The Carphone Warehouse Group PLC Annual Report 2006

Delivering value to customers and shareholders

Revenue
£3,046m
2005: £2,355m

Headline profit before tax*
£136.1m
2005: £100.4m

Dividend per share
2.5p
2005: 1.8p

*Headline information is shown before amortisation of acquisition intangibles and goodwill expense, and before reorganisation costs. A full reconciliation between Headline and statutory information, together with an explanation of different terms used within the Annual Report is provided in note 10 to the financial statements.

THE Carphone Warehouse
...for a better mobile life

The Carphone Warehouse Group Overview

We are a multinational gro markets. The Group operat Distribution and Telecoms

Distribution division:

Comprises our Retail operations and other directly related business streams.

Revenue
£1,753.5m

Headline EBIT
£115.5m

Connections
8.2m

Stores
1,778

MARKETS
UK, BELGIUM, FRANCE, GERMANY, IRELAND, NETHERLANDS, PORTUGAL, SPAIN, SWEDEN, SWITZERLAND

Retail and Online

DESCRIPTION AND KEY ASSETS
Provision of mobile handsets and connections, accessories, and related products and services through 1,778 stores, call centres and the web across 10 European countries

STRATEGY
To grow our market share by opening new stores and developing additional distribution channels; to reinvest the benefits of increasing scale into the customer proposition, to generate like for like connections growth to sustain our competitive advantage

51.8% OF GROUP REVENUE

39.8% OF GROUP CONTRIBUTION

Telecoms Services division:

Comprises our Mobile Services operations and Fixed Line businesses, addressing SME and residential markets.

Revenue
£1,126.5m

Headline EBIT
£26.4m

Residential customers
2.9m

Mobile customers
3.1m

MARKETS
UK, BELGIUM, FRANCE, GERMANY, IRELAND, SPAIN, SWITZERLAND

Mobile Service Provision

DESCRIPTION AND KEY ASSETS
The Phone House Telecom in Germany, a mobile service provider with 1.2m 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 third party channels, while focusing on the higher value segment of the market

11.1% OF GROUP REVENUE

13.9% OF GROUP CONTRIBUTION

up present in ten European es from two core divisions: Services.

Insurance

DESCRIPTION AND KEY ASSETS
Provision of insurance products covering loss, theft or damage to mobile handsets. 1.9m customers across the Group

STRATEGY
To maintain or grow the penetration of Insurance sales relative to subscription connections, through ongoing training and the introduction of a wider range of products; to reduce churn by improved management of existing customers

3.8% OF GROUP REVENUE

12.7% OF GROUP CONTRIBUTION

Ongoing

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

STRATEGY
To maintain or improve existing arrangements and seek ARPU-sharing agreements with additional networks

1.9% OF GROUP REVENUE

16.3% OF GROUP CONTRIBUTION

Mobile Other Operations

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

STRATEGY
To build our existing MVNO operations to profitable critical mass and develop MVNO operations across Europe

4.0% OF GROUP REVENUE

(0.4)% 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 acquire new customers and broaden the suite of services offered; to invest in enhancing and modernising the network to maximise efficiency and support new services

9.7% OF GROUP REVENUE

8.3% 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

12.2% OF GROUP REVENUE

8.8% OF GROUP CONTRIBUTION

Contents

Highlights and Strategy
2 Financial Highlights
3 Chairman's Statement
4 Chief Executive's Review

Operating and Financial Performance Review
9 Operational Performance
15 Financial Performance

Governance
17 Corporate Responsibility
21 Board of Directors and Group Advisors
22 Corporate Governance
26 Remuneration Report
33 Directors' Report
34 Statement of Directors' Responsibilities

Financial Statements
35 Independent Auditors' Report
36 Consolidated Income Statement
36 Consolidated Statement of Changes in Equity
37 Consolidated Balance Sheet
38 Consolidated Cash Flow Statement
39 Notes to the Financial Statements
67 Statement of Directors' Responsibilities on the Company Financial Statements
67 Independent Auditors' Report on the Company Financial Statements
68 Company Financial Statements
73 Five Year Record
74 Notice of Annual General Meeting
77 Financial Calendar

Investor Updates
Online...
access the latest investor information online at www.cpwplc.com

