The Carphone Warehouse Group PLC
Annual Report 2005

Turnover
£2,355m
2004: £1,849m

Profit before tax*
£102.1m
2004: £76.3m

*Before exceptional items and amortisation of goodwill

Dividend per share
1.8p
2004: 1.3p

THE Carphone Warehouse
...for a better mobile life

Delivering value from organic and entrepreneurial growth

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The Carphone Warehouse is Europe's leading independent retailer of mobile phones and services, with over 1,400 stores in 10 countries

Headline Financial Highlights*

Turnover
£2,355.1m
2004: £1,849.0m

EBITDA
£154.8m
2004: £122.8m

Profit before tax
£102.1m
2004: £76.3m

Earnings per share
9.39p
2004: 6.81p

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

Summary 2004/5

Continued strong growth in revenues and earnings

Further market share gains across Europe

Total connections up 23.4% to 6.60 million

247 new stores opened

TalkTalk UK base up 139.0% to 920,000

TalkTalk launched in four other European countries

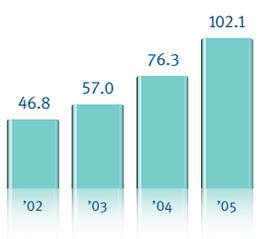
Recurring revenues generating 56.1% of total contribution

INVESTOR RELATIONS CONTACT
PEREGRINE RIVIERE
GROUP DIRECTOR OF CORPORATE AFFAIRS
+44 (0)20 8753 8041

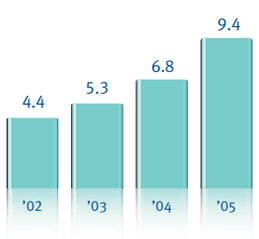
Financial Highlights

	2005 £m	2004 £m
Turnover	**2,355.1**	1,849.0
Headline results		
EBITDA	**154.8**	122.8
Profit before tax	**102.1**	76.3
Earnings per share	**9.39p**	6.81p
Statutory results		
Profit before tax	**68.9**	44.5
Earnings per share	**5.59p**	3.17p
Exceptional items	**–**	(6.4)
Dividend per share	**1.80p**	1.30p

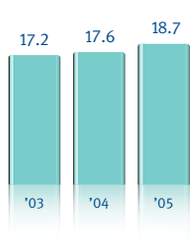
HEADLINE PBT UP 33.8% (£m)



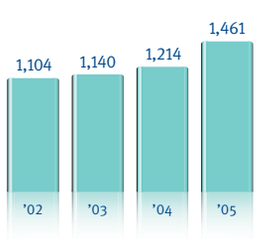
HEADLINE EPS UP 37.9% (pence)



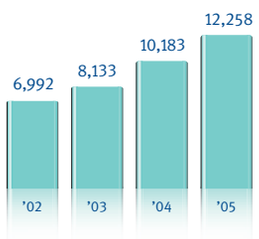
RETURN ON CAPITAL EMPLOYED (%)



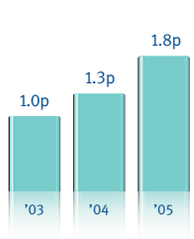
247 NEW STORES



OVER 12,000 EMPLOYEES



DIVIDEND UP 38.5%



HISTORICAL FINANCIAL INFORMATION CAN BE FOUND AT WWW.CPWPLC.COM

Chairman's Statement

We have achieved another year of rapid growth. The mobile phone market has continued to grow after last year's recovery, and our position within it has strengthened significantly. Overall Group revenues were up 27.4% to £2,355.1m and headline earnings per share rose 37.9% to 9.39p. Statutory earnings per share rose 76.3% to 5.59p and the Board is proposing a final dividend of 1.25p, taking the total for the year to 1.80p – an increase of 38.5% on 2004.

Once again the quality of our earnings improved. The evolution of our differentiated business model, based on providing higher value services beyond the point of sale but with the store portfolio at its heart, has reached the stage where over 56% of Group contribution comes from recurring income streams. This is likely to grow further this year as TalkTalk moves strongly into profit.

At the same time we are absolutely committed to developing a business that can continue to deliver attractive rates of profit growth and cash generation over the long term. This philosophy underpins our capital expenditure plans for a rapid roll-out of new stores, increased capacity and efficiency in our fixed line telecoms network, and continued investment in technology. This year we opened 247 stores – a record for the Group – and we plan to open a similar number in the year ahead. We see numerous opportunities to continue to improve returns for shareholders through reinvestment in existing and new businesses.

As we announced in April 2005, I will be stepping down from the Board at the AGM in July after three years as Chairman. It has been a great honour to serve the Group and I have enjoyed every minute. The business has come a long way and it has enormous potential. John Gildersleeve, who has served on the Board as a Non-Executive Director since the IPO in 2000, has agreed to become Chairman in my place, and his enormous experience will be an invaluable asset in steering the Group through its next exciting phase of growth.

In summary, my last year as Chairman has been the most successful in the Group's short history. We have put substantial distance between ourselves and our competitors in our core Retail operations and in TalkTalk. Growth in revenues and profitability right across the Group has been substantial. We are confident that the programme of investment in the last 12 months and continuing over the coming years will further strengthen Carphone Warehouse's competitive position.

We value our human capital most highly of all because ultimately it is our people that differentiate us from our peers. Their continued commitment and loyalty to the Group are outstanding and I am very honoured to thank all our employees for their substantial contributions.

Hans Roger Snook, Chairman

We are developing a business that can continue to deliver attractive rates of profits growth and cash generation over the long term

KEY ACHIEVEMENTS

23.4%
GROWTH IN CONNECTIONS

247
NEW STORES OPENED

37.9%
GROWTH IN HEADLINE EARNINGS PER SHARE

The Carphone Warehouse Group Overview

DIVISION

Distribution

DIVISION DESCRIPTION

Our Distribution division comprises our Retail operations and other directly related business streams.

TURNOVER
£1,436.9m

CONNECTIONS
6.60m

HEADLINE EBIT
£85.0m

STORES
1,461

BUSINESS UNITS

- Retail
- Online
- Insurance
- Ongoing

DIVISION

Telecoms Services

DIVISION DESCRIPTION

Our Telecoms Services division comprises our Mobile Services operations and our Fixed Line businesses, addressing the SME and residential markets.

TURNOVER
£804.0m

RESIDENTIAL CUSTOMERS
1.09m

HEADLINE EBIT
£22.5m

MOBILE CUSTOMERS
2.26m

BUSINESS UNITS

- Mobile – Service Provision
- Mobile – Other Operations
- Fixed – Business
- Fixed – Residential

The Carphone Warehouse is a multinational group present in ten European markets. The Group operates from two core divisions: Distribution and Telecoms Services.

Our European network

We have over 1,400 stores in 10 countries throughout Europe

United Kingdom
Belgium
France
Germany
Ireland
Netherlands
Portugal
Spain
Sweden
Switzerland

Retail

DESCRIPTION AND KEY ASSETS
Provision of mobile handsets and connections, accessories, and related products and services through 1,461 stores across 10 European countries

STRATEGY
To grow our market share to at least 10% in all our Retail markets by opening new stores and driving repeat business through value-added service and choice

OBJECTIVES FOR 2005/6
- Open 250 new stores
- Invest in training and refurbishments
- Continue to drive growth in subscription connections

49.3% OF GROUP REVENUE

40.3% OF GROUP CONTRIBUTION

Online

DESCRIPTION AND KEY ASSETS
Distribution of core Retail services via direct channels, including inbound and outbound call centres, print media and the web

STRATEGY
To complement our Retail business with a strong multi-channel customer offering across all segments of the market

OBJECTIVES FOR 2005/6
- Integrate recent acquisitions and pursue aggressive growth in UK
- Develop non-UK operations

5.4% OF GROUP REVENUE

3.1% OF GROUP CONTRIBUTION

Mobile – Service Provision

DESCRIPTION AND KEY ASSETS
The Phone House Telecom in Germany, a mobile service provider with 858,000 customers that recruits, bills and manages customers on its own mobile packages, based on wholesale agreements with network operators

STRATEGY
To grow the customer base by increasing our store portfolio and our third party distribution channels

OBJECTIVES FOR 2005/6
- Grow our market share
- Explore new distribution channels

12.7% OF GROUP REVENUE

6.5% OF GROUP CONTRIBUTION

Mobile – Other Operations

DESCRIPTION AND KEY ASSETS
Billing and management of customers on behalf of network operators in the UK and France, and the operation of MVNOs in the UK and France

STRATEGY
To pursue similar agreements with additional networks and identify new segments for further MVNO opportunities

OBJECTIVES FOR 2005/6
- Grow base of customers under management
- Diversify our MVNO offerings

3.4% OF GROUP REVENUE

3.7% OF GROUP CONTRIBUTION

Insurance

DESCRIPTION AND KEY ASSETS
Provision of insurance products covering loss, theft or damage to mobile handsets. 1.65m customers across Europe

STRATEGY
To increase the customer base through improved product diversity, and broadening our distribution

OBJECTIVES FOR 2005/6
- Grow the customer base
- Continue to improve service efficiency through internal investment

4.3% OF GROUP REVENUE

13.9% OF GROUP CONTRIBUTION

Ongoing

DESCRIPTION AND KEY ASSETS
ARPU-sharing agreements with certain networks through which the Group receives a percentage of customers' monthly bills in return for customer recruitment

STRATEGY
To seek ARPU-sharing agreements with other networks and to continue to align interests with operators across Europe

OBJECTIVES FOR 2005/6
- Grow Ongoing revenue by 20% through further growth in subscription connections and focus on network terms

2.0% OF GROUP REVENUE

18.5% OF GROUP CONTRIBUTION

Fixed – Business

DESCRIPTION AND KEY ASSETS
Provision of voice, data and value-added services to businesses in the UK and Spain

STRATEGY
To expand both organically and via acquisition, and to invest in enhancing the network and developing a wider range of telecoms services

OBJECTIVES FOR 2005/6
- Launch mobile and broadband services
- Develop data products
- Explore new market segments

11.3% OF GROUP REVENUE

12.5% OF GROUP CONTRIBUTION

Fixed – Residential

DESCRIPTION AND KEY ASSETS
Provision of voice and broadband services to residential customers in the UK and other European markets

STRATEGY
To become the number one alternative to BT in UK residential telecoms

OBJECTIVES FOR 2005/6
- Continue to recruit new customers in all markets
- Refine UK broadband proposition and launch line rental product

6.8% OF GROUP REVENUE

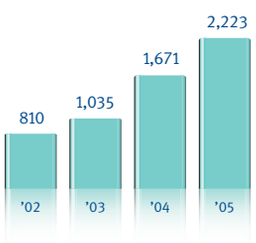
0.9% OF GROUP CONTRIBUTION

FIND OUT MORE ABOUT OUR BUSINESS AT WWW.CPWPLC.COM

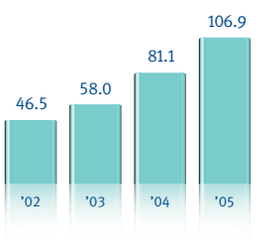
Chief Executive Officer's Review

We are developing a portfolio of related businesses and services that can deliver attractive and sustainable growth in earnings and dividends

REVENUE (EX WHOLESALE) (£m)



HEADLINE OPERATING PROFIT (£m)



It has been another very good year for The Carphone Warehouse. Our excellent financial performance stems from our continued investment in growing our existing businesses and our ability to identify and exploit new commercial opportunities both through our existing asset base and via acquisition. We are committed to long-term value creation, through the development of a portfolio of related businesses and services that can deliver attractive and sustainable growth in earnings and dividends. Our track record speaks for itself and the more detailed analysis of our strategy that follows demonstrates that our plans for the future are clear, exciting and achievable.

Developing a broad-based telecoms group

Our strategy remains essentially consistent with that outlined in last year's Annual Report and is built on three core objectives:

- To continue to grow market share in all our geographical markets both by investing in new store openings and by generating like-for-like growth from our existing estate and developing additional sales channels;
- To maximise the lifetime value of our customers, both by providing a level of service that encourages repeat business, and by identifying relevant new products and services where we have a sustainable competitive advantage over other suppliers; and
- To grow our business-to-business fixed line operations organically and through acquisition, and to invest in our network to provide an increasing range of communications services.

Before reporting on progress in each of these areas in more detail, it is worth highlighting how closely integrated the different elements of our strategy really are.

Without our stores and our market share, we would not be able to provide such consistent levels of service and value to our customers; without our fixed line network and its business traffic, we would not enjoy such a competitive advantage in the provision of residential services; and without the combination of our mobile network relationships, our stores and our fixed line network, we would not have been able to launch a new service such as Mobile World. Sustainable competitive advantage does not come from any of these assets in their own right, but from their unique combination.

Growing our retail presence

At the start of the year we aimed to open 200 new stores across Europe, in a concerted drive to build on our substantial retail platform and become a more significant player in all of our markets. By the year end we had succeeded in opening a record 247 stores, net of closures. In our two biggest retail markets, the UK and Spain, we opened 92 stores and 75 stores respectively.

We continue to generate a very attractive return on new store openings, comfortably in excess of our two-year payback hurdle. Our return on investment on stores opened since 2002 has consistently been over 60%. Taking into account the lifetime value of Insurance, Ongoing ARPU share and TalkTalk profits, the return on investment is in excess of 140%. However, we also enjoy other, broader effects of building our presence, such as the growing handset purchasing benefits that our increasing scale gives us, and our improving position as a key partner of the mobile networks in all our markets.

We intend to continue this strategy of rapid physical expansion into the new financial year, and have plans to open at least a further 250 stores by March 2006. Once again, the UK and Spain will represent the majority of new openings, but we see significant expansion opportunities in all our markets. In particular, the success of our German business since the acquisition of Hutchison Telecommunications in June 2003 has given us confidence to expand our operations in that market, which represents a significant long-term opportunity.

Maximising customer lifetime value

Since before our IPO five years ago, we have been looking at ways to broaden our business model by introducing new products and services where we can add value both to our customers and our mobile network partners, and improve the quality and visibility of our earnings. With 56.1% of Group contribution this year coming from recurring sources, the financial case for this strategy is clear. At the same time, we have achieved compound annual growth in these recurring profit streams of 47.4% over the last five years.

We have always operated on the basic premise that if we provide a good service for our customers, they are more likely to reward us with their loyalty. Similarly, if we can demonstrate good customer traction to the mobile network operators, we become more of a value-added partner to them rather than simply a recruitment channel. This has allowed us to structure customer management agreements with a number of networks in the UK and France, and to share in the ongoing value of the customers we recruit via revenue-sharing agreements.

More recently we have launched residential fixed line services. Within just two years, we have made TalkTalk in the UK the clear number one alternative to BT and now take up to 50% of all customers who leave BT each month. TalkTalk UK has moved into profitability already and will be a major driver of Group profits growth over the medium term.

We have been very active this year in evolving our fixed line strategy. TalkTalk has now been launched in France, Spain, Germany and Switzerland, and we have moved into Ireland and Belgium since the year end. Our UK business launched a very competitive broadband service in November 2004, and the customer response has comfortably exceeded our expectations. We are now reviewing our options to assess the most effective way to build a significant and profitable broadband business while continuing to deliver outstanding value to our broadband customers.

Looking ahead, we see numerous opportunities to build on the platform we have created by providing additional services to our customers. On the fixed line side, the further development of broadband, and the introduction of line rental, will both be key strategic initiatives in the coming year, and central to our aim of becoming a mass market provider of telecoms services to the home. We have set a long-term target of 2 million voice customers in the UK by March 2008, and expect to have 100,000-150,000 broadband customers by March 2006.

On the mobile side, we have recently renewed our strategic focus on our MVNO strategy. During the year we launched a virtual network in France, Breizh Mobile – the first service of its kind in that country. We have cut our tariffs aggressively on Fresh, our UK virtual network, and intend to remain the price leader in the discount segment of the market. In April 2005, we launched Mobile World, a highly innovative mobile service offering international tariffs that compete head-on with the cheapest available fixed line international tariffs. The initial response to the launch has exceeded our expectations and we are in the process of expanding its distribution, as planned, into thousands of third-party outlets across the UK.

Growing our business-to-business fixed line operations

Opal has consolidated well on its outstanding year of growth last year. The business mix has improved significantly towards directly-managed customers and traffic growth has continued to be strong. Excluding TalkTalk traffic, minutes carried rose by 20.9% year-on-year to 5.45 billion. We also began to consolidate the smaller end of the alternative carrier market, acquiring a number of resellers during the year.

