199)	17,496
Net funds (debt) brought forward	2,822	(14,674)
Net (debt) funds carried forward	(51,377)	2,822

### h) Acquisitions

Companies acquired in the period contributed £8.7m to the Group's net operating cashflows, received £0.3m in respect of net returns on investments and servicing of finance, and utilised £0.5m 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:

	2004 £'000	2003 £'000
Operating leases which expire:		
Within one year	7,558	6,138
In two to five years	13,948	14,983
After five years	29,325	27,345
	<b>50,831</b>	<b>48,466</b>

### 29 Capital commitments

	2004 £'000	2003 £'000
Expenditure contracted, but not provided for in the financial statements of the Group	6,564	5,729

### 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 £1.7m (2003 – £0.9m).

#### 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.

### 31 Contingent liabilities

In view of the continued uncertainty regarding the actual implementation of joint and several liability by HM Customs & Excise in relation to mobile phone wholesale trading, we have not undertaken any wholesaling of mobile phones since April 2003 and do not foresee entering the market again in the coming year. We understand that HM Customs & Excise continue to investigate the recovery of VAT in the industry. Having undertaken a detailed investigation and taken advice, we continue to believe that we have no financial exposure to this issue within the Financial Statements.

## Five Year Record (unaudited)

	2004 £m	2003* £m	2002* £m	2001* £m	2000 £m
<b>Headline results</b>					
Turnover	1,849.0	1,841.5	1,152.7	1,110.7	697.7
EBITDA	122.8	90.0	72.8	66.0	41.4
PBT	76.3	57.0	46.8	49.6	30.6
<b>Assets employed</b>					
Fixed assets	604.6	511.7	412.7	392.2	99.1
Net current assets	33.2	31.3	78.0	90.2	0.6
Creditors: Amounts falling due after more than one year	(117.7)	(49.4)	(39.1)	(15.4)	(22.3)
Provisions for liabilities and charges	(48.3)	(38.0)	(47.5)	(36.4)	(34.6)
Net assets	471.8	455.6	404.1	430.6	42.8
<b>Financed by</b>					
Shareholders' funds	471.8	455.6	403.3	428.9	43.6
Equity minority interests	–	–	0.8	1.7	(0.8)
Total capital employed	471.8	455.6	404.1	430.6	42.8
<b>Headline earnings per share</b>					
Basic	6.8p	5.3p	4.4p	5.0p	3.7p
Diluted	6.7p	5.2p	4.4p	4.9p	3.5p

\* restated for the effects of UITF 38.

# Financial Calendar

	Key dates
Results announcement	3 June 2004
Ex-dividend date	7 July 2004
Record date	9 July 2004
Dividend payment date	6 August 2004





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