On file...
order your copy of our Interactive Corporate CD at www.cpwplc.com

Headline Financial Highlights

Revenue
£3,046.4m
2005: £2,355.1m

EBITDA
£242.5m
2005: £173.3m

Profit before tax
£136.1m
2005: £100.4m

Earnings per share
12.38p
2005: 9.25p

Summary 2005/6

Continued strong growth in revenues and earnings

Outstanding Retail performance

52 week connections up 26.0% to 8.2 million

317 new stores opened

2.6m TalkTalk UK customers

Acquisition of Onetel and Tele2 UK

Significant investment in broadband infrastructure announced

Find out more about our business at www.cpwplc.com

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Group Director of Corporate Affairs
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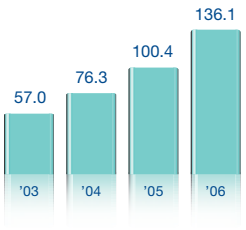
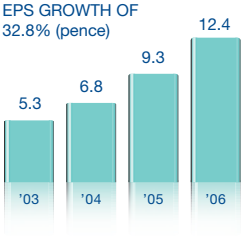
Financial Highlights

	2006 £m	2005 £m
Revenue	**3,046.4**	2,355.1
Headline results		
EBITDA	**242.5**	173.3
Profit before tax	**136.1**	100.4
Earnings per share	**12.38p**	9.25p
Statutory results		
Profit before tax	**81.0**	91.9
Earnings per share	**7.99p**	8.44p
Reorganisation costs	**(35.2)**	–
Dividend per share	**2.50p**	1.80p

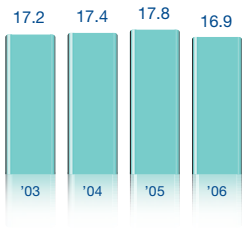
HEADLINE PBT UP 35.5% (£m)



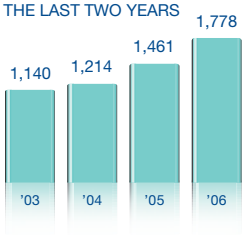
3 YEAR COMPOUND HEADLINE EPS GROWTH OF 32.8% (pence)



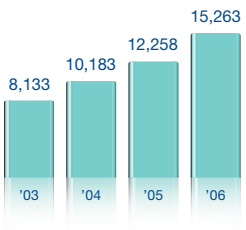
RETURN ON CAPITAL EMPLOYED (%)



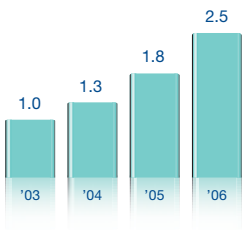
564 STORES OPENED IN THE LAST TWO YEARS



OVER 15,000 EMPLOYEES



DIVIDEND UP 38.9% (pence)



Historical financial information can be found at www.cpwplc.com

As detailed in the financial statements on pages 36 to 66, the Group has adopted International Financial Reporting Standards with a transition date of 28 March 2004. Consequently, while comparatives for 2004/05 have been restated, results for earlier periods are reported under UK GAAP throughout this Annual Report. Where this materially distorts the trends on Headline financial information, adjustments have been made as noted.

Chairman's Statement

It has been a year of strong financial and operational performance for the Group. The mobile phone market has continued to grow steadily but our own rate of growth has far exceeded it as we continue to invest in building scale and taking market share. On the fixed line side, we have supplemented our strong organic growth with the acquisition of two major competitors. The new financial year also promises to be an exciting one, with the launch of our free broadband proposition in April stimulating unprecedented consumer interest.

Group revenue for the period was £3,046.4m, compared to £2,355.1m for the prior year, representing growth of 29.4%. Headline pre-tax profit was £136.1m, an increase of 35.5% on the year to March 2005. Earnings per share on the same basis grew by 33.8% to 12.38p. Statutory profit before tax, after reorganisation costs of £35.2m and acquisition intangibles amortisation of £19.8m, decreased by 11.9% from £91.9m to £81.0m, while statutory earnings per share decreased by 5.3% from 8.44p to 7.99p. Cash generated from operations increased by 16.5% from £168.6m to £196.4m. The Board is proposing a final dividend of 1.75p, taking the total for the year to 2.50p, up 38.9% on last year's pay-out.