We are excited about the ongoing growth prospects for Opal, with its continued strong focus on sales and marketing. We intend to grow the Opal business both by winning new customers and by broadening the range of services we provide to existing customers. We launched line rental successfully this year and will extend its roll-out in the coming year, while also providing DSL-based broadband services for the first time. In addition, we believe that there is strong demand from our business customer base for mobile services, and we will invest in the coming year in growing our corporate mobile proposition to meet that demand.

KEY TARGETS

10%
MARKET SHARE OF MOBILE PHONE MARKET

2m
TALKTALK UK CUSTOMERS BY MARCH 2008

250
STORE OPENINGS THIS YEAR

Chief Executive Officer's Review continued

3G MIGRATION TO BE A KEY FUTURE DRIVER

CONVERGENCE OF MULTIPLE APPLICATIONS ON THE MOBILE HANDSET

FURTHER BENEFITS FROM REGULATORY CHANGE IN THE UK FIXED LINE MARKET

Everything that our business-to-business and residential fixed line operations can achieve is reliant on the technical excellence and outstanding efficiency of the Opal network. During the year, the build-out into BT's local exchange network was completed, maximising the cost efficiency of carrying calls over our network. This year we plan to add further capacity and to adapt the network for future integration into BT's 21st Century Network. Through these avenues, we are preparing our network for continued strong growth in traffic, and for the further move towards corporate data products.

Outlook

The business has never been in better shape. The markets in which we operate are very attractive. Continued intense competition between mobile networks translates into compelling offers for our customers. We expect further competition over the medium term as networks seek to migrate customers to their 3G platforms and more MVNOs enter the market. The handset market is vibrant, with more models than ever before due to be released in the next 12 months and a number of new manufacturers seeking to gain a foothold in the European market.

In response to these excellent market conditions, the acceleration in the expansion of our retail platform will continue into this financial year, as outlined above. This feeds through into strong growth prospects across the whole of the Distribution division. Although the current weakness in UK consumer spending has been well documented, we believe the dynamics of mobile phone retailing are materially different from the sale of other consumer goods. This, in addition to our diversified and service-orientated proposition and our European platform, gives us some insulation from the consumer economic environment.

On the fixed line side, we have now proved that TalkTalk has all the ingredients to become the major alternative force in UK residential communications, and further regulatory change over the next year should allow us to move to the next level in terms of the scale of our operations and the range of services we offer.

The investment we are making in the Opal network will continue to maximise the value we achieve from providing services to homes and businesses, and extend the range of those services. Outside the UK, we will invest further in building our existing customer bases and entering new fixed line markets.

The outlook for our mobile services operations is very promising. Our German service provision business, The Phone House Telecom, has significantly outperformed our expectations and we will continue to invest in growing the base strongly. Our MVNO strategy is gaining pace and reflects the true entrepreneurial roots of the Group: identifying and exploiting market niches while using our existing assets in innovative new ways.

We ask a lot of our employees and every year they respond to the challenges we set them. This year, despite no major acquisitions, a further 2,000 people have joined The Carphone Warehouse, taking the total number of employees to over 12,000. We are very pleased to welcome all the new joiners and extend our thanks to all of our employees for their exceptional service in the last twelve months.

Finally, I would like to take this opportunity to thank Hans Snook for his valuable contribution to the development of the Group during his three years as Chairman. We have been very lucky to benefit from his knowledge and guidance over that time. In turn, I am delighted to welcome John Gildersleeve as our new Chairman. John knows the business well, having already served on the Board for five years, and I know his rich commercial experience will be invaluable to the Group as we enter this next phase of growth.

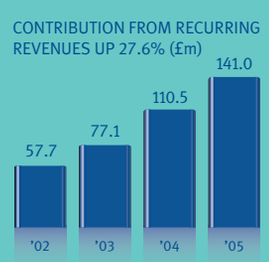
Charles Dunstone, Chief Executive Officer

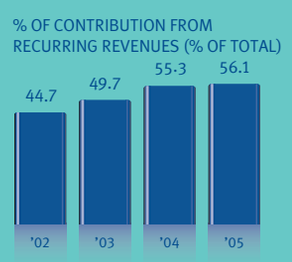
Operating and Financial Review

Trading has been excellent across the Group and we have delivered another year of good earnings growth. Our operations are based on a sound platform of good cash generation, a strong balance sheet and improving operational efficiency.

Summary of results

- Group turnover for the period was £2,355.1m, compared to £1,849.0m for the prior year, representing growth of 27.4%.
- Headline pre-tax profit was £102.1m, an increase of 33.8% on the year to March 2004.
- Earnings per share on the same basis grew by 37.9% to 9.39p.
- Statutory profit before tax increased by 54.8% from £44.5m to £68.9m, while statutory earnings per share increased by 76.3% from 3.17p to 5.59p.
- Net cash inflow from operating activities was £143.1m (2004: £102.7m).



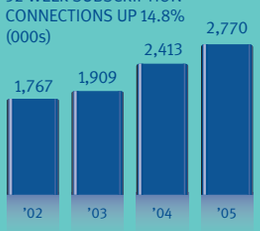


Operational Performance

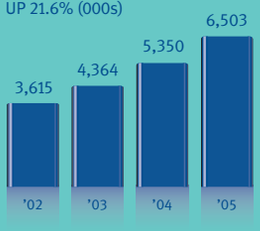
Distribution Division

Our Distribution division comprises our Retail operations and all directly related business streams

52 WEEK SUBSCRIPTION CONNECTIONS UP 14.8% (000s)



52 WEEK TOTAL CONNECTIONS UP 21.6% (000s)



	2005 £m	2004 £m
Turnover	**1,436.9**	1,128.9
Retail	**1,160.2**	946.4
Online	**128.2**	64.5
Insurance	**102.0**	78.6
Ongoing	**46.5**	39.4
Contribution	**190.6**	154.9
Retail	**101.4**	83.0
Online	**7.7**	4.5
Insurance	**35.0**	28.0
Ongoing	**46.5**	39.4
Support costs	**(70.6)**	(57.4)
EBITDA	**120.0**	97.5
Depreciation	**(35.0)**	(30.6)
EBIT	**85.0**	66.9
EBIT %	**5.9%**	5.9%

Before exceptional items and amortisation of goodwill

The key operating assets of the division are our 1,461 stores across 10 European countries and our Retail and Online brands. Distribution revenues grew by 27.3% in the year to £1,436.9m, and the division generated EBIT of £85.0m, a rise of 27.1% on the prior year. Growth was strong across all business units, with Online growth being exceptional, driven primarily by the full-year impact of the acquisition of E2Save.

Retail and Online

The Group achieved 6.60m connections during the year, representing year-on-year growth of 23.4%. However, this year was a 53 week accounting period and on an equivalent 52 week basis, connections were 6.50m, representing growth of 21.6%. Within the 52 week figures, 0.47m connections (2004: 0.31m) were made through our Online channels (inbound and outbound call centres, print media and website).

In the key metric of subscription connections, we achieved 52 week growth of 14.8% to 2.77m. This continued strong performance was a result of enduring competition between mobile networks and an attractive range of new, richly-featured handsets, allied to our unique market proposition. We have now achieved compound annual growth of 20.3% in subscription connections over the last 5 years.

Our pre-pay business had a very good year, with 52 week connections up 28.1% to 3.23m. The combination of falling prices on entry level handsets, and increased network interest in the pre-pay segment, drove demand. Our SIM-free sales recovered well from the previous year, rising 21.4% to 0.51m.

We opened 306 new stores during the year and closed 59. The total number of stores increased from 1,214 at March 2004 to 1,461 at March 2005. The total includes 70 franchise stores (March 2004: 26). Including franchises, average selling space increased by 14.3% to 75,619 sqm (2004: 66,170 sqm), and sales per square metre were up by 7.3% to £15,343. Excluding franchises, average selling space increased by 12.3% to 73,399 sqm (2004: 65,369 sqm) and sales per square metre increased by 9.2% to £15,807.

Total Retail revenues grew by 22.6% and gross profit by 16.9%. Like-for-like, after stripping out the impact of new store openings and the 53rd week, revenues grew by 8.8% and gross profit by 5.0%. The increase in revenues was driven both by the strong connections growth through the year, and an increase in average revenues per connection, which rose by 1.0% as the average value of handsets increased.

Average cash gross profit per connection fell by 3.6% from £56.0 to £54.0, in line with our expectations. Subscription gross profit per connection held up very well but the anticipated competition from other retailers in the pre-pay market, where there are fewer barriers to entry, saw pre-pay gross profit per connection fall. Nonetheless, the significant uplift in volumes that we experienced delivered a much higher level of overall profitability from pre-pay connections than in the previous year and the margin trend improved in the second half, with gross profit per connection on both subscription and pre-pay rising year-on-year.

Contribution (see note 10) to the financial statements from Retail grew by 22.2% to £101.4m. The contribution margin fell from 8.8% to 8.7%. 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 29.4% to 30.7%. Overall Retail direct costs grew by 14.7%, driven by the greater store base and like-for-like growth in commission payments to our sales consultants in the buoyant market. Within these figures, rent costs increased by only 10.5%, as we benefited from a wider geographic spread.

In the UK, our store portfolio increased from 509 stores to 601 stores. We have continued our strategy of identifying sites on arterial routes and in retail parks, but at the same time we have had great success in opening stores in smaller towns. This new type of location will provide us with ample opportunities to continue to grow our UK portfolio over the medium term, and we are targeting a further 100 openings in the next 12 months.

Our businesses outside the UK continued to deliver very encouraging growth. Once again, Spain led the way, and delivered 52 week connections growth of 40.4%. Our Spanish management team also succeeded in opening 75 new stores during the period to take the total to 239, and is confident of achieving further strong growth in the portfolio over the coming year. The scale of our Spanish operation is now feeding through into material contributions, not only from a Retail perspective, but also through Insurance and Ongoing ARPU share income.

Connections (000s)

	52 weeks to 26 March 2005	52 weeks to 27 March 2004	**53 weeks to 2 April 2005**
Subscription	**2,770**	2,413	**2,816**
Pre-pay	**3,227**	2,520	**3,272**
SIM-free	**506**	417	**512**
Group	**6,503**	5,350	**6,600**

Our French Retail operations experienced more challenging conditions as the market continued to display subdued levels of network competition. Nevertheless, connections were up 16.4%, which represents a creditable performance in the market context. We opened 9 new stores during the period, taking the total French portfolio to 185. In the coming year we are putting a renewed effort into expanding our presence with a marked acceleration in new store openings. In addition, we are confident that the market environment will improve, with the entry of MVNOs and closer regulatory involvement.

In our other major Retail markets, Sweden and The Netherlands, we benefited from intense competition between the network operators. The Swedish business generated connections growth of 29.9% and opened 11 new stores, taking the base to 69 stores. Dutch connections were up 11.2% and the portfolio increased by 29 to 116 stores. 24 of these openings were franchises, whose connections are excluded for reporting purposes.

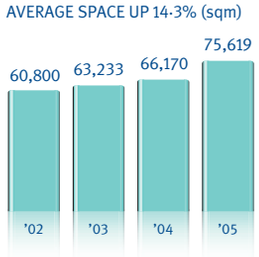
Connections growth across all our other markets, incorporating Belgium, Germany, Ireland, Portugal and Switzerland, was 29.8%. Our Belgian business

LIKE FOR LIKE GROSS PROFIT UP 5.0%

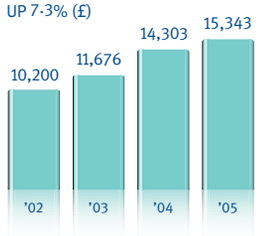
RETAIL CONTRIBUTION UP 22.2%

5 YEAR SUBSCRIPTIONS GROWTH OF 20.3%

AVERAGE SPACE UP 14.3% (sqm)



SALES PER SQUARE METRE UP 7.3% (£)



Distribution Division continued

ONLINE CHANNELS GROWING IN IMPORTANCE

INSURANCE CONTRIBUTION UP 25.0%

ONGOING REVENUE DRIVEN BY SUSTAINED SUBSCRIPTIONS GROWTH

continues to perform exceptionally well and represents a significant turnaround from the loss-making position two years ago, and our Irish and Portuguese operations consolidated their position as the leading independent distributors in their respective markets. In Germany, our retail operations primarily support The Phone House Telecom service provision business, which is discussed in more detail below.

The Swiss Retail business reported a small loss for the year. However, we have made several changes to the management team and have focused on improving our competitive position, and the business is now trading back in line with budget, with a strong recovery forecast in the current year.

Online connections increased by 53.7% year-on-year to 0.47m on a 52 week basis. Revenues were £128.2m (2004: £64.5m) and contribution was £7.7m (2004: £4.5m). The UK continues to be the engine of growth for our Online business, enhanced by a full-year contribution from E2Save, and very strong growth in the off-the-page and web segments of the mobile phone market. As highlighted last year, we have begun to explore direct channels in other geographical markets, but at this stage these are not material to overall Online performance. Just before the year end, we acquired One Stop Phone Shop, another strong off-the-page brand in the UK market.

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.

Our Insurance customer base continued to grow strongly during the year. Overall the customer base grew by 24.3% to 1.65m. The UK base grew by 22.7% to 1.02m and the non-UK base grew by 26.8% to 0.63m. The non-UK base now represents 38.2% of the total.

Insurance revenues grew 29.7% to £102.0m (2004: £78.6m) and contribution increased by 25.0% to £35.0m (2004: £28.0m). Margins remained relatively steady, as a gradual decrease in claims rates, driven by increased public awareness about mobile phone crime, was offset by a rising average claims cost as higher value handsets became more widely owned.

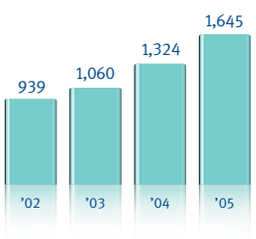
We continue to see good growth prospects in our Insurance business as we build out the store portfolio across Europe. Our third-party business, acting as underwriter to other organisations offering mobile phone insurance, is still in its infancy but provides a further source of long-term growth.

Ongoing

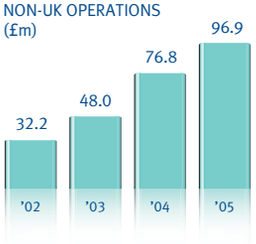
Ongoing represents the share in customer call spend (or ARPU) we receive as a result of connecting subscription customers to certain networks. We are typically contractually entitled to our share of revenue for as long as a customer is active, so this income stream represents an important element of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

Ongoing revenues grew by 18.2% to £46.5m during the year (2004: £39.4m). This performance reflects the sustained strong subscription connections growth over the last two years. We continue to view Ongoing share as a vital element of our network agreements, as it provides us with excellent visibility of earnings and clearly aligns our interests with those of the networks.

INSURANCE BASE UP 24·3% (000s)



CONTRIBUTION FROM NON-UK OPERATIONS (£m)



Operational Performance

Telecoms Services Division

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 customers, including our virtual network, Fresh, and our German service provision ('SP') business, The Phone House Telecom. The Fixed business primarily comprises Opal, our business-to-business network, and TalkTalk, our residential service, both in the UK. We also operate a number of smaller fixed line businesses across Europe.

Telecoms Services revenues grew by 45.0% year-on-year to £804.0m (2004: £554.5m), with good growth across all major business lines. EBIT increased by 50.0% to £22.5m (2004: £15.0m). The EBIT margin increased slightly from 2.7% to 2.8% as strong top line growth was offset by continued investment in recruiting customers to TalkTalk and building support functions to create a robust platform for long-term growth.

Mobile

Overall we achieved revenue growth of 23.5% to £377.7m (2004: £305.9m), with contribution rising 9.3% to £25.7m (2004: £23.5m).

The Phone House Telecom, our German SP business, performed very strongly. The rate of customer acquisition accelerated in the second half and by March 2005 we had 0.86m customers, of whom 0.64m were on two-year subscriptions. We completed the integration of our German retail operations and are now focused on growing our distribution network, both by opening new stores and by expanding our dealer channel. Revenues rose by 41.3% to £298.3m compared to the ten-months figure from the previous year, with contribution up by 52.8% to £16.4m on the same basis. The contribution margin increased from 5.1% to 5.5% as the business benefited from strong competition between the incumbent networks.