I believe there are two fundamental factors that make Carphone Warehouse different from most other companies: its approach to business, and the quality of its people. It is a privilege to be involved with a company that makes bold business decisions, and will not compromise its ability to pursue long-term strategic goals because of the risk to short-term earnings targets. The launch of TalkTalk three years ago showed the conviction and determination of the management team to seize the opportunity with both hands despite the short-term cost, and that approach has been vindicated. The same is true today with the planned investment in TalkTalk broadband and our MVNO operations. It is worth noting that our share register has remained remarkably stable over the last three years, underlining the support for this approach from our major external shareholders.

However, at the same time as pursuing new and exciting opportunities, we continue to invest in our core Distribution business. After opening over 550 stores over the last two years, we plan to open a further 250 stores in the forthcoming year, to take our total portfolio over 2,000 stores. New space continues to generate a very attractive return for us, and we see plenty of room for further growth in our ten markets. We will continue to pursue our successful strategy of reinvesting the benefits of our increasing scale into the customer proposition rather than our margin, to establish a business with economics that remain sustainable in the long term.

A company that will not compromise its pursuit of long term strategic goals

The year has seen a number of changes to the Board. I would like to thank Hans Roger Snook for his three years' service as Chairman during a period of rapid and successful growth for the Group. In addition, Martin Dawes stepped down as a Non-Executive Director, and just after the year end Geoffroy Roux de Bezieux relinquished his role as Chief Operating Officer, Distribution, to run our new mobile venture in France under the Virgin brand. Geoffroy has played a pivotal role in the successful development of our retail proposition across Europe and I would like to thank him for his significant contribution.

David Goldie, Chief Operating Officer, Telecoms, joined the Board during the year, and Andrew Harrison, Chief Executive of the UK business, joined just after the year end. We have also attracted three new Non-Executives of the highest calibre in Steven Esom, David Mansfield and Sally Morgan, and they have already made valuable contributions to our Board discussions.

As I highlighted above, the quality of the Group's people is a fundamental factor in its continued success. This year we have welcomed more people than ever before into the business, both through our continued organic growth and the acquisitions we have made. I would like to thank all our employees for their outstanding contributions and commitment.

John Gildersleeve, Chairman

Key achievements

317
NEW STORES OPENED

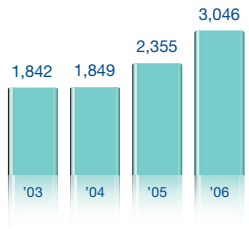
23.6%
52 WEEK GROWTH IN SUBSCRIPTION CONNECTIONS

33.8%
GROWTH IN HEADLINE EARNINGS PER SHARE

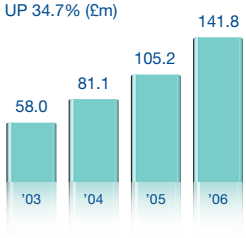
Chief Executive's Review

We maintain a private company mentality when it comes to investment and growth opportunities

REVENUE UP 29.4% (£m)



HEADLINE OPERATING PROFIT UP 34.7% (£m)



I am pleased to report that we have achieved another year of strong growth. The Group floated over five years ago now, and has grown at a rate that we could never have predicted. However, we are absolutely committed to approaching business as we always have done: by being entrepreneurial, quick to act and opportunistic, within a broad strategic framework. We retain the same flat structure and accountability that has allowed us to thrive in the dynamic markets of the last fifteen years.

More importantly perhaps, we maintain a private company mentality when it comes to investment and growth opportunities. Our focus is primarily on long-term value creation. As a result, we will continue to invest in new business areas where we are confident of generating incremental growth in future cash earnings, even if short-term returns are depressed as a result. Business opportunities do not conveniently arise in a timely or regular fashion, so it is an important aspect of our role as a management team to communicate the scale, timing and impact of new business initiatives so that investors can make informed decisions when short-term earnings are depressed by investment.

Strategic context

Our strategic approach is built on three primary objectives:

- To continue to grow market share in all our geographical markets, by investing in new store openings, generating like-for-like growth from our existing estate, and developing additional distribution 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 our brand, service and distribution give us an advantage over other suppliers; and
- To become the leading alternative provider of fixed line telecommunications services in the UK.

I wrote last year about the importance of combining our key assets – stores, people, fixed line infrastructure and supplier relationships – to provide a range of services where we believe we have a sustainable advantage. However, there is a further and crucial element to this approach which is coming to define the way we do business.

Whether in retail or telecoms, our goal is to create the best possible value proposition for our customers. We do this by aiming to control costs and drive volume over margin. As scale or investment benefits accrue, we look to reinvest those benefits in improving the customer proposition and driving more volume, rather than increasing margin. This creates a virtuous circle.

This is a familiar strategy in the retail industry, where a number of companies with this mindset have achieved very strong positions in their subsectors. At the same time, there are numerous examples of companies that have been too profitable for too long, thus becoming uncompetitive and allowing new entrants to come in and undercut them.

In the telecoms industry, the prevailing attitude seems to be to price services according to what customers are prepared to pay, and margins across the board are generally high. Our approach, as highlighted in April 2006's broadband launch, is to charge customers as little as possible while still making a reasonable return for the business. Thus our infrastructure investment over the next 12 months gives us the opportunity to pass on the bulk of our savings on regulated costs, rather than improve our customer margins.

Growing our retail presence

At the start of the year we set a target of 250 store openings across our ten markets, maintaining the acceleration in roll-out from the previous year. In the end we significantly exceeded this target, opening 317 stores in the last 12 months. Of these, we opened 68 stores in the UK and 99 in Spain.

Our distribution strategy has been enhanced over the last two years by the growth of our Online operations in the UK, and the development of a franchise store model in a number of markets. Through organic growth and acquisition, our Online operations have achieved compound annual connections growth of

43.0% over the last three years. The Online channel remains a significant opportunity in other markets, which as yet we have not succeeded in grasping. The franchise platform now extends to 140 stores out of the total portfolio of 1,778.

Both of these channels complement the core Retail chain by increasing our overall scale. As our market share grows in each territory we carry greater weight with the network operators and our terms improve, allowing us to stimulate volume growth through investment in the customer proposition. At the same time, our handset purchasing power continues to increase. Importantly, we are increasingly seeking to differentiate our proposition through a focus on handset range and availability. While price is clearly a valuable benefit of scale, our ability to source exclusive handsets or work in partnership with vendors to develop new products will, we believe, be a more significant driver of the business going forward. Our ground-breaking deal with Motorola on the pink V3 over Christmas 2005 was a clear example of this power and innovation.

Looking forward, we plan to open a further 250 stores this year. Even in the UK, where we now have 669 stores, we continue to generate an excellent return on our investment in new space. This gives us confidence in our ability to grow our Retail presence and market share across all our markets.

Maximising customer lifetime value

There are two core factors behind our focus on customer lifetime value. Firstly, the consultative nature of our interaction with customers allows us to introduce additional products and services into the sales mix, generating a significantly enhanced overall return on our store investment. Secondly, the recurring nature of these additional services improves the quality and visibility of Group earnings.

Historically the main avenue for additional profits beyond the point of sale has been through our Insurance service. Ten years since its inception, we have built it up into a business with nearly two million customers, revenues of £116.1m and contribution of £45.5m. This service owes much to our stores and our relationship with customers, and is the most tangible evidence of our ability to leverage our retail asset to deliver additional value to customers and shareholders alike.

More recently, as telecoms markets have become liberalised, we have recognised the potential for selling fixed line services over the counter. In the UK, within three years we have built a business in TalkTalk that has a realistic opportunity to be the number one alternative home telecoms provider in the UK, as I highlight below. But we are also now adding value in six other markets through selling fixed line services in store to enhance our recurring revenue platform.

One of our strategic challenges over the next two years is to respond to the changes in market structure that regulation is stimulating in each of these markets, to ensure that we have the most appropriate business model in place. For example, in some markets customer spend is sufficiently high that we can continue to be a pure reseller (with none of our own network infrastructure) and still make an attractive return. In other markets we may be better off simply taking a commission from selling another provider's service than packaging our own. Either way, we are generating an incremental income stream from a predominantly fixed cost base.

Over the last 12 months we have brought a renewed focus to our mobile virtual network operations (MVNOs), where we buy wholesale capacity from mobile network operators and repackage it under our own brand and tariffs. The UK launch of Mobile World, a service providing market-beating rates for calls to international destinations from a mobile handset, was very successful, and we intend to roll out a similar service in a number of other countries this year. We relaunched Fresh, our no-frills proposition, in October 2005, and again demand exceeded our expectations. Although both businesses are currently running at a loss, the lifetime value of customers is greater than the profit on third party pre-pay sales, making it an area of strategic importance in the medium term.