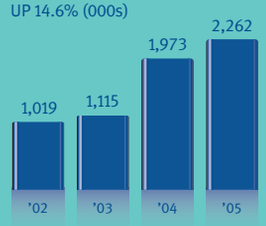
Total revenues from the rest of our Mobile businesses fell 16.2% to £79.4m, while contribution fell 27.3% to £9.3m. The fall in revenues was the result of the migration of Sainsbury's customers from an SP to an FM arrangement, and a lower average base at Fresh.

The Telecoms Services division comprises a range of network and support services to business and residential telecoms customers

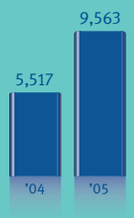
	2005 £m	2004 £m
Turnover	**804.0**	554.5
Mobile	**377.7**	305.9
Fixed	**426.3**	248.6
Contribution	**59.4**	43.2
Mobile	**25.7**	23.5
Fixed	**33.7**	19.7
Support costs	**(24.7)**	(18.1)
EBITDA	**34.7**	25.1
Depreciation	**(12.2)**	(10.1)
EBIT	**22.5**	15.0
EBIT %	**2.8%**	2.7%

Before exceptional items and amortisation of goodwill

MOBILE CUSTOMER BASE
UP 14.6% (000s)



OPAL SWITCHED MINUTES
UP 73.4% (m)



Telecoms Services Division continued

GERMAN SP BUSINESS GROWING STRONGLY

MULTIPLE NICHE MVNO OPPORTUNITIES

OPAL INVESTING FOR NEXT GENERATION SERVICES

The decline in contribution includes a start-up loss from our French MVNO of £1.0m.

We continued to grow our UK FM business with customers managed on behalf of O2 and Vodafone up by 19.7% to 0.67m (2004: 0.56m). Growth is driven by new subscription customers signed up to these networks in our stores. The key drivers of our FM businesses are the number of customers under management, and the efficiency with which we manage our call centres and bad debt. We continue to manage 0.6m customers in France on behalf of Orange and SFR.

Our other own customer operations, predominantly Fresh, our UK virtual network, did not make a material financial contribution during the year. However, we have recently taken a more proactive approach to our MVNO strategy, with a number of initiatives that will support long-term growth in this business unit. In July 2004 we launched Breizh Mobile, an MVNO in France addressing the low-penetration Brittany region with a locally-tailored offering. In the last quarter, we aggressively promoted our Fresh proposition to maintain our status as the best value pre-pay offer in the UK market. Finally, we announced just after the year end the launch of Mobile World, a unique pre-pay service which offers very attractive rates to international destinations, designed to compete directly with the fixed line pre-paid calling card market.

Fixed

Our fixed line operations continued their strong momentum from the previous year. Total revenues were £426.3m, up 71.5% on the previous year, and contribution was £33.7m, a rise of 71.7%.

Total revenues from business operations were £267.3m. Opal, the network provider for all of our fixed line activity in the UK, generated revenues of £237.7m, an increase of 8.8% (2004: £218.4m). Revenues in the second half were, as expected, adversely affected by the regulatory cuts to mobile termination rates. With the cost of terminating calls on mobile networks falling, we passed on the saving to our customers, which reduced revenue per minute by approximately 12% over the second half. Total business traffic over the network increased by 20.9% to 5.45bn minutes. Including TalkTalk activity, total traffic increased by 73.4% to 9.56bn minutes.

Total contribution from business operations was £31.5m. Opal contribution was £30.6m, broadly the same as in 2004. Underlying growth in our direct channel, where we recruit and manage our own corporate customers, was very encouraging. However, we experienced increased price competition in our reseller channel, and scaled down our low margin premium rate services during the year.

We made a number of small reseller acquisitions in the UK during the year, as the rate of consolidation in the sector picked up. These acquisitions are attractive because we are able to improve the margin on customer traffic immediately by moving the lines onto the Opal network. Acquisitions also give us ready access to sales platforms in regions of the UK where we are currently under-represented. In total these deals added £17.8m of revenues and £3.0m of contribution to the year's results.

Xtra, our Spanish fixed line network acquired in March 2004, recorded revenues of £29.6m and contribution of £0.9m in its first full year in the Group.

Opal's engineering strategy made further good progress during the year. We provisioned a further 5 switches, taking the total to 11. In addition, we completed our three-year programme of building interconnect into the BT exchange network, so that by March 2005 over 90% of calls across the Opal network originated and terminated at the local exchange level. This was significantly ahead of our 75% target and makes Opal one of the most efficient networks in the UK based on the costs paid to BT – a call that is originated onto Opal at the local exchange level is 27% cheaper than a call originating at the regional exchange level.

Opal's network strategy will evolve over the next 12 months in two important ways: firstly, to add more capacity through the provisioning of additional switches and further fibre leases to meet the demands of our growing business; and secondly, to prepare for the provision of broadband services and integration to BT's 21st Century Network, which will be key to our long-term strategy for Opal and TalkTalk.

TalkTalk's competitive position is strengthening all the time as it gains real scale. We will continue to invest in developing the brand and recruiting customers aggressively

We are continuing to invest in Opal to maximise its potential in the business telecoms market. We intend to develop and grow a number of new business areas this year, including line rental, data products, and a corporate mobile proposition. In addition, we are launching TalkTalk Business, addressing the small business market. At the same time, our core voice business is set for continued growth.

Total residential revenues rose from £30.2m to £159.0m, and contribution was £2.3m, compared to a loss of £11.0m last year. Our UK residential fixed line service, TalkTalk, had an outstanding year. We exceeded our target of 900,000 customers by March 2005, finishing the year with 920,000. TalkTalk UK generated revenues of £123.6m and became profitable in its second full year, despite continued heavy investment in marketing and customer acquisition. In addition, we launched a broadband service in the second half of the year and recruited nearly 50,000 customers by the year end, which was well ahead of our own expectations. Contribution in the UK was £0.5m, net of £1.4m start-up losses from our broadband activities, compared to a loss of £11.0m in 2004.

We believe that TalkTalk's competitive position is strengthening all the time as it gains real scale. This gives us scope to continue to invest in developing the brand and recruiting customers aggressively. We intend to introduce further enhancements to our broadband service during the year, and will launch a line rental product when the regulatory environment allows. We expect this to have a positive impact both on customer recruitment and on churn, since it allows us to consolidate all of a customer's phone bill and terminates the billing relationship with BT. We have set a target of 2 million residential customers by March 2008 – equivalent to a 10% share of the UK market.

Our non-UK residential fixed line operations have made a promising start. The acquisitions of Xtra in Spain and N Tel in Switzerland in the previous financial period have been successfully integrated into the Group and we have launched TalkTalk in those two countries, as well as in France and Germany. At the year end we had 170,000 fixed line customers outside the UK, generating revenues of £35.4m and contribution of £1.8m. N Tel continued to be strongly profitable, while we incurred start-up losses elsewhere. Since the year end we have launched TalkTalk in Belgium and Ireland, and we expect a similar overall result from our non-UK TalkTalk operations in the next 12 months.

Wholesale Division

	2005 £m	2004 £m
Turnover	**132.0**	178.1
Contribution	**1.5**	1.8
Support costs	**(1.4)**	(1.7)
EBITDA	**0.1**	0.1
Depreciation	**(0.7)**	(0.9)
EBIT	**(0.6)**	(0.8)
EBIT %	**(0.5%)**	(0.5%)

Wholesale operations comprise our pre-pay voucher distribution business, our dealer operations and the wholesale shipment of trade-in handsets. We are still aware that European VAT authorities continue to investigate the recovery of VAT in the industry for trading activities conducted prior to April 2003. Having undertaken a detailed internal investigation and taken advice, we continue to believe that we have no financial exposure to this issue within the financial statements.

LINE RENTAL LAUNCH PLANNED FOR LATER THIS YEAR

NON-UK FIXED LINE OPERATIONS HAVE STARTED PROMISINGLY

TARGETING 10% OF THE UK RESIDENTIAL MARKET BY 2008

FIND OUT MORE ABOUT OUR BUSINESS AT WWW.CPWPLC.COM

Financial Performance

HEADLINE EARNINGS PER SHARE UP 37.9%

DIVIDEND UP 38.5%

OPERATING CASH FLOW OF £143.1M

Eliminations

Included within Retail revenue is £17.9m of commissions from the Group's German SP business (2004: £12.5m). This revenue is reported within Retail to avoid distortion of performance.

Exceptional items

There were no exceptional items during the year (2004: £6.4m exceptional charge).

Interest and tax

Net interest of £4.8m was payable during the year, compared to a charge of £4.9m in the prior year. Significant investment in capital expenditure and acquisitions was financed largely out of operating cash flow.

The effective tax rate before amortisation and exceptionals was 19.5% (2004: 22.0%). 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 £53.7m arose during the year, principally on the acquisition of a number of fixed line telecommunications providers, as detailed in note 15 to the financial statements. The total goodwill amortisation charge for the year increased by 30.7% to £33.2m (2004: £25.4m), reflecting the increase in goodwill over the past two years and a shorter average amortisation period for a number of recent acquisitions.

Earnings per share ('EPS')

Headline EPS was 9.39p (2004: 6.81p). Statutory EPS was 5.59p (2004: 3.17p).

Cash flow and dividend

At 2 April 2005, the Group had net debt of £68.4m (2004: £40.6m). During the year the Group generated cash flow from operations of £143.1m (2004: £102.7m), and total free cash flow, before acquisitions, new stores, freehold investments and dividend payments, of £68.2m (2004: £57.0m).

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 to pursue a progressive dividend policy. We are proposing a final dividend of 1.25p per share, taking the total dividend for the financial year to 1.80p, an increase of 38.5% on the prior year, reflecting underlying EPS growth. The ex-dividend date is Wednesday 6 July 2005, with a record date of Friday 8 July 2005 and an intended payment date of Friday 5 August 2005.

Net debt

	2005 £m	2004 £m
Operating cash flow	**143.1**	102.7
Tax and interest	**(16.5)**	(7.2)
Capex (ex new stores and freeholds)	**(58.4)**	(38.5)
Free cash flow	**68.2**	57.0
New store capex	**(25.2)**	(13.7)
Freehold acquisitions	**(4.2)**	(47.3)
Acquisitions and investments	**(46.5)**	(59.3)
Dividends	**(12.7)**	(12.2)
Net cash outflow	**(20.4)**	(75.5)
Opening net (debt) funds*	**(40.6)**	29.1
Shares and foreign exchange	**(7.4)**	5.8
Closing net debt*	**(68.4)**	(40.6)

* including short-term investments.

Balance sheet

Acquisitions and capital investment during the period are reflected in an increase in fixed assets from £604.7m to £674.0m year-on-year. Debtors and short-term creditors also increased substantially from March 2004 to March 2005, reflecting acquisitions during the period, together with growth in turnover of 27.4%.

Short-term investments increased from £10.8m at March 2004 to £60.5m at March 2005, reflecting the reallocation of funds held by the Group's insurance business from cash into bonds and managed funds, further to its relocation to Dublin last year.

The increase in provisions for liabilities and charges from £40.2m to £68.0m principally reflects an uplift in the Group's use of 'cashback' and similar promotions, the anticipated costs of which are provided for on sale.

Financing and treasury

The Group's operations are financed by committed bank facilities, retained profits and equity. During the period, the Group agreed a new £300m revolving credit facility to replace the previous £180m facility, which was due to expire in August 2005. This refinancing also took advantage of the significant reduction in bank loan margins that occurred during 2004. We also took this opportunity to renegotiate the terms of the £120m term loan facility, which was signed in July 2003. The new facility was arranged by HSBC Bank PLC, ING Bank NV and The Royal Bank of Scotland PLC. The Group was in compliance with the covenant conditions of both facilities throughout the period.

Net borrowings peaked late in 2004, in line with the normal annual cycle as the Group invests in inventory ahead of the Christmas trading season. The Group seeks to maintain comfortable headroom on committed facilities at all times.

In addition to the revolving credit facility and term loan, the Group 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.

Funding of our subsidiaries is arranged 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. Other than through inter-company loans and capital funding, balance sheet translational risk is not hedged against adverse movements in exchange rates and the results of any such movements are taken to reserves. The Group is exposed to limited cross-border transactional commitments and where significant, these are hedged at inception using forward currency contracts.

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, all debt is liable to floating rate interest. The interest cover covenant was comfortably exceeded at the year 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 applied during the period are consistent with those applied in the prior year and are set out in note 1 to the financial statements.

International financial reporting standards

The Group will be required to adopt International Reporting Standards (IFRS) for the period ending 1 April 2006. We will continue to assess the impact of adopting IFRS on an ongoing basis until then.

Return on capital employed

Total shareholders' funds at March 2005 were £502.9m, compared to £471.8m at March 2004. After taking into account average net debt, and adjusting for goodwill amortisation and goodwill arising on historic minority acquisitions, the Group generated a return on capital employed of 18.7% (2004: 17.6%).

Assuming a weighted average cost of capital for the period ended 2 April 2005 of 6.9% (2004: 7.1%), this represents an increase in economic value added from £37.8m to £54.4m, being 10.5% and 11.8% respectively.

Roger Taylor, Chief Financial Officer

FIND OUT MORE ABOUT OUR BUSINESS AT WWW.CPWPLC.COM

Corporate Responsibility

NEW CHARITY INITIATIVE LAUNCHED TO RAISE £500,000

GET CONNECTED REMAINS A UNIQUE AND SUCCESSFUL PARTNERSHIP

OUTSTANDING EMPLOYEE CONTRIBUTIONS

The Group has a strong track record as a responsible employer, consumer and distributor. We divide our corporate responsibility activities into two categories: our charity, community and employee activities; and our social and regulatory responsibilities. There are separate committees composed of executives from across the Group that manage our involvement in these areas. We have a dedicated Corporate Social Responsibility manager who co-ordinates strategy and actions across both elements, and in the past year Martin Dawes, a Non-Executive Director, has sponsored activities at Board level. A new Non-Executive Director will be our sponsor following the retirement of Martin Dawes at this year's Annual General Meeting.

Charity, community and employee activities

In September 2004 The Carphone Warehouse launched a new charity partnership with Barnardo's and Get Connected with an aim of raising £500,000 over two years to help children and young adults throughout the UK. In addition, a percentage of the funds raised goes towards supporting small and local charities either put forward by employees or situated in a community close to a CPW store or non-retail operation. Funds are being raised in many different ways from in-store activities to overseas treks to mobile phone recycling.

Get Connected

The Carphone Warehouse has had a relationship with Get Connected for five years and has now made it a beneficiary of the Carphone Warehouse Charity Partnership. In addition, we provide Get Connected with its accommodation, phone lines and IT support, and offer volunteers the opportunity to earn extra holiday or take matched company hours for giving up their time to help out. In 2004, in response to the expansion of the charity, we relocated them to new premises in central London, providing newly renovated and fully equipped offices, doubling the capacity for volunteers and employees and providing a meeting room and facilities for disabled volunteers.

In February 2005 we hosted an auction to help raise funds for Get Connected. Held at BAFTA, Piccadilly and hosted by Charles Dunstone and Andrew Harrison, the event was supported by suppliers and partners and raised nearly £70,000 for the charity.

Business Action on Homelessness

CPW supports the Business Action on Homelessness ('BAOH') programme, offering two-week work experience placements to people who have been homeless. Most are now in hostels and their placement is part of a recovery process to give them the experience and confidence to look at long-term employment and prevent "revolving door" homelessness. The work placements vary and aim to give participants a broad view of the business, looking at different aspects of the operation. We also give practical help in respect of interview techniques and producing CVs. Of the 12 placements over the past two years, three have subsequently been employed by the Company and are working in our Acton Support Centre. We support the programme nationally and Richard Smelt, the Group's HR Director, is on the BAOH Planning Board.

Comic Relief

The Acton Support Centre acted as a call centre for Comic Relief's Sport Relief event in July 2004 and took £80,000 worth of donations for the charity. 50 employees, including Andrew Harrison, UK CEO, and Chris Murton, Managing Director of CPW Online, volunteered their Saturday night to take donations from the general public. Due to the success of an internally developed bespoke data input system the Comic Relief team visited the Acton office after the event when they were researching models for their own online data processing procedures.

After the success of this night Carphone Warehouse decided to expand operations for Red Nose Day in March 2005 and recruited 200 volunteers over two sites to act once more as a call centre. The night helped to raise a grand total of over £175,000 in donations taken in response to the Comic Relief television broadcast. Between the Acton and

As we grow and develop as a Group we have to ensure that our values and the treatment of our employees are not compromised

Birchwood call centres 1,100 volunteer hours were spent on the phones fielding 5,500 calls.

Tsunami

On 17 January 2005 the UK's commercial radio stations came together for the first time to create UK RadioAid to raise money for the victims of the tsunami that devastated hundreds of thousands of lives on 26 December 2004. The Carphone Warehouse sponsored the prime 8am – 9am slot, hosted by Chris Evans. Listeners who sent the word 'phone' via text message during the show had £1.50 donated to the tsunami appeal on their behalf and this was then matched by us.

Employees across the Group worked hard to raise money for the appeal, donating out of their payroll and performing stunts up and down the country such as shaving their heads and bathing in baked beans. Donations from employees and in store contributions from the general public in the UK were matched by CPW, resulting in a donation of over £200,000 to the Disasters Emergency Committee.

Employees

As an organisation we are aware that our employees are our greatest asset and as a growing and developing Group have to ensure that our values and the treatment of our employees are not compromised. There are many ways in which our HR department constantly examine and address the work environment, from stores to repair centres and contact centres, but the best way to find out how satisfied our employees are is by asking them directly.

In 2001, Backchat was launched, offering an opportunity for all employees at every level of the business to express how they felt about all aspects of the Group, their roles within it and their personal development, through a confidential survey. In the first year, 33% of employees completed the survey but with re-examination and assessment of the content and presentation of the survey year-on-year, we have made it more and more accessible, and the survey in 2004 saw a 92.7% response rate. This massive uptake allows us as an organisation to undertake open and honest self-analysis.

There are many areas where we are pleased to see sustained and improved feedback year-on-year. Highlights of this year's survey include:

- 87% of people are proud to work for CPW, an increase of 6% on the previous year;
- 81% feel that CPW is a fun place to work; and
- 83% feel that the training and development they have received in the last 12 months has been valuable and worthwhile.

The year-on-year results have shown a steady improvement and not one area saw a negative trend in the 2004 survey. This analysis allows us to continue our work in areas where we are doing well, but more importantly, to focus on addressing areas that are not regarded so favourably. This year's results showed score improvements from 9% to 18% across the least favourable scores, showing that targeted dedication and listening to our employees allows us to improve the work environment.

As well as the targets we can set ourselves, we are able to use the data against external benchmarks and track our performance against other major retailers.

92.7% OF EMPLOYEES RESPONDED TO OUR LATEST SURVEY

ALL SURVEYED AREAS SHOWED IMPROVEMENTS ON LAST YEAR

AWARDS REFLECT THE IMPORTANCE PLACED ON A GOOD WORKING ENVIRONMENT

FIND OUT MORE ABOUT OUR BUSINESS AT WWW.CPWPLC.COM

Corporate Responsibility continued

WE ARE A LOW IMPACT BUSINESS IN SEE TERMS

MORE FORMAL CO-ORDINATION OF ISSUES TO BE PUT IN PLACE

COMMITMENT TO EQUAL ACCESS FOR ALL OUR CUSTOMERS

Areas where we hold the greatest difference against the average in the retail sector include being personally valued by the organisation, making good use of skills and abilities, fair pay, and being proud to work for the organisation.

This success is reflected in the awards that The Carphone Warehouse has won in the last year.

- Mobile Choice Best High Street Retailer
- Mobile News Best Large Retailer
- Retail Week Business Excellence
- Retail Week Innovative Employer
- Sunday Times 4th Best Large Company to Work For
- What Mobile Best High Street Retailer

Regulatory and social responsibilities

We continue to operate in a relatively low impact industry and our meetings and discussions with Group businesses on social, environmental and ethical ('SEE') matters give us confidence both that the SEE risks to our business are relatively low, and also that controls are in place to ensure compliance with new laws and regulations where necessary. We remain very much abreast of key issues and business risks arising in these areas (as outlined below). Over the coming year we will undertake to put the SEE committee on a more formal footing and renew our Board representation.

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 risks that are most material to the business.

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

In March 2005, the UK Government announced its intention to transpose the WEEE Directive into law by the summer of 2005. The producer responsibility obligations and the take-back obligations on retailers and distributors are planned to commence in January 2006. Our purchasing teams across the Group are working with our Group legal department and our suppliers to ensure compliance within this timetable.

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 retail website (www.carphonewarehouse.com), and in June 2004 we launched dedicated phone numbers for our customers. In addition, we now provide bills in a number of formats for the visually-impaired. During the year our corporate website (www.cpwplc.com) was also extensively overhauled to comply with the Royal National Institute of the Blind's "See It Right" accessibility criteria and priority level 1 criteria of the World Wide Web Consortium's Web Content Accessibility Guidelines.

The Disability Discrimination Act came into force in the UK in October 2004. Over 90% of our UK stores are now fully accessible for wheelchair users. To assist customers, we have published a list of stores with access difficulties on our website, with suggested alternative stores in the area. Induction loops have been provided to all stores, and drop counters are now fitted in new stores as standard. Stores also have customer care packs containing magnifying glasses and easy-grip pens.

We remain fully committed to the principle that disabled customers should as far as possible be able to obtain goods and services in just the same way as any other customer, and we continue to monitor the situation to improve access facilities wherever possible.

Fighting mobile crime

In 2003 The Carphone Warehouse spearheaded the joint industry 'Immobilise' campaign, with the aim of encouraging customers to report their lost or stolen handset, so that it could be blacklisted. In January 2005 a second 'Immobilise' campaign was launched, this time asking customers to register their lost or stolen phones on Immobilise.com for the best chance of getting it back.

We are constantly reviewing and improving our websites and stores to provide greater accessibility for our disabled customers

As a member of Mobile Industry Crime Action Forum, we also endorse the work of MEND, the Mobile Equipment National Database, that provides recovery and assistance with an aim to reunite owners with their property. The Carphone Warehouse is leading the way in supporting this new campaign as the first UK retailer to automatically register all of its insurance customers.

Mobile phones and health

The Carphone Warehouse continues to lead the industry in providing customers with all of the information on mobile phones and health concerns so that they can make informed decisions. An independent and extensive health fact sheet is available in our stores and on our website, with the 11th edition due for publication in the next few months. We also continue to list specific absorption rates for every handset in our buyers' guide every month and again on our website.

Adult content

In the UK, network operators have collectively developed a code of practice for the self-regulation of age-sensitive 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.

Promoting safe driving

We followed our successful 'Hang up or Go Handsfree' awareness campaign in December 2003 with a further campaign a year after the new driving legislation coming into force. In December 2004 we conducted customer research to find out which area in the UK had the highest and lowest awareness of the new legislation. We then used the results to target areas where awareness of the legislation was low. We also created a guide to help customers choose the right handsfree solution and now have over 60 dedicated car kit installation centres across the UK.

FIND OUT MORE ABOUT OUR BUSINESS AT WWW.CPWPLC.COM

Board of Directors and Group Advisors

Company Secretary
T S Morris

Board Committees
Audit Committee:
Adrian Martin (Chairman)
John Gildersleeve
Sir Brian Pitman
Martin Dawes

Remuneration Committee:
John Gildersleeve (Chairman)
Sir Brian Pitman
Martin Dawes
Adrian Martin

Nomination Committee:
Sir Brian Pitman (Chairman)
John Gildersleeve
Martin Dawes
David Ross

Advisors
Bankers
HSBC Bank PLC
ING Bank NV
Deutsche Bank AG
Royal Bank of Scotland PLC

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

Executive Directors

Charles Dunstone
Chief Executive Officer
Age 40. 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, The Daily Mail and General Trust PLC, and Independent Media Distribution PLC. He is also Chairman of The Prince's Trust Trading Board and a member of its Council.

David Ross ACA
Deputy Chairman
Age 39. 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, Big Yellow Group PLC and Cosalt PLC.

Geoffroy Roux de Bezieux ESSEC (MBA)
Chief Operating Officer, Distribution
Age 42. 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 40. 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. He is a Non-Executive Director of Berkeley Scott Group PLC.

James Dale FCA
Executive Chairman of Carphone Warehouse Insurance
Age 65. Joined the Group in January 1997 and appointed to the Board in March 2001. He is responsible for the management of the Group's insurance operations.

Non-Executive Directors

Hans Roger Snook
Chairman
Age 57. 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. He will stand down as a Non-Executive Director with effect from this year's Annual General Meeting.

John Gildersleeve
Age 60. Joined the Board in June 2000. He was an Executive Director of Tesco PLC until he retired in February 2004. He will become the Group's Non-Executive Chairman with effect from this year's Annual General Meeting. 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 55. Joined the Board in November 2000. He is Chief Executive of Reynolds Porter Chamberlain Solicitors and a Non-Executive Director of M & C Saatchi PLC and one privately controlled company. Previously he was UK Managing Partner of BDO Stoy Hayward, where he was also Chairman of its International Policy Board.

Sir Brian Pitman
Age 73. 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 61. 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. He will stand down as a Non-Executive Director with effect from this year's Annual General Meeting.

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 26 to 31 explain that the Company has complied during the period with the principles contained in the new Combined Code on corporate governance issued by the Financial Reporting Council in July 2003 (the 'Code') except as stated to the contrary in this Report.

In accordance with Listing Rule 12.43A as varied by the instrument issued by the Financial Services Authority in October 2004, the relevant parts of this Report have been reviewed by the Auditors and their opinion is contained in the Independent Auditor's Report on page 33.

Board of Directors

Composition of the Board

During the period there were five Executive Directors and five Non-Executive Directors (including the Non-Executive Chairman). Biographies of each of the Directors, their responsibilities and principal Board Committee memberships are set out on page 22.

On 14 April 2005 the Company announced that with effect from the Annual General Meeting on 28 July 2005 ('AGM'), Hans Roger Snook will stand down as Non-Executive Chairman, that John Gildersleeve will become Non-Executive Chairman and that David Goldie will become an Executive Director. On 19 May 2005 the Company announced that Martin Dawes would stand down as a Non-Executive Director with effect from the AGM. The effect of all of these changes on the composition of the Board and its committees will be reported on in next year's Annual Report. Charles Dunstone is the Chief Executive Officer, Sir Brian Pitman is the Senior Independent Director and David Ross is Deputy Chairman.

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

The Non-Executive Directors, apart from Hans Roger Snook, have three-year periods of appointment, the terms of which are substantially in the same format as suggested by the Code, with three-month notice periods and no compensation for loss of office. Hans Roger Snook has a service contract which can be terminated by either party on twelve-months' notice with no provision for compensation on early termination. As stated above, Hans Roger Snook will stand down as a Director of the Company with effect from the AGM such that a notice period of less than twelve months will have applied and no other compensation for loss of office will be paid. Further details on each Director's remuneration including the dates of their contracts with the Company are set out in the Remuneration Report on pages 26 to 31.

All the Non-Executive Directors, except Hans Roger Snook, are considered by the Board to be independent. Hans Roger Snook is not considered to be independent as he holds 1 million share options in the Company. Four out of the nine Directors, excluding the Chairman, are independent. Whilst the Code states that at least half the Board excluding the Chairman should consist of independent Directors, the Board believes that the current composition of four out of nine is sufficient to produce a well balanced Board in terms of size, balance of skills and experience, and independence in character and judgement, to meet the requirements of the Group's business.

Board meetings

The Board meets at least six times a year, with additional meetings as required. The Board met seven times formally during the period (including a strategy day). With the exception of Sir Brian Pitman, who was absent for the meetings held on 28 July 2004 and 28 October 2004 because he had other meetings fixed for such dates before the Company had arranged such meetings, all of the Directors attended these meetings.

The Company Secretary ensures that all Board papers are sent out to non-attending Directors and that, where possible, any comments they have are received beforehand so that they can be expressed at the meeting.

Operation of the Board

The wide range of experience and expertise of the Non-Executive Directors, combined with the skill sets of the Executive Directors, provides vast experience of mobile and fixed line telecommunications and general business experience, strong personal skills and independence of thought and perspective.

The overriding responsibility of the Board is to provide entrepreneurial and responsible leadership to the Group within a framework of prudent and effective controls. These allow for the key issues and risks surrounding the business to be assessed and managed. The Board determines the overall strategic direction for the Group, reviews management performance and ensures that the necessary financial and human resources are in place to enable the Group to meet its objectives. The Board is comfortable that the necessary controls and resources exist within the Group to enable these responsibilities to be met.

The Board ensures that the Directors, and in particular the Non-Executive Directors, develop an understanding of the views of major shareholders about the Company. The Company regularly communicates with major shareholders and has a dedicated internal investor relations department. Briefings on market activity, together with the views of shareholders and analysts on the Company, are also regularly provided to the Board.

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

Performance evaluation

During the period the balance of skills, knowledge and experience of Directors was reviewed. The Board, and each individual Director, also undertook performance evaluations. Using the Higgs 'Suggestions for Good Practice' as guidance, the individual Directors initially completed separate questionnaires. The results were compiled and analysed by the Company Secretary, who prepared reports as appropriate to the Chairman, the Senior Independent Director, the Chief Executive Officer and to the Board as a whole. The areas covered included the role of the Executive and Non-Executive Directors, the Board and the Board Committees, preparation for and performance at meetings, the effectiveness of each Director, leadership, culture and corporate governance. The results were then considered by the Board as a specific item of business. These exercises or similar ones will be carried out each year.

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

The Chairman also convened a formal meeting of the Non-Executive Directors to assess the performance of the Board in the absence of the Executive Directors.

Corporate Governance continued

The Senior Independent Director also met with the Non-Executive Directors, in the absence of the Chairman, to assess the Chairman's effectiveness (having taken soundings beforehand from the Executive Directors). The Chairman had no other significant commitments during the period that would have affected his performance in his role.

External appointments

The Board supports Executive Directors taking up Non-Executive Directorships as part of their continued development, and the Board believes that this will ultimately benefit the Company. Further details are provided in the Remuneration Report on pages 26 to 31.

Board Committees

There are three principal Board Committees: Audit, Remuneration and Nomination. The Committees are provided with sufficient resources via the Company Secretary and, where necessary, have direct access to independent professional advisers to undertake their duties.

Audit Committee

During the period the Committee comprised three independent Non-Executive Directors, Adrian Martin (Chairman), John Gildersleeve and Sir Brian Pitman. Adrian Martin is deemed by the Board to be the Committee member with recent and relevant financial experience. All of the Committee members have extensive commercial experience. The Committee met formally four times during the period. All members of the Committee were present at each meeting, except Sir Brian Pitman who was absent from the meetings on 13 May 2004 and 28 October 2004 because he had to attend other meetings that had been fixed before the Company had arranged the meetings. The Company Secretary ensured that he received all relevant papers in advance and that any comments he had were communicated to the meeting. The Chairman of the Committee updates the Board on any significant issues that may have arisen at the Board meeting following each Committee meeting. Martin Dawes was appointed to the Committee on 27 January 2005, from which point the Committee comprised four independent Non-Executive Directors.

During the period, all the requirements of the Code in respect of the Committee were met. The work undertaken by the Committee is described within the following sections of this Report.

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

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

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

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

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

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

	2005 £000	2004 £000
Audit services:		
– statutory audit	**836**	568
– non-statutory audit	**98**	–
Further assurance services	**15**	225
Tax services:		
– compliance services	**10**	–
– advisory services	**150**	313
Other services	**54**	12
Total	**1,163**	1,118

Certain non-audit services are pre-approved by the Committee depending upon the nature and size of the service. Non-statutory audit services during the period primarily related to work undertaken in respect of International Accounting Standards. Tax services comprise compliance services and technical advice associated with relevant UK and international fiscal laws and regulations and, in particular, assessment of the potential implications of proposed corporate transactions or restructuring.

Having undertaken a review of the non-audit related work the Committee has satisfied itself that the services undertaken during the period did not prejudice the external auditors' independence.

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

Remuneration Committee

During the period the Committee comprised four independent Non-Executive Directors, John Gildersleeve (Chairman), Sir Brian Pitman, Martin Dawes and Adrian Martin. The Committee met formally three times during the period and each member attended every meeting, except Adrian Martin who was absent from the meeting on 27 May 2004 because he was not appointed to the Committee until 27 January 2005. Other Directors, the Company Secretary, the Group Director of Human Resources and advisers attended by invitation only. A detailed description of the Committee's remit and work during the period is contained in the Remuneration Report on pages 26 to 31. Its terms of reference comply with the Code, are available on request from the Company

Secretary and are published on the Company's website. The Chairman of the Committee updates the Board following each Committee meeting.