Our biggest new initiative in the MVNO business is the launch of Virgin Mobile in France, a joint venture between Carphone Warehouse and the Virgin Group. We believe that the French market offers us a significant opportunity to build a valuable business, combining the strength of the Virgin brand with our own store network and market expertise. The venture will make losses in the short term as we invest aggressively in growing scale, but we expect it to generate material incremental profits in the longer term.

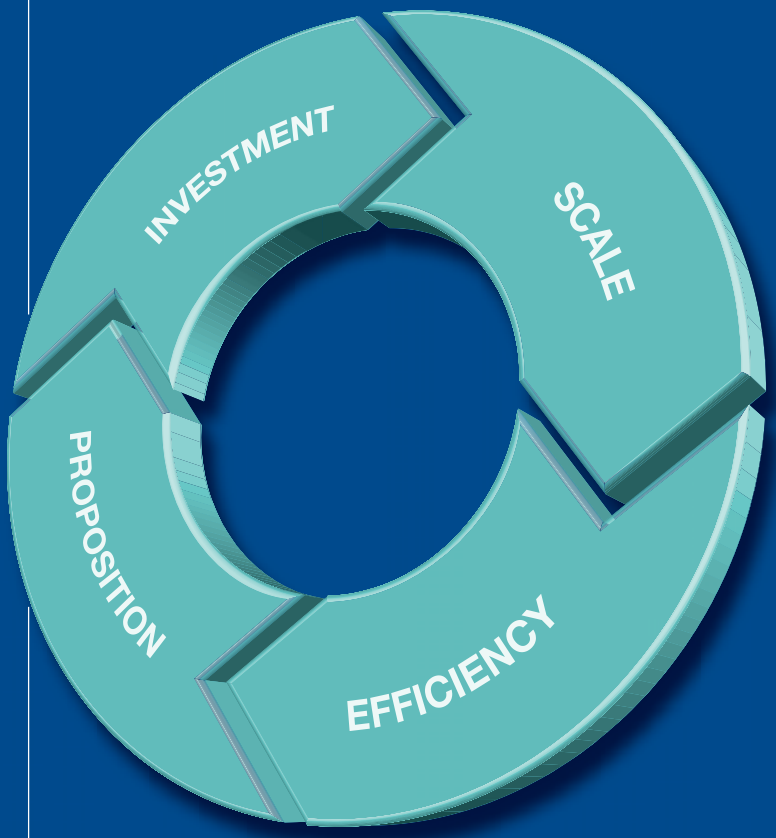
Key targets

10%
MARKET SHARE OF MOBILE PHONE MARKET

3.5m
TALKTALK UK CUSTOMERS BY MARCH 2009

1m
VIRGIN MOBILE FRANCE CUSTOMERS BY MARCH 2009

Smart methodologies driving improved performance



INVESTMENT
Our long-term approach to investment creates sustainable competitive advantage in our chosen markets. Investment is not just about capex – although our commitment to store openings and exchange unbundling is significant – it is also about marketing, brand-building and customer recruitment.

PROPOSITION
We are absolutely committed to delivering value to customers across all our services. Investment in the right platforms is key to our ability to develop a compelling customer proposition, as it allows us to build scale and offer greater value.

SCALE
We aim to be a mass market provider in our major business lines by driving for volume ahead of margin. We then use our increased presence in the market to improve our supplier terms and reinvest these benefits in the customer proposition.

EFFICIENCY
Scale also creates significant efficiencies for our business, through leveraging our fixed cost store base and telecoms infrastructure. We seek to maintain our competitive advantage by continued investment across the business.

Becoming the leading alternative fixed line provider in the UK

We have set our UK fixed line operations a bold objective but one that we believe, with the combination of assets that we have at our disposal, is achievable: to become the leading alternative fixed line provider.

Four years ago, we had no presence in the fixed line market. Through the combination of acquisitions and strong organic growth, we have built a business that now has a 10% share of the residential market for voice calls and is the clear number three operator. The highlights of the year were our acquisitions of Onetel and Tele2 UK, two of our biggest competitors in the Carrier Pre-Select (CPS) market, which not only took our combined customer base to 2.6m at the year end but also underlined the success of our own business model.