Nomination Committee

During the period the Committee comprised three independent Non-Executive Directors, Sir Brian Pitman (Chairman), John Gildersleeve and Martin Dawes and David Ross. It meets as and when required and met once formally during the period. Every member attended this meeting, except that John Gildersleeve did not attend the part of the meeting in respect of his own proposed appointment as Non-Executive Chairman of the Company.

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

During the period, the work of the Committee reflected succession planning and a consideration of appropriate appointments to the Board. In particular, the Committee (excluding John Gildersleeve) carried out such work and recommended that John Gildersleeve be appointed as Non-Executive Chairman when Hans Roger Snook stands down as Chairman with effect from the AGM. The full Committee also recommended the appointment of David Goldie as an Executive Director with effect from the AGM.

The Committee did not use an external search consultancy nor open advertising in respect of John Gildersleeve's appointment, although the Committee did follow the other principles of the Code in leading and making recommendations to the Board. Given the level of experience of John Gildersleeve and his existing knowledge of the Company, the Committee determined that he was the best candidate for Non-Executive Chairman and as such decided that it was not appropriate to look externally for a suitable candidate. The Committee also determined that John Gildersleeve satisfied the test of independence set out in the Code on his appointment. Similarly, David Goldie was already an existing member of senior management and the Committee determined that his appointment was part of the Company's orderly succession plans so as to maintain the appropriate balance of skills and experience within the Company on the Board.

Both of these recommendations were unanimously approved by the Board.

Risk management and internal control

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

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

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

The Directors have overall responsibility for the Group's systems of internal control and for reviewing their effectiveness. The Board delegates to executive management the responsibility for designing, operating and monitoring these systems. The systems are based on a process of identifying, evaluating and managing key risks and include the risk management processes set out above. The systems of internal control were in place throughout the period and up to the date of approval of the Annual Report and financial statements. The effectiveness of these systems is periodically reviewed by the Audit Committee in accordance with the guidance in the Turnbull Report. These systems are also refined as necessary to meet changes in the Group's business and associated risks.

The systems of internal control are designed to manage rather than eliminate the risk of failure to achieve business objectives. They can only provide reasonable and not absolute assurance against material errors, losses, fraud or breaches of laws and regulations.

The Board has conducted an annual review of the effectiveness of the systems of risk management and internal control in operation during the year and up to the date of the approval of the Annual Report and financial statements. Controls required to mitigate such risks and any significant control failings are reviewed by the Board through operational reports from management.

Communication with investors

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

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

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

Remuneration Report

Compliance

This Remuneration Report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 ('Regulations') and the new Combined Code on Corporate Governance issued in July 2003 (the 'Code'). The constitution and operation of the Remuneration Committee are in compliance with the Code. In framing its remuneration policy the Committee has given full consideration to the matters set out in Schedule A of the Code. As required by the Regulations, a resolution to approve this Report will be proposed at the Annual General Meeting ('AGM') to be held on 28 July 2005.

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

Remuneration Committee

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

The Committee's current composition is John Gildersleeve (Chairman), Sir Brian Pitman, Martin Dawes and Adrian Martin (who was appointed to the Committee on 27 January 2005), all of whom are independent Non-Executive Directors. Upon becoming Non-Executive Chairman of the Company at the AGM, John Gildersleeve will relinquish the Committee chairmanship in line with the requirements of the Code, and a new Chairman will be appointed. None of the members of the Committee has any personal financial interest, other than as shareholders, in the matters to be decided by the Committee, no potential conflicts of interest arising from cross-memberships and no day-to-day involvement in running the Group's business.

New Bridge Street Consultants LLP ('NBSC') have been appointed lead advisors to the Committee and have conducted a total reward survey for Executive Directors and other senior managers. NBSC have no other connection with the Group. Deloitte & Touche LLP ('Deloitte') provided advice to the Remuneration Committee on the administration of share option and SAYE schemes. Deloitte are the Group's auditors and provide other services to the Group as set out in the Corporate Governance Report on pages 23 to 25. The Deputy Chairman, the Group Director of Human Resources and the Company Secretary also provided internal advice in respect of matters raised by the Committee. No Director nor any person advising the Committee plays a part in any discussion about his or her own remuneration.

Remuneration policy

The 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 managers;
- The Group's competitiveness in the market place, assessed through independent external market comparisons;
- The growing international nature of the Group;
- The development of new business streams; and
- Pay and conditions throughout the Group as a whole.

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. Before long-term incentive share awards are taken into account, approximately 43% of Executive Directors' remuneration earned in the year was performance related. Messrs Dunstone and Ross do not receive long-term incentive share awards.

Components of remuneration

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

- basic salary, and benefits and pension contributions (fixed);
- annual performance bonus (variable);
- share options (variable); and
- Performance Shares (see below) (variable).

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

Salaries and benefits

Executive Directors' basic 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 in companies of a similar size. Salaries are reviewed on 1 July each year.

Following the most recent review, salaries from 1 July 2005 will be as follows:

Charles Dunstone £450,000, David Ross £210,000, Roger Taylor £300,000, Geoffroy Roux de Bezieux £285,000, Jim Dale £128,000, David Goldie £250,000. The increases over the year reflect very strong Group performance and a further increase in the size of the business and complexity of the Directors' roles. These basic salaries remain generally below market median levels compared to companies of a similar size. Executive Directors also receive benefits in respect of cars or car allowances, private medical cover and a defined contribution pension scheme.

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. The bonus scheme for the period

ending 1 April 2006 will have targets based on improvements in Headline EPS (see note 10 to the financial statements). This performance measure was chosen to focus the Executive Directors on the key measure of the Group's short-term financial performance, thereby aligning the Executive Directors' interests with those of shareholders.

The Remuneration Committee has determined that for the forthcoming financial year the annual bonus potential should be increased from 100% to 195% of base salary and that the threshold for compulsory deferral (into the Annual Deferred Bonus Plan) should be raised from 60% to 100% of salary. In addition, the bonus award for reaching target has been increased from 40% to 60% of base salary. These changes have been made after considering the following factors:

- Targets are extremely stretching, with no bonus payable if targets are not met.
- First level target for Headline EPS in the forthcoming year is higher than Headline EPS for the year ended 2 April 2005. The upper end of the EPS range represents truly exceptional performance.
- Considering other elements of pay, including the fact that these percentages are leveraged off generally below median base salary levels, total remuneration is still considered to be no higher than market median levels.

Headline EPS performance and its implications for bonuses payable will be disclosed in next year's Remuneration Report to provide shareholders with a clear indication of the link between reward and performance.

Annual Deferred Bonus Plan

In the forthcoming year, any bonus earned in excess of 100% of salary will be compulsorily paid as a deferred share award under the Annual Deferred Bonus Plan approved by shareholders at the Annual General Meeting on 28 July 2004.

Executive Directors and senior managers also have the option of taking some or all of their cash bonus in the form of a deferred share award. The rights to deferred shares cannot be exercised for 12 months. Matching shares may also be awarded if the deferred share award is not exercised for up to a further two years. The number of matching shares awarded equates to 12.5% of the deferred amount at the beginning of each year. The share equivalent of dividends which would have been paid on the shares is added to the deferred share award each year. Given the modest level of potential match and the Committee's aim of encouraging Executive Directors to build up a significant shareholding, no additional performance criteria are attached to the matching shares.

Share options

The Company has a performance related share option scheme for Executive Directors and senior managers both in the UK and overseas. No options were granted to Executive Directors in the period ended 2 April 2005 and it is currently not envisaged that grants will be made to them in the forthcoming year. A UK savings related share option scheme is open to all eligible employees in the UK, including Executive Directors. No Executive Director currently participates in the scheme.

Performance Share Plan

Senior managers, including Executive Directors, received awards of Performance Shares (as defined in the Annual General Meeting on 28 July 2004) in the period ended 2 April 2005. These awards are subject to a mixture of Headline EPS and Total Shareholder Return ('TSR') performance targets measured over a three or four year performance period. Details of the grants to Executive Directors and the performance targets are set out in the share tables later in this Report.

It is not envisaged that further awards of Performance Shares will be made to the Executive Directors in the forthcoming year. The Remuneration Committee intends to review the Group's remuneration requirements during the next year with a view to seeking shareholder approval, if required, for revised arrangements at the Annual General Meeting in 2006.

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	**2005 Total £'000**	2004 Total £'000
Executive					
C W Dunstone	375	14	300	**689**	632
D P J Ross (i)	229	7	177	**413**	620
R W Taylor	270	14	216	**500**	448
G Roux de Bezieux	240	14	192	**446**	409
J H Dale	150	9	120	**279**	251
Non-Executive					
Hans Roger Snook	150	–	–	**150**	150
Sir Brian Pitman	35	–	–	**35**	33
J Gildersleeve	35	–	–	**35**	33
A H Martin	45	–	–	**45**	42
M Dawes	31	–	–	**31**	23
D Wilson	–	–	–	**–**	8
Aggregate emoluments	1,560	58	1,005	**2,623**	2,649

(i) Includes a salary supplement in lieu of pension and company car. During the period David Ross moved to a part-time role as Deputy Chairman.

(ii) The taxable benefits provided consist of a company car or car allowance, car insurance and fuel and private medical cover.

(iii) Annual bonuses for the period ended 2 April 2005 were accrued at the balance sheet date and will be paid in June 2005. For this period the bonus was based on improvements in Headline EPS. Headline EPS for the period was 9.39p which meant that a bonus of 80% of salary was earned (out of a maximum potential of 100% of salary). Only bonus worth up to 60% of salary is payable in cash. The remainder of the bonus will be payable in deferred shares under the Annual Deferred Bonus Plan. Details of the deferred share awards (and the related potential matching shares) will be announced separately for Directors and will be disclosed in next year's Remuneration Report. At the time the Report was prepared the time period for the Directors to decide if any of the 60% bonus should be paid in shares instead of cash had not yet expired. Messrs Dunstone and Ross do not participate in such a plan.

Remuneration Report continued

Pensions*

The schedule below sets out payments to defined contribution pension schemes on behalf of Executive Directors. Geoffroy Roux de Bezieux and Roger Taylor are members of a UK stakeholder pension scheme. 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. Jim Dale is in a similar scheme in the Isle of Man. 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	**£'000 2005**	£'000 2004
R W Taylor	**14**	11
G Roux de Bezieux	**12**	15
J H Dale	**7**	6
Total	**33**	32

Share options*

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

Director	27 March 2004	Exercised during the period	2 April 2005	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
	2,334,444	–	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	06/06/13
	4,517,222	–	4,517,222			
J H Dale	200,000	(200,000) (vi)	–	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) (vi)	–	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	06/06/13
	1,218,222	(296,000)	922,222			
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 (exercisable from June 2005) 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. Upper quartile performance has been achieved.

(ii) For options granted in June 2003 (exercisable from June 2006), the performance criteria are the same as for June 2002 grants except that no options are exercisable for below median performance. The interests in options listed above assume upper quartile performance.

(iii) The TSR calculation is independently calculated for the Remuneration Committee by Deloitte.

(iv) Executive Directors may only exercise share options (and Performance Shares – see below) provided they remain in employment and hold a minimum of 100% of salary in shares up until the date of exercise.

(v) The market price per share was 165.8p at 2 April 2005. The market price during the year varied between 121.0p and 180.0p.

(vi) Exercised on 20 January 2005 at a share price of 173.0p.

Performance Shares*

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

Name	Type of award	27 March 2004	Granted during the period: Number of shares	Granted during the period: Date of award	Granted during the period: Share price on date of award £	2 April 2005
R W Taylor	Basic	–	450,000	28/07/04	1.36	450,000
	Stretch	–	450,000	28/07/04	1.36	450,000
	Super Stretch	–	450,000	28/07/04	1.36	450,000
G Roux de Bezieux	Basic	–	450,000	28/07/04	1.36	450,000
	Stretch	–	450,000	28/07/04	1.36	450,000
	Super Stretch	–	450,000	28/07/04	1.36	450,000
J H Dale	Basic	–	250,000	28/07/04	1.36	250,000
	Stretch	–	250,000	28/07/04	1.36	250,000
	Super Stretch	–	250,000	28/07/04	1.36	250,000

Notes

(i) Up to 50% of the shares will vest in July 2007, subject to the Group's Headline EPS growth and TSR performance compared to the FTSE Mid 250 Index over a three-year performance period. The remaining 50% of shares will vest in July 2008, subject to the Group's performance against the same performance criteria over a four-year performance period.

(ii) All types of award are 50% based on TSR performance and 50% based on Headline EPS performance. Performance required for awards to fully vest is summarised below:

	TSR	Headline EPS
Basic awards	Outperform FTSE Mid 250 index consistently by at least 5% over the performance period	25% if 2005 EPS is at least 20% above 2004 and does not fall in 2006 and 2007 25% if 2006 EPS is at least 43% above 2004 and does not fall in 2007 50% if 2007 EPS is at least 73% above 2004 and does not fall in 2008
Stretch awards	Outperform FTSE Mid 250 index consistently by at least 20% over the performance period	25% if 2005 EPS is at least 29% above 2004 and does not fall in 2006 and 2007 25% if 2006 EPS is at least 53% above 2004 and does not fall in 2007 50% if 2007 EPS is at least 82% above 2004 and does not fall in 2008
Super Stretch awards	Outperform FTSE Mid 250 index consistently by at least 35% over the performance period	25% if 2005 EPS is at least 38% above 2004 and does not fall in 2006 and 2007 25% if 2006 EPS is at least 62% above 2004 and does not fall in 2007 50% if 2007 EPS is at least 90% above 2004 and does not fall in 2008

(iii) The TSR calculation is independently calculated for the Remuneration Committee by NBSC. The Committee will ensure that a consistent basis is used under both UK GAAP and International Accounting Standards in the calculation of Headline EPS.

Executive Directors' service contracts

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

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

External appointments

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

Currently, Charles Dunstone is a Non-Executive Director of HBOS PLC, The Daily Mail and General Trust PLC and Independent Media Distribution PLC, for which the annual fees are £56,000, £34,000 and £20,000 respectively. David Ross is Non-Executive Chairman of National Express Group PLC and a Non-Executive Director of Trinity Mirror PLC, Big Yellow Group PLC and Cosalt PLC, for which the annual fees are £150,000, £40,000, £22,500 and £25,000 respectively. Roger Taylor is a Non-Executive Director of Berkeley Scott Group PLC for which the annual fee is £15,000.

Remuneration Report continued

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 have letters of appointment substantially in the form suggested by the Code and each has a three-month notice period with no compensation for loss of office. The Company has no age limit for Directors.

The dates of each contract are set out below.

Directors' interests in shares and dates of service contracts

	Ordinary shares of 0.1p		
Director	**2 April 2005**	27 March 2004	Date of contract
C W Dunstone	**304,578,535**	306,528,535	26 June 2000
D P J Ross	**199,840,759**	214,840,759	4 July 2002
R W Taylor	**2,276,806**	2,276,806	2 March 2000
G Roux de Bezieux	**9,938,670**	12,038,670	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	**14,687**	5,000	26 May 2005
J Gildersleeve **	**246,000**	45,000	14 April 2005
A H Martin	**12,461**	12,461	26 May 2005
M Dawes ***	**6,460,714**	6,460,714	2 June 2003

* will stand down as Non-Executive Chairman on 28 July 2005

** to be appointed Non-Executive Chairman on 28 July 2005

*** will stand down on 28 July 2005

On 1 April 2004 C W Dunstone transferred 450,000 shares by way of a gift into The Charles Dunstone Charitable Trust, and D P J Ross sold 15,000,000 shares.

On 7 July 2004 J Gildersleeve purchased 201,000 shares.

On 3 August 2004 G Roux de Bezieux sold 2,000,000 shares and transferred 1,100,000 by way of a gift, of which 1,000,000 was to related parties.

On 3 November 2004 Sir Brian Pitman purchased 9,687 shares.

On 7 December 2004 C W Dunstone transferred 1,500,000 shares by way of a gift into The Charles Dunstone Charitable Trust.