We have always maintained that the ability to recruit customers through our store base has given us a much lower overall cost of customer acquisition, and our ownership of a highly efficient voice network in Opal has allowed us to generate an attractive and sustainable margin on our tariffs. These deals demonstrate that our strategy to date has been the right one, and we expect the combined residential CPS businesses to deliver a contribution of approximately £50m in the coming year. A key goal this year will be to sell line rental as well as voice services to as many of our customers as possible. While there is no additional margin in the wholesale line rental product, it does serve to strengthen the customer relationship. We aim to have 60% of our CPS customers on our own line rental service by March 2007.

The most important development of the last 12 months has been the establishment by the regulator, Ofcom, of a structure for the industry that encourages infrastructure-based competition on a level playing field. As a result, we have announced plans to invest in local loop unbundling, a process that allows us to install our own exchange equipment on BT's premises, and take over the copper wire between a customer's house and the local exchange at fair rates.

On 11 April 2006, we were pleased to announce our new proposition: TalkTalk broadband for free, for customers who take our line rental and Talk 3 calls package. This offer has re-priced the broadband market in the UK, undercutting similar bundled tariffs from competitors by up to 60%. Our approach has

been totally consistent with our retail strategy: to favour volume over margin, and pass on the benefits of scale and investment to our customers. This is particularly true in local loop unbundling, where the investment profile favours those who are able to take significant market share. The costs in the short-term will be significant, with an estimated operating loss from the project in the current year of £50m, and a cash outflow of £110m. However, we are confident that the long term economics of the business are highly attractive.

We have set an initial target of 3.5m residential telecoms customers by March 2009, of which we anticipate over half will be on the new bundled package. Our focus now is on successful execution: installing our equipment in BT's exchanges as rapidly as possible, building up call centre capacity and expertise, and closely managing the process for migrating customers from BT's platform onto our own.

Importantly, our investment in infrastructure stands to benefit our business-to-business telecoms operations as well. We have a significant overlap between our business and residential customers, thus giving us two opportunities to generate a good return on our investment. Opal's background is one of voice services into businesses, but with an unbundled platform we believe that there is a sizeable opportunity to sell data services into the corporate market. Our plans in this respect will evolve over the next 12 months.

Outlook

These are exciting times for Carphone Warehouse. Prospects for the Distribution division are good. Mobile networks continue to compete aggressively for customers, stimulating the replacement cycle with lower prices and better tariffs. The market is also becoming more fragmented, with MVNOs increasingly prevalent and adding to the breadth of choice available to customers. Handset manufacturers are more active than ever, and are now innovating in fashion and design as much as in technology and functionality.

As outlined above, we will seek to take advantage of these attractive market conditions through further rapid expansion of our store base and the development of additional distribution channels. Our guidance of 15% growth in mobile connections for the coming year reflects the overall growth in our store portfolio. As always, we will strive to generate growth in connections per store to drive like-for-like growth in sales and gross profit, but the strong trading performance of the last two years creates ever higher hurdles to clear. Growth in Ongoing (our ARPU sharing agreements with networks) and Insurance will continue to be driven by subscription connections.

On the fixed line side, the progress of the new broadband proposition from TalkTalk will be crucial to enhancing the long-term value of the Group. The outlook is promising and the early customer take-up has far exceeded our expectations, but we expect a more concerted competitive response from other industry players as the year progresses, and the major risks of this new initiative lie in our ability to execute successfully.

In our MVNO operations we expect a year of intensive customer recruitment as we build a business to deliver meaningful profitability in the future. Our German service provision business, The Phone House Telecom, is already highly profitable, and we will continue to add customers to the base here, too. However, profits are likely to be flat year-on-year, as the amortisation of subscriber acquisition costs is forecast to rise on the back of the strong subscriber push of the last two years.

A strong corporate culture has always been a vital part of Carphone Warehouse's success, and it is to the credit of all of our employees that this has been maintained during a period of high growth and expansion. We have made significant demands of everyone across the business this year and the response has been uniformly positive. With the acquisitions and our own organic growth, I am delighted to welcome a further 3,000 people to the Group in the last 12 months, and the rate of recruitment shows no sign of abating given the opportunities ahead of us. We are lucky to have such a dedicated and talented workforce and I would like to say thank you to all of them for their continued efforts.