On 20 January 2005 J H Dale exercised options and sold 296,000 shares.

G Roux de Bezieux has an interest in the shares of a subsidiary of the Group as disclosed in note 32 to the financial statements.

As potential beneficiaries under the Company Employee Share Ownership Trust ('EBT'), the Executive Directors are deemed to be interested in all of the shares held by the EBT, which at 2 April 2005 amounted to 7,455,929 shares.

Performance graphs

Graph 1 shows the Group's performance measured by TSR, compared with the performance of the FTSE Mid 250 Index also measured by TSR since flotation in July 2000 to 2 April 2005. A three month rolling average has been applied. The FTSE Mid 250 was selected as it is a broad market index of which the Group is a member. In addition, the Group uses that index as a comparator for determining whether or not Performance Shares vest.

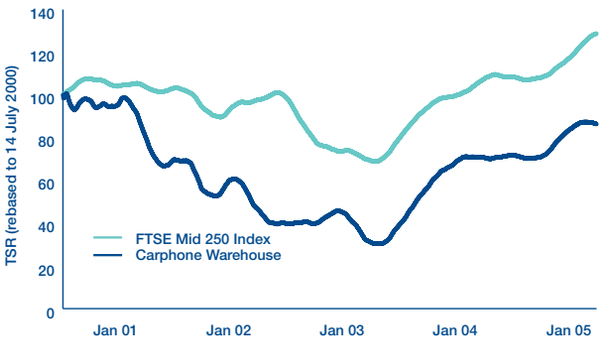
Graph 2 shows the same information as Graph 1 but measured over the last three years.

Graph 3 shows the Group'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 June 2002 to 2 April 2005. A three month rolling average has been applied.

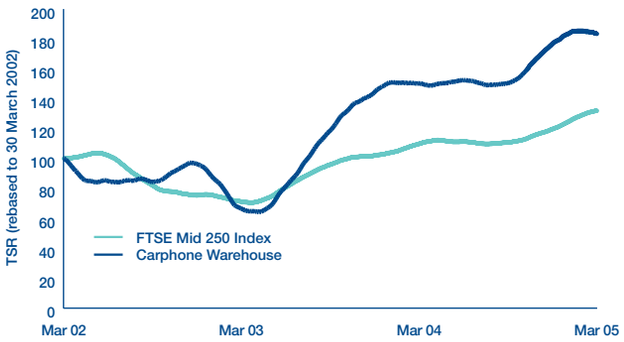
Graph 4 shows the same information as Graph 3 but measured from June 2003.

Source: Datastream

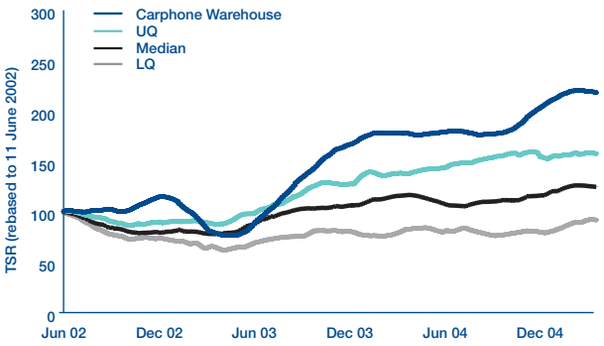
Graph 1



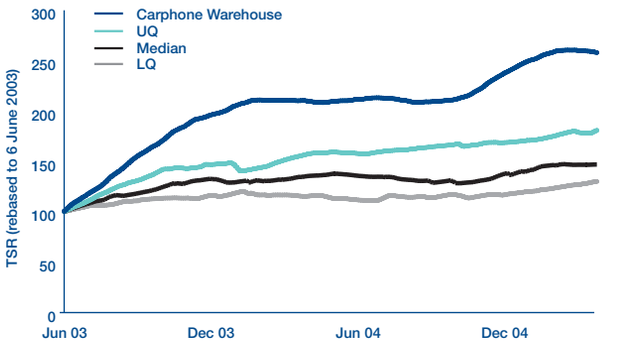
Graph 2



Graph 3



Graph 4



This Report was approved by the Board on 6 June 2005.

J Gildersleeve

6 June 2005

Directors' Report

The Directors have pleasure in presenting the Annual Report and financial statements of The Carphone Warehouse Group PLC for the 53 weeks ended 2 April 2005.

Principal activities

The principal activity of the Group continues to be 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 £44.5m in the prior period to £68.9m. An interim dividend of 0.55p per share (2004 – 0.40p) was paid in the period. The Directors recommend the payment of a final dividend of 1.25p per share (2004 – 0.90p). Subject to shareholders' approval at the Annual General Meeting, the final dividend will be paid on 5 August 2005 to shareholders on the register at the close of business on 8 July 2005. No significant events have occurred since the balance sheet date.

Directors

The names and brief biographical details of the Directors are shown on page 22. Particulars of Directors' remuneration, interests in the shares of the Company and its subsidiaries, and interests in share options are given in the Remuneration Report on pages 26 to 31.

Employment of disabled people

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

Employee involvement

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

Supplier payment policy

The Group's policy is to agree terms of transactions, including payment terms, with suppliers and, provided that suppliers perform in accordance with the agreed terms, it is the Group's normal practice that payment is made accordingly. 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 47 days (2004 – 42 days). The Company did not have any trade creditors at 2 April 2005 or 27 March 2004.

Donations

The Group made charitable donations of £477,000 during the period (2004 – £85,000). No political donations were made during either period.

Contracts with controlling shareholders

There are no material contracts with controlling shareholders.

Share capital

Details of the movements in authorised and issued share capital during the period are provided in note 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 £9.7m at 2 April 2005. 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 6 June 2005:

	Number of shares	Percentage of share capital
Aviva PLC	39,378,699	4.49%
Wellington Management Company LLP	42,183,998	4.81%

The total interests of the Directors are detailed in the Directors' Remuneration Report on pages 26 to 31.

Going concern

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

Auditors

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

By order of the Board

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

T S Morris
Company Secretary

6 June 2005

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 2 April 2005 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 32. 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 being 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 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 nine provisions of the July 2003 FRC 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 for the above period and consider the implications for our Report if we become aware of any apparent misstatements.

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 Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the 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 2 April 2005 and of the profit of the Group for the period then ended; and
- 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.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

6 June 2005

Consolidated Profit and Loss Account

For the 53 weeks ended 2 April 2005

	Notes	Before amortisation of goodwill 53 weeks ended 2 April 2005 £'000	Amortisation of goodwill 53 weeks ended 2 April 2005 £'000	After amortisation of goodwill 53 weeks ended 2 April 2005 £'000	52 weeks ended 27 March 2004 £'000
Turnover					
Existing operations	3	**2,323,180**		**2,323,180**	1,849,011
Acquisitions	2,3	**31,913**		**31,913**	–
	2,3	**2,355,093**		**2,355,093**	1,849,011
Cost of sales	3	**(1,651,141)**		**(1,651,141)**	(1,303,246)
Gross profit	3	**703,952**		**703,952**	545,765
Operating expenses excluding amortisation and depreciation	3	**(549,108)**		**(549,108)**	(427,667)
EBITDA	10	**154,844**		**154,844**	118,098
Depreciation	3,4	**(47,896)**		**(47,896)**	(41,684)
Amortisation of goodwill	3,4		**(33,229)**	**(33,229)**	(25,417)
Operating profit	2,3	**106,948**	**(33,229)**	**73,719**	50,997
Existing operations	3	**104,339**	**(26,675)**	**77,664**	50,997
Acquisitions	3	**2,609**	**(6,554)**	**(3,945)**	–
Loss on disposal of fixed asset investments	6	**–**		**–**	(1,652)
Profit before interest and taxation		**106,948**	**(33,229)**	**73,719**	49,345
Net interest payable	7	**(4,845)**		**(4,845)**	(4,858)
Profit on ordinary activities before taxation		**102,103**	**(33,229)**	**68,874**	44,487
Tax on profit on ordinary activities	8	**(19,910)**		**(19,910)**	(16,783)
Profit for the financial period		**82,193**	**(33,229)**	**48,964**	27,704
Equity dividends	9	**(15,782)**		**(15,782)**	(11,369)
Retained profit for the financial period		**66,411**	**(33,229)**	**33,182**	16,335
Earnings per share					
Basic	11	**9.39p**		**5.59p**	3.17p
Diluted	11	**8.99p**		**5.35p**	3.13p
Headline earnings per share	10				
Basic	11	**9.39p**			6.81p
Diluted	11	**8.99p**			6.72p

The accompanying notes are an integral part of this consolidated profit and loss account. All amounts relate to continuing operations.

Consolidated Statement of Total Recognised Gains and Losses

For the 53 weeks ended 2 April 2005

	Notes	53 weeks ended 2 April 2005 £'000	52 weeks ended 27 March 2004 £'000
Profit for the financial period		**48,964**	27,704
Currency translation		**804**	(1,014)
Total recognised gains and losses relating to the period		**49,768**	26,690
Prior period adjustments	12	**–**	(3,949)
Total gains and losses recognised since last financial statements		**49,768**	22,741

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

Consolidated Balance Sheet

As at 2 April 2005

	Notes	2 April 2005 £'000	27 March 2004 £'000
Fixed assets			
Intangible assets – goodwill	13	**426,841**	403,191
Tangible assets	14	**241,139**	195,594
Investments	15	**6,069**	5,897
		674,049	604,682
Current assets			
Stock	16	**95,185**	78,298
Debtors	17	**377,390**	271,444
Short-term investments	18	**60,468**	10,805
Cash at bank and in hand		**41,576**	72,813
		574,619	433,360
Creditors: Amounts falling due within one year	19	**(574,439)**	(408,231)
Net current assets		**180**	25,129
Total assets less current liabilities		**674,229**	629,811
Creditors: Amounts falling due after more than one year	20	**(103,247)**	(117,737)
Provisions for liabilities and charges	22	**(68,040)**	(40,231)
Net assets		**502,942**	471,843
Capital and reserves			
Called-up share capital	24	**877**	874
Share premium	25	**402,136**	397,262
Capital redemption reserve	25	**30**	30
Profit and loss account	25	**99,899**	73,677
Total capital employed	26	**502,942**	471,843

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

The financial statements on pages 34 to 55 were approved by the Board on 6 June 2005 and signed on its behalf by:

C W Dunstone
Chief Executive Officer

R W Taylor
Chief Financial Officer

Company Balance Sheet

As at 2 April 2005

	Notes	2 April 2005 £'000	27 March 2004 £'000
Fixed assets			
Investments	15	**415,402**	411,952
		415,402	411,952
Current assets			
Debtors	17	**642,447**	528,272
Cash at bank and in hand		**–**	36,443
		642,447	564,715
Creditors: Amounts falling due within one year	19	**(447,554)**	(344,544)
Net current assets		**194,893**	220,171
Total assets less current liabilities		**610,295**	632,123
Creditors: Amounts falling due after more than one year	20	**(100,958)**	(113,458)
Net assets		**509,337**	518,665
Capital and reserves			
Called-up share capital	24	**877**	874
Share premium	25	**402,136**	397,262
Profit and loss account	25	**106,324**	120,529
Total capital employed	26	**509,337**	518,665

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

The financial statements on pages 34 to 55 were approved by the Board on 6 June 2005 and signed on its behalf by:

C W Dunstone
Chief Executive Officer

R W Taylor
Chief Financial Officer

Consolidated Cash Flow Statement

For the 53 weeks ended 2 April 2005

	Notes	53 weeks ended 2 April 2005 £'000	52 weeks ended 27 March 2004 £'000
Net cash inflow from operating activities		**143,061**	102,657
Net cash outflow from returns on investment and servicing of finance	27a	**(4,845)**	(4,858)
Net cash outflow from taxation	27b	**(11,641)**	(2,350)
Net cash outflow from capital expenditure and financial investment	27c	**(137,675)**	(84,245)
Net cash outflow from acquisitions and disposals	27d	**(46,315)**	(59,050)
Equity dividends paid		**(12,683)**	(12,229)
Net cash outflow before financing		**(70,098)**	(60,075)
Net cash inflow from financing	27e	**17,552**	96,596
(Decrease) increase in cash in the period		**(52,546)**	36,521

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

Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	53 weeks ended 2 April 2005 £'000	52 weeks ended 27 March 2004 £'000
Operating profit including exceptional items	**73,719**	50,997
Depreciation of tangible fixed assets	**47,896**	41,684
Amortisation of goodwill	**33,229**	25,417
EBITDA including exceptional items	**154,844**	118,098
Loss on disposal of fixed assets	**482**	163
Increase (decrease) in provisions	**20,810**	(1,469)
Increase in stock	**(14,745)**	(20,684)
Increase in debtors	**(86,870)**	(53,621)
Increase in creditors	**68,540**	60,170
Net cash inflow from operating activities	**143,061**	102,657

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.

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 less provision for promotional offers and network operator performance penalties, 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 Group PLC and its subsidiary undertakings drawn up to 2 April 2005. 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. Deferred consideration is recognised to the extent that it is considered probable that it will be paid.

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 at cost less provision for impairment, other than investments held via independently managed 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. Lease incentives and rent-free periods are amortised through the profit and loss account over the shorter of the period of the lease or the period until rentals are expected to be revised to prevailing market rates.

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, distributions are expected.
- 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 the profit and loss account 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 cost of awards made under the Company's Performance Share Plan is based on the intrinsic value of the awards at the date of grant and is charged to the profit and loss account on a straight-line basis over the relevant performance period.

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:

	2005			2004		
	Turnover £'000	**Profit before tax £'000**	**Net assets £'000**	Turnover £'000	Profit before tax £'000	Net assets £'000
Distribution	**1,436,970**	**85,068**	**449,138**	1,128,939	66,939	440,521
Telecoms Services	**804,039**	**22,536**	**53,804**	554,491	15,021	31,322
Wholesale	**131,952**	**(656)**	**–**	178,067	(813)	–
Eliminations	**(17,868)**	**–**	**–**	(12,486)	–	–
	2,355,093	**106,948**	**502,942**	1,849,011	81,147	471,843
Amortisation of goodwill		**(33,229)**			(25,417)	
Operating exceptional items		**–**			(4,733)	
		73,719			50,997	
Non-operating exceptional items		**–**			(1,652)	
Net interest payable		**(4,845)**			(4,858)	
Profit before tax		**68,874**			44,487	

Results by geographical location are analysed by origin as follows:

	2005			2004		
	Turnover £'000	**Profit before tax £'000**	**Net assets £'000**	Turnover £'000	Profit before tax £'000	Net assets £'000
United Kingdom	**1,358,580**	**67,489**	**204,701**	1,102,185	49,836	177,144
Rest of Europe	**996,513**	**39,459**	**298,241**	746,826	31,311	294,699
	2,355,093	**106,948**	**502,942**	1,849,011	81,147	471,843
Amortisation of goodwill		**(33,229)**			(25,417)	
Operating exceptional items		**–**			(4,733)	
		73,719			50,997	
Non-operating exceptional items		**–**			(1,652)	
Net interest payable		**(4,845)**			(4,858)	
Profit before tax		**68,874**			44,487	

Turnover originating in the United Kingdom includes £0.7m (2004 – £25.3m) 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 (loss) before tax £'000**	**Net assets £'000**
Distribution	**2,400**	**8**	**15,008**
Telecoms Services	**29,513**	**(4,802)**	**35,330**
	31,913	**(4,794)**	**50,338**
United Kingdom	**31,913**	**(4,794)**	**50,338**

Details of acquisitions are given in note 15.

Notes to the Financial Statements continued

3 Analysis of profit and loss account

	Existing operations £'000	Acquisitions £'000	2005 Total £'000	2004 Total £'000
Turnover	**2,323,180**	**31,913**	**2,355,093**	1,849,011
Cost of sales	**(1,632,915)**	**(18,226)**	**(1,651,141)**	(1,303,246)
Gross profit	**690,265**	**13,687**	**703,952**	545,765
Depreciation	**(47,093)**	**(803)**	**(47,896)**	(41,684)
Amortisation of goodwill	**(26,675)**	**(6,554)**	**(33,229)**	(25,417)
Exceptional operating expenses (see note 6a)	**–**	**–**	**–**	(4,733)
Other operating expenses	**(538,833)**	**(10,275)**	**(549,108)**	(422,934)
Total operating expenses	**(612,601)**	**(17,632)**	**(630,233)**	(494,768)
Operating profit	**77,664**	**(3,945)**	**73,719**	50,997

Total operating expenses for statutory purposes are analysed as follows:

	Existing operations £'000	Acquisitions £'000	2005 Total £'000	2004 Total £'000
Distribution costs	**(485,917)**	**(16,432)**	**(502,349)**	(387,543)
Administrative expenses	**(126,684)**	**(1,200)**	**(127,884)**	(102,492)
Exceptional operating expenses (see note 6a)	**–**	**–**	**–**	(4,733)
Total operating expenses	**(612,601)**	**(17,632)**	**(630,233)**	(494,768)

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2005 £'000	2004 £'000
Amortisation of goodwill	**33,229**	25,417
Depreciation of tangible fixed assets	**47,896**	41,684
Rentals under operating leases – property	**57,456**	51,814
Operating loss on disposal of fixed assets	**482**	163
Auditors' remuneration – audit services	**934**	568
Auditors' remuneration – non-audit services	**214**	325

Further auditors' remuneration in respect of due diligence reviews of £15,000 (2004 – £225,000) has been capitalised within the cost of investments during the period. Auditors' remuneration for audit services includes £8,000 (2004 – £8,000) for the Company.

5 Employees

Employee costs (including Executive Directors) consist of:

	2005 £'000	2004 £'000
Wages and salaries	**249,134**	194,614
Social security costs	**38,735**	33,147
Other pension costs	**1,906**	1,749
	289,775	229,510

The average monthly number of people employed by the Group (including Executive Directors) during the period was:

	2005 Number	2004 Number
Administration	**1,953**	1,631
Selling and distribution	**10,305**	8,552
	12,258	10,183

Details of Directors' remuneration are provided in the Remuneration Report on pages 26 to 31.

At 2 April 2005 loans of £1.0m (2004 – £0.9m) were outstanding from certain Group executives, none of whom was a Director of the Company.

6 Exceptional items

Exceptional items include the following operating and non-operating exceptional items:

	Notes	2005 £'000	2004 £'000
Costs of operational reorganisation	(a)	–	(4,733)
Exceptional operating items		–	(4,733)
Loss on disposal of fixed asset investments	(b)	–	(1,652)
Total exceptional items		–	(6,385)

(a) Costs of operational reorganisation

Following the acquisition of The Phone House Telecom GmbH (formerly 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 was booked to cover the cost of this reorganisation, which included the write down of tangible fixed assets.

(b) 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.

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

	2005 £'000	2004 £'000
Interest receivable and similar income	**5,903**	2,120
Interest payable and similar charges:		
Bank overdrafts and loans	**(10,588)**	(6,755)
Other loans	**(160)**	(223)
Interest payable and similar charges	**(10,748)**	(6,978)
Net interest payable	**(4,845)**	(4,858)

Notes to the Financial Statements continued

8 Tax on profit on ordinary activities

The tax charge comprises:

	2005 £'000	2004 £'000
Current tax:		
UK corporation tax	**17,611**	11,144
Overseas tax	**8,770**	3,247
	26,381	14,391
Adjustments in respect of prior periods:		
UK corporation tax	**(6,801)**	1,677
Overseas tax	**(1,499)**	(2,088)
Total current tax	**18,081**	13,980
Deferred tax:		
Origination and reversal of timing differences	**1,829**	2,803
Total deferred tax	**1,829**	2,803
Total tax on profit on ordinary activities	**19,910**	16,783

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:

	2005 £'000	2004 £'000
Profit on ordinary activities before tax	**68,874**	44,487
Profit on ordinary activities before tax at 30%	**20,662**	13,346
Effect of:		
Amortisation of goodwill	**8,859**	6,984
Exceptional items attracting no tax relief or liability	**–**	1,916
Other items attracting no tax relief or liability	**9,845**	7,778
Use of tax losses brought forward and income taxed at lower rates	**(11,156)**	(12,830)
Adjustments in respect of prior periods	**(8,300)**	(411)
Other timing differences	**(1,829)**	(2,803)
Current tax charge for the period	**18,081**	13,980

The Group earns the majority of its profits 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 £43m (2004 – £27m) 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

	2005 £'000	2004 £'000
Interim dividend paid of 0.55p (2004 – 0.40p) per ordinary share	**4,814**	3,500
Final dividend proposed of 1.25p (2004 – 0.90p) per ordinary share	**10,968**	7,869
	15,782	11,369

10 Reconciliation of headline information to statutory information

	2005			2004		
	EBITDA £'000	**Operating profit £'000**	**Profit before tax £'000**	EBITDA £'000	Operating profit £'000	Profit before tax £'000
Headline	**154,844**	**106,948**	**102,103**	122,831	81,147	76,289
Amortisation of goodwill	**–**	**(33,229)**	**(33,229)**	–	(25,417)	(25,417)
Exceptional items (see note 6)	**–**	**–**	**–**	(4,733)	(4,733)	(6,385)
Statutory	**154,844**	**73,719**	**68,874**	118,098	50,997	44,487

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:

	2005 £'000	2004 £'000
Profit for the financial period	**48,964**	27,704
Amortisation of goodwill	**33,229**	25,417
Operating exceptional items (net of tax)	**–**	4,733
Non-operating exceptional items (net of tax)	**–**	1,652
Headline earnings (before amortisation of goodwill and exceptional items)	**82,193**	59,506

	2005 Number of shares 000's	2004 Number of shares 000's
Weighted average number of shares:		
For basic earnings per share	**875,569**	873,555
Dilutive effect of share options	**39,078**	11,318
For diluted earnings per share	**914,647**	884,873

	Basic pence per share		**Diluted pence per share**	
	2005	2004	**2005**	2004
Earnings per share	**5.59**	3.17	**5.35**	3.13
Headline earnings per share (see note 10)	**9.39**	6.81	**8.99**	6.72

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

During the period ended 27 March 2004 the Group implemented Urgent Issues Task Force 38 'Accounting for ESOP Trusts', and in accordance with the abstract restated prior period figures. The effect of the adjustment was to transfer the Group's investment in an Employee Share Ownership Trust from investments to reserves.

Notes to the Financial Statements continued

13 Intangible fixed assets – goodwill

Group	Total £'000
Cost	
At 27 March 2004	474,092
Acquisitions (see note 15)	53,748
Foreign exchange	3,795
At 2 April 2005	531,635
Amortisation	
At 27 March 2004	(70,901)
Charge for the period	(33,229)
Foreign exchange	(664)
At 2 April 2005	(104,794)
Net book value	
At 2 April 2005	426,841
At 27 March 2004	403,191

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
Cost						
At 27 March 2004	50,570	71,427	116,205	86,675	2,299	327,176
Additions	4,299	17,919	50,211	16,203	571	89,203
Disposals	(145)	(2,509)	(4,134)	(3,804)	(615)	(11,207)
Acquisitions (see note 15)	–	1,526	3,044	162	43	4,775
Foreign exchange	–	889	669	1,115	12	2,685
At 2 April 2005	54,724	89,252	165,995	100,351	2,310	412,632
Depreciation						
At 27 March 2004	(1,118)	(22,876)	(56,355)	(50,149)	(1,084)	(131,582)
Charge for the period	(918)	(6,599)	(25,473)	(14,327)	(579)	(47,896)
Disposals	65	2,373	2,982	3,368	574	9,362
Foreign exchange	(17)	(251)	(312)	(785)	(12)	(1,377)
At 2 April 2005	(1,988)	(27,353)	(79,158)	(61,893)	(1,101)	(171,493)
Net book value						
At 2 April 2005	52,736	61,899	86,837	38,458	1,209	241,139
At 27 March 2004	49,452	48,551	59,850	36,526	1,215	195,594

15 Fixed asset investments

Group	Total £'000
At 27 March 2004	5,897
Additions	172
At 2 April 2005	**6,069**

Company	£'000
At 27 March 2004	411,952
Additions	69,615
Disposals	(69,378)
Foreign exchange	3,213
At 2 April 2005	**415,402**

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 and Wales	Retail of mobile communication equipment and telecoms services
One Stop Phone Shop Limited*	England and Wales	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
Opal Telecom Limited*	England and Wales	Telecoms services
TalkTalk Telecom Limited*	England and Wales	Telecoms services
TalkTalk Direct Limited*	England and Wales	Telecoms services
VarTec Telecom Europe Limited*	England and Wales	Telecoms services
The Phone House Services Telecom-CMC SA	France	Telecoms services
The Phone House Telecom GmbH	Germany	Telecoms services
Xtra Telecom SA	Spain	Telecoms services
N Tel Com GmbH	Switzerland	Telecoms services
The Phone House Insurance Limited	Isle of Man	Insurance underwriting
New Technology Insurance Limited	Ireland	Insurance underwriting
Cooch 1020 Ltd	Isle of Man	Investment in commercial property
Ise-Net Solutions Limited	England and Wales	Information technology services
The Carphone Warehouse UK Limited	England and Wales	Property management company
Antika Retail Limited	England and Wales	Holding company
Beheer-en Beleggingsmaatschappij Antika BV*	Netherlands	Holding company
The Carphone Warehouse Resources Limited	Isle of Man	Holding company
The Carphone Warehouse UK Group Limited	England and Wales	Holding company
Cellcom Limited*	England and Wales	Holding company
Evergreen Services Holdings Limited	England and Wales	Holding company
MViva Limited	England and Wales	Holding company
The Phone House Holdings (UK) Limited*	England and Wales	Holding company
Storm Tide Limited*	Isle of Man	Holding company
The Phone House BV	Netherlands	Holding company

*held directly by the Company.

Notes to the Financial Statements continued

15 Fixed asset investments continued

Acquisitions

a) VarTec Telecom Europe Limited

On 15 December 2004, the Group acquired 100% of the issued share capital of VarTec Telecom Europe Limited, a fixed line telecommunications provider registered in England and Wales, for a gross consideration of £5.8m.

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

	Book value £'000	Accounting policy alignments £'000	Other fair value adjustments £'000	Fair value to Group £'000
Fixed assets				
Tangible	8,566	–	(4,367)	4,199
Current assets				
Debtors	5,051	1,645	–	6,696
Cash	2,241	–	–	2,241
Total assets	15,858	1,645	(4,367)	13,136
Creditors				
Trade creditors	(2,048)	–	–	(2,048)
Other taxes	(706)	–	–	(706)
Other creditors	(94)	–	–	(94)
Accruals and deferred income	(3,425)	–	–	(3,425)
Provisions	–	–	(3,607)	(3,607)
Total liabilities	(6,273)	–	(3,607)	(9,880)
Net assets	9,585	1,645	(7,974)	3,256
Goodwill				2,521
Satisfied by cash				5,777

Net cash outflows in respect of the acquisition comprised:

	£'000
Gross cash consideration	5,777
Cash acquired	(2,241)
	3,536

Accounting policy alignments relate to the recognition of deferred tax assets and provision for doubtful debts. Other fair value adjustments relate to the write down of network equipment and other tangible fixed assets, a pre-acquisition commitment to the closure of part of a call centre in Germany, and to various unrecorded liabilities.

15 Fixed asset investments continued

b) One Stop Phone Shop Limited

On 1 March 2005, the Group acquired 100% of the issued share capital of One Stop Phone Shop Limited, a company registered in England and Wales that specialises in the mobile 'off-the-page' market, for an initial gross cash consideration of £8.3m, with a further contingent deferred consideration of up to £6.7m payable over two years.

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

	Book value £'000	Accounting policy alignments £'000	Other fair value adjustments £'000	Fair value to Group £'000
Fixed assets				
Tangible	330	–	–	330
Current assets				
Stock	953	–	–	953
Debtors	3,973	(304)	–	3,669
Cash	4,711	–	–	4,711
Total assets	9,967	(304)	–	9,663
Creditors				
Trade creditors	(3,478)	–	(246)	(3,724)
Accruals and deferred income	(2,850)	–	(555)	(3,405)
Total liabilities	(6,328)	–	(801)	(7,129)
Net assets	3,639	(304)	(801)	2,534
Goodwill				12,466
				15,000
Satisfied by				
Cash				8,261
Deferred consideration				6,739
				15,000

Net cash outflows in respect of the acquisition comprised:

	£'000
Gross cash consideration	8,261
Cash acquired	(4,711)
	3,550

Accounting policy alignments relate to provisions for doubtful debt. Other fair value adjustments relate to various unrecorded liabilities.

c) Other acquisitions

During the period the Group acquired 100% of the issued share capital of a number of other companies, all of which are fixed line telecommunications providers registered in England and Wales. The details of these acquisitions are as follows:

Company acquired	Telequip Limited	Ecocall Limited	Cable Direct Limited	Voice Connect Limited
Date of acquisition	1 June 2004	30 September 2004	31 December 2004	31 January 2005
	£'000	£'000	£'000	£'000
Cash acquired	2,130	85	1,476	953
Other net liabilities	(283)	(151)	(1,344)	(317)
Net assets (liabilities)	1,847	(66)	132	636
Goodwill	5,400	12,156	11,286	1,251
	7,247	12,090	11,418	1,887
Satisfied by				
Cash	5,747	9,846	4,688	1,887
Deferred consideration	1,500	2,244	6,730	–
	7,247	12,090	11,418	1,887

Deferred consideration in respect of these acquisitions is contingent on future performance and is payable over the next two years. Included within cash paid in respect of Ecocall Limited are loan notes of £6.3m, which may be cancelled if certain performance conditions are not met.

Notes to the Financial Statements continued

15 Fixed asset investments continued

Net cash outflows in respect of these acquisitions comprised:

	Telequip Limited	Ecocall Limited	Cable Direct Limited	Voice Connect Limited
	£'000	£'000	£'000	£'000
Gross cash consideration	5,747	9,846	4,688	1,887
Cash acquired	(2,130)	(85)	(1,476)	(953)
	3,617	9,761	3,212	934

In April 2004, the Group purchased the trade and assets of the network services business of STL Networks Limited, a fixed line telecommunications provider registered in England and Wales. Under the terms of the agreement, a net cash consideration of £3.6m was paid, giving rise to goodwill of £3.6m.

During the year, the Group paid a total of £16.2m in deferred consideration in respect of Opal Telecom plc (£13.0m), J Sainsbury PLC (£1.5m), and E2Save.com Limited (£1.7m). This consideration relates to acquisitions from previous years, and was provided for in full in the year of acquisition.

The Group made a number of other acquisitions during the period for a net cash consideration of £1.9m and provided for contingent deferred consideration of up to £0.7m payable over the next two years. These acquisitions resulted in goodwill of £1.7m.

In addition, further goodwill of £3.3m arose during the period from adjustments to fair value and deferred consideration on previous acquisitions.

16 Stock

	Group	
	2005 £'000	2004 £'000
Finished goods and goods for resale	**95,185**	78,298

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

17 Debtors

	Group		Company	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000
Amounts falling due within one year:				
Trade debtors	**317,261**	224,949	**–**	–
Amounts owed by Group undertakings	**–**	–	**620,668**	509,811
Other debtors	**26,659**	18,746	**–**	–
Prepayments and accrued income	**28,962**	23,806	**627**	656
	372,882	267,501	**621,295**	510,467
Amounts falling due after more than one year:				
Amounts owed by Group undertakings	**–**	–	**21,152**	17,805
Other debtors	**4,508**	3,943	**–**	–
	377,390	271,444	**642,447**	528,272

Included within Group other debtors falling due within one year are subscriber acquisition costs of £14.4m (2004 – £9.6m). Included within Group other debtors falling due after more than one year are subscriber acquisition costs of £4.5m (2004 – £3.9m).

18 Short-term investments

	Group	
	2005 £'000	2004 £'000
Short-term investments	**60,468**	10,805

Short-term investments include listed investments, principally bonds, with a cost of £40.4m (2004 – £8.5m). The market value of these investments at 2 April 2005 is £40.4m (2004 – £9.6m).

19 Creditors: Amounts falling due within one year

	Group		Company	
	2005 £'000	Restated 2004 £'000	2005 £'000	2004 £'000
Loans and overdrafts	**71,994**	16,274	**67,499**	15,000
Trade creditors	**254,768**	181,780	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**353,007**	314,152
Corporation tax	**37,556**	30,106	**–**	–
Other taxes and social security costs	**33,612**	26,668	**–**	–
Other creditors	**44,648**	38,988	**11,296**	1,230
Accruals and deferred income	**120,893**	106,546	**4,784**	6,293
Proposed dividends	**10,968**	7,869	**10,968**	7,869
	574,439	408,231	**447,554**	344,544

Prior year accruals and deferred income have been restated to reflect the reallocation of unearned insurance income of £8.1m which had previously been included in provisions for liabilities and charges (see note 22).

20 Creditors: Amounts falling due after more than one year

	Group		Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Loans	**98,494**	107,916	**98,420**	107,826
Other creditors	**2,567**	7,469	**2,538**	5,632
Accruals and deferred income	**2,186**	2,352	**–**	–
	103,247	117,737	**100,958**	113,458

The repayment profile of loans is provided in note 21.

21 Derivatives and other financial instruments

The Operating and Financial Review on pages 9 to 20 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.

	2005				2004			
	Sterling £'000	Euro £'000	Other £'000	Total £'000	Sterling £'000	Euro £'000	Other £'000	Total £'000
Financial assets By instrument								
Cash	**16,601**	**21,151**	**3,824**	**41,576**	65,348	6,442	1,023	72,813
Short-term investments	**46,198**	**3,840**	**10,430**	**60,468**	10,805	–	–	10,805
Total	**62,799**	**24,991**	**14,254**	**102,044**	76,153	6,442	1,023	83,618
Financial liabilities By instrument								
Loans and overdrafts	**(48,342)**	**(122,146)**	**–**	**(170,488)**	–	(124,190)	–	(124,190)
Total	**(48,342)**	**(122,146)**	**–**	**(170,488)**	–	(124,190)	–	(124,190)

All financial assets and liabilities attract interest at floating rates. There are no fixed rate financial liabilities (2004 – 4.84% for weighted average periods of 0.3 years).

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

Notes to the Financial Statements continued

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:

	2005				2004			
	Sterling £'000	**Euro £'000**	**Other £'000**	**Total £'000**	Sterling £'000	Euro £'000	Other £'000	Total £'000
Functional currency of Group operation								
Sterling	**–**	**(103,894)**	**12,196**	**(91,698)**	–	(124,694)	178	(124,516)
Other	**218**	**2**	**–**	**220**	338	320	–	658
Total	**218**	**(103,892)**	**12,196**	**(91,478)**	338	(124,374)	178	(123,858)

Euro liabilities held by companies operating in Sterling include the Group's term loan, which is drawn in Euros to fund overseas investments, and of which £105m remains unamortised at 2 April 2005.

(c) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 2 April 2005 was as follows:

	2005 £'000	2004 £'000
In one year or less	**(71,994)**	(19,190)
In more than one year but not more than two years	**(30,000)**	(30,000)
In two to five years	**(68,494)**	(75,000)
Total	**(170,488)**	(124,190)

(d) Borrowing facilities

The Group had undrawn committed borrowing facilities at 2 April 2005, in respect of which all conditions precedent had been met, as follows:

	2005 £'000	2004 £'000
Expiring in more than one year but not more than two years	**–**	(180,000)
Expiring in two to five years	**(275,000)**	–
Total	**(275,000)**	(180,000)

(e) Fair values

The book and fair values of the Group's financial assets and liabilities at 2 April 2005 were as follows:

	2005		2004	
	Book value £'000	**Fair value £'000**	Book value £'000	Fair value £'000
Financial assets				
Cash	**41,576**	**41,576**	72,813	72,813
Short-term investments	**60,468**	**62,613**	10,805	11,907
Financial liabilities				
Loans and overdrafts	**(170,488)**	**(170,488)**	(124,190)	(124,190)
Forward foreign currency contracts	**–**	**(167)**	–	200

Cash, loans and overdrafts have been included at carrying value; the fair value of short-term investments has been derived by 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) Unrecognised gains and losses

At 2 April 2005, the Group had unrecognised gains of £2.0m (2004 – £1.3m), all of which are expected to be recognised in the period ending 1 April 2006. During the period a gain of £1.3m was recognised in relation to previous periods (2004 – £0.2m loss).

22 Provisions for liabilities and charges

Group	Insurance £'000	Restructuring provisions £'000	Deferred tax £'000	Sales-related provisions £'000	Other £'000	Total £'000
At 27 March 2004 (restated)	6,839	8,884	7,299	5,119	12,090	40,231
Acquisitions (see note 15)	–	–	(1,563)	–	3,607	2,044
Net charge to profit and loss account	28,882	–	4,475	41,967	1,635	76,959
Utilised in the period	(28,695)	(2,147)	–	(18,364)	(2,191)	(51,397)
Foreign exchange	–	62	–	36	105	203
At 2 April 2005	**7,026**	**6,799**	**10,211**	**28,758**	**15,246**	**68,040**

Insurance

Insurance provisions represent provision for known policy holder claims. Prior year insurance provisions have been restated to reflect the reallocation of unearned insurance income of £8.1m to accruals and deferred income (see note 19).

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 and the exceptional cost of reorganising operations in Germany following the acquisition of Hutchison Telecommunications GmbH in June 2003, including provisions for fixed asset write offs, as detailed in note 6a. Utilisation in the period relates to the disposal of excess stores and the ongoing implementation of shared service functions.

Deferred tax

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

Sales-related provisions

Sales-related provisions include the anticipated costs of 'cash-back' and similar promotions, product warranties, product returns, and network operator performance penalties.

Other

Other provisions relate to dilapidations and similar property costs, and all other provisions, principally being the anticipated costs of unresolved tax issues and legal disputes.

23 Deferred tax

Group	2005 £'000	2004 £'000
Deferred tax liabilities		
Accelerated capital allowances	**(3,699)**	(2,321)
Other timing differences	**(6,512)**	(4,978)
	(10,211)	(7,299)
Deferred tax assets		
Other timing differences	**4,570**	717
	4,570	717
Total	**(5,641)**	(6,582)

Notes to the Financial Statements continued

24 Share capital

Group and Company	2005 million	2004 million	2005 £'000	2004 £'000
Authorised				
Ordinary shares of 0.1p each	**1,500**	1,500	**1,500**	1,500
Allotted, called-up and fully paid				
Ordinary shares of 0.1p each	**877**	874	**877**	874

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 2005	2004
01/04/99	0.25	14/07/00	01/04/09	**580,000**	950,000
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	**260,000**	540,000
25/07/99	0.50	14/07/00	25/07/09	**290,000**	319,000
06/10/99	0.50	14/07/00	06/10/09	**–**	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	**5,760,900**	5,992,900
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	**5,072,043**	6,201,391
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	**13,661,870**	14,860,068
28/11/02	0.86	28/11/05	28/11/12	**69,767**	126,744
06/06/03	0.90	06/06/06	06/06/13	**6,369,999**	6,958,221
06/06/03	0.90	06/06/06	06/06/13	(i) **6,369,999**	6,958,221
07/11/03	1.35	07/11/06	07/11/13	**165,000**	165,000
07/11/03	1.35	07/11/06	07/11/13	(i) **165,000**	165,000
20/01/04	1.44	20/01/07	20/01/14	(ii) **4,515,010**	5,950,000
19/01/05	1.71	19/01/08	19/01/15	(ii) **2,810,000**	–
28/07/04	–	28/07/07	28/07/14	(iii) **13,935,000**	–
28/07/04	–	28/07/08	28/07/15	(iii) **13,935,000**	–
				83,020,226	58,447,183

(i) Options granted since April 2002 are subject to the same performance conditions as described in the Remuneration Report on pages 26 to 31. These options will only be exercisable in full if the Group's performance is in the upper quartile for the relevant period.

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

(iii) Exercises of these awards are conditional upon the achievement of performance targets in relation to Performance Shares as described in the Remuneration Report on pages 26 to 31.

24 Share capital continued

b) Employee share option schemes

Date options granted	Exercise price per share £	Exercisable from	Expiry date	Number of options outstanding 2005	2004
31/12/99	–	01/01/01	31/12/09	**320,550**	335,800
05/06/00	1.50	01/01/02	05/06/10	**429,900**	430,200
				750,450	766,000

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 2 April 2005:

Date options granted	Exercise price per share £	Exercisable from	Expiry date	Number of options outstanding 2005	2004
30/05/01	1.00	30/05/04	30/11/04	**–**	618,330
30/05/01	1.00	30/05/06	30/11/06	**435,738**	454,862
03/07/02	0.67	03/07/05	03/01/06	**1,036,256**	1,133,510
03/07/02	0.67	03/07/07	03/01/08	**402,125**	440,658
01/06/03	0.73	01/06/06	01/12/06	**1,690,915**	1,909,465
01/06/03	0.73	01/06/08	01/12/08	**441,978**	483,864
01/08/04	1.15	01/08/07	01/02/08	**2,519,274**	–
01/08/04	1.15	01/08/09	01/02/10	**518,014**	–
				7,044,300	5,040,689

25 Reserves

	Profit and loss account £'000	Share premium £'000	Capital redemption reserve £'000	Total £'000
Group				
At 27 March 2004	73,677	397,262	30	470,969
Retained profit for the financial period	33,182	–	–	33,182
Currency translation	804	–	–	804
Issue of share capital	(2,127)	4,874	–	2,747
Employee share option schemes (see below)	2,427	–	–	2,427
Purchase of own shares (see below)	(8,064)	–	–	(8,064)
At 2 April 2005	**99,899**	**402,136**	**30**	**502,065**
Company				
At 27 March 2004	120,529	397,262	–	517,791
Retained loss for the financial period	(16,632)	–	–	(16,632)
Issue of share capital	–	4,874	–	4,874
Employee share option schemes (see below)	2,427	–	–	2,427
At 2 April 2005	**106,324**	**402,136**	**–**	**508,460**

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 loss attributable to the shareholders of the Company for the period is £0.9m (2004 – profit £116.4m).

Employee share option schemes

The cost of employee share option schemes relates to the grant of Performance Shares as described in the Remuneration Report on pages 26 to 31.

Purchase of own shares

As described in note 12, the Group has an Employee Share Ownership Trust which holds 7.5m shares (2004 – 2.0m) in the Company for the benefit of the Group's employees. The Trust has not waived its right to receive dividends and none of the shares has been allocated to specific schemes. During the period, the Trust purchased in the market 5.6m shares in the Company at an average price of £1.45 per share. At 2 April 2005 the shares had a carrying value of £12.0m and a market value of £12.5m (2004 – carrying value £3.9m, market value £2.8m).

Notes to the Financial Statements continued

26 Reconciliation of movements in shareholders' funds

	Group		Company	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000
Profit (loss) for the financial period	**48,964**	27,704	**(850)**	116,427
Dividends	**(15,782)**	(11,369)	**(15,782)**	(11,369)
Currency translation	**804**	(1,014)	**–**	–
Issue of share capital	**2,750**	928	**4,877**	1,787
Employee share option schemes (see note 25)	**2,427**	–	**2,427**	–
Purchase of own shares (see note 25)	**(8,064)**	–	**–**	–
Net movement in shareholders' funds	**31,099**	16,249	**(9,328)**	106,845
Opening shareholders' funds as previously stated	**471,843**	459,543	**518,665**	411,820
Prior period adjustments (see note 12)	**–**	(3,949)	**–**	–
Opening shareholders' funds as restated	**471,843**	455,594	**518,665**	411,820
Closing shareholders' funds	**502,942**	471,843	**509,337**	518,665

27 Analysis of cash flows

	2005 £'000	2004 £'000
a) Returns on investments and servicing of finance		
Interest received	**5,903**	2,120
Interest paid	**(10,748)**	(6,978)
Net cash outflow from returns on investment and servicing of finance	**(4,845)**	(4,858)
b) Taxation		
Corporation tax paid	**(11,641)**	(2,350)
Net cash outflow from taxation	**(11,641)**	(2,350)
c) Capital expenditure and financial investment		
Payments to acquire fixed asset investments	**(172)**	(257)
Payments to acquire tangible fixed assets	**(89,203)**	(100,305)
(Payments to acquire) receipts from sale of short-term investments	**(49,663)**	15,471
Receipts from sale of tangible fixed assets	**1,363**	846
Net cash outflow from capital expenditure and financial investment	**(137,675)**	(84,245)
d) Acquisitions and disposals		
Purchase of subsidiary undertakings	**(58,153)**	(74,135)
Net cash acquired with subsidiary undertakings	**11,838**	15,085
Net cash outflow from acquisitions and disposals	**(46,315)**	(59,050)
e) Financing		
Net receipts from issuing shares	**2,750**	928
Purchase of own shares	**(8,064)**	–
Increase in loans	**22,866**	95,668
Net cash inflow from financing	**17,552**	96,596

27 Analysis of cash flows continued

f) Analysis of changes in net debt

	At 27 March 2004 £'000	Cash flows £'000	Currency translation £'000	**At 2 April 2005 £'000**
Cash at bank and in hand	72,813	(31,525)	288	**41,576**
Overdrafts	(1,175)	(21,021)	(28)	**(22,224)**
	71,638	(52,546)	260	**19,352**
Debt due within one year	(15,099)	(34,668)	(3)	**(49,770)**
Debt due after more than one year	(107,916)	11,802	(2,380)	**(98,494)**
Net debt	(51,377)	(75,412)	(2,123)	**(128,912)**

g) Reconciliation of net cash inflow to movements in net debt

	2005 £'000	2004 £'000
(Decrease) increase in cash in the period	**(52,546)**	36,521
Cash inflow from increase in loans	**(22,866)**	(95,668)
Change in net debt	**(75,412)**	(59,147)
Currency translation	**(2,123)**	4,948
Movement in net debt in the period	**(77,535)**	(54,199)
Net (debt) funds brought forward	**(51,377)**	2,822
Net debt carried forward	**(128,912)**	(51,377)

h) Acquisitions

Companies acquired in the period contributed £2.8m to the Group's net operating cashflows, paid £0.8m in respect of net returns on investments and servicing of finance, and utilised £0.3m 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:

	2005 £'000	2004 £'000
Operating leases which expire:		
Within one year	**9,790**	7,558
In two to five years	**17,145**	13,948
After five years	**34,143**	29,325
	61,078	50,831

29 Capital commitments

	2005 £'000	2004 £'000
Expenditure contracted, but not provided for in the financial statements of the Group	**10,371**	6,564

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 £1.9m (2004 – £1.7m).

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

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

32 Related party transactions

On 29 March 2005, G Roux de Bezieux, a Director of the Company, acquired 5% of the issued share capital of Omer Telecom SAS ('Omer'), a subsidiary of the Group, which was set up to develop virtual networks in the French market. G Roux de Bezieux was given an option to invest up to 1 million Euros for 20% of the shares in Omer and has an option to increase his stake by up to a further 20% depending on Omer's future business performance.

The investment does not require the consent of the Company's shareholders either under the Companies Act 1985 or the Listing Rules or otherwise, and in particular falls within the exemptions set out in Chapter 11 of the Listing Rules in relation to transactions with related parties. The investment has however been approved by the Company's Board of Directors and Remuneration Committee.

Five Year Record (unaudited)

	2005 £m	2004 £m	2003 £m	2002 £m	2001 £m
Headline results					
Turnover	**2,355.1**	1,849.0	1,841.5	1,152.7	1,110.7
EBITDA	**154.8**	122.8	90.0	72.8	66.0
PBT	**102.1**	76.3	57.0	46.8	49.6
Assets employed					
Fixed assets	**674.0**	604.6	511.7	412.7	392.2
Net current assets	**0.1**	25.1	24.4	72.9	86.6
Creditors: Amounts falling due after more than one year	**(103.2)**	(117.7)	(49.4)	(39.1)	(15.4)
Provisions for liabilities and charges	**(68.0)**	(40.2)	(31.1)	(42.4)	(32.8)
Net assets	**502.9**	471.8	455.6	404.1	430.6
Financed by					
Shareholders' funds	**502.9**	471.8	455.6	403.3	428.9
Equity minority interests	**–**	–	–	0.8	1.7
Total capital employed	**502.9**	471.8	455.6	404.1	430.6
Headline earnings per share					
Basic	**9.4p**	6.8p	5.3p	4.4p	5.0p
Diluted	**9.0p**	6.7p	5.2p	4.4p	4.9p

Financial Calendar

	Key dates
Results announcement	7 June 2005
Ex-dividend date	6 July 2005
Record date	8 July 2005
Dividend payment date	5 August 2005
Interim results announcement	3 November 2005

Published by Black Sun Plc +44 (0)20 7736 0011.
Printed in England by SVTWO.

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