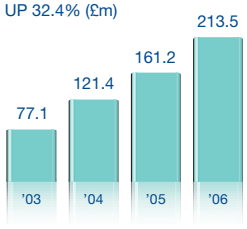
Charles Dunstone, Chief Executive Officer

FASHION BECOMING A KEY HANDSET MARKET DRIVER

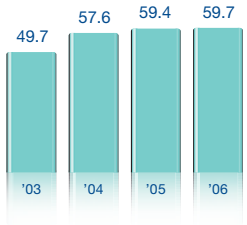
BROADBAND CUSTOMER TAKE-UP HAS FAR EXCEEDED OUR EXPECTATIONS

STRONG CORPORATE CULTURE A VITAL PART OF OUR SUCCESS

CONTRIBUTION FROM RECURRING REVENUES* UP 32.4% (£m)



% OF CONTRIBUTION FROM RECURRING REVENUES* (% OF TOTAL)



*Periods prior to 2004/05 restated for comparability

Performance Update

Distribution Division

What we said we'd do in 2005	How we performed	Our 2006/7 objectives
Retail and Online		
• Open 250 new stores • Invest in training and refurbishment • Continue to drive growth in subscription connections • Integrate recent Online acquisitions and pursue aggressive growth in UK • Develop non-UK Online operations	• 317 new stores opened • 300 stores refurbished • 52 week subscription connections up 23.6% • Acquisitions successfully integrated • 52 week Online connections growth 61.7% • Limited progress on non-UK Online operations	• Open a further 250 new stores • Differentiate proposition through handset range • Continue to drive growth in subscription connections • Continue to explore non-UK Online opportunities
Insurance		
• Grow the customer base • Continue to improve service efficiency through internal investment	• Customer base up 16.7% • High tier base up 24.1% • Launch of IMACS, new database management tool	• Further base growth • Improve penetration with new products
Ongoing		
• Grow Ongoing revenue by 20% through further growth in subscription connections and focus on network terms	• Ongoing revenue up 25.6%, in line with subscriptions growth	• Revenue growth of 15-20%

Telecoms Services Division

What we said we'd do in 2005	How we performed	Our 2006/7 objectives
Mobile – Service Provision		
• Grow our market share • Explore new distribution channels	• Customer base grew 30.0% to 1.2m • Launched several new distribution channels, although quality of new customers was mixed	• Further growth in subscription base • Stabilisation of ARPU trend through focus on higher quality channels
Mobile – Other Operations		
• Grow base of customers under management • Diversify our MVNO offerings	• UK FM base rose 25.2% but Vodafone contract expiring next year • Successful introduction of Mobile World and relaunch of Fresh • Virgin Mobile France launched after year end	• Launch Mobile World in other markets • Refine Fresh proposition to maximise customer lifetime values • Build towards target of 1m Virgin Mobile customers within 3 years
Fixed – Business		
• Launch mobile and broadband services • Develop data products • Explore new market segments	• Good progress with mobile services • No material headway made on broadband and data services • Successful launch of TalkTalk Business to address the small business market	• Focus on local loop unbundling programme to hit target of 1,000 exchanges by May 2007 • Leverage LLU platform to build corporate broadband products • Build on initial TalkTalk Business success
Fixed – Residential		
• Continue to recruit new customers in all markets • Refine UK broadband proposition and launch line rental product	• 2.6m UK customers – 10% market share – through organic growth and acquisitions • Non-UK base doubled to 341,000 • 28% of base on line rental • Announcement of broadband proposition after year end	• Focus on rapid recruitment of broadband customers • Manage the successful migration of customers onto unbundled lines • Complete integration of Onetel acquisition • Raise line rental penetration on voice customer base to 60%

Operating and Financial Performance Review

Operational Performance
Distribution Division

The Distribution division comprises our Retail operations and all directly-related business streams. The key operating assets of the division are our 1,778 stores across 10 European countries and our Retail and Online brands. Distribution revenues grew by 22.0% in the year to £1,753.5m, and the division generated Headline EBIT of £115.5m, a rise of 38.7% on the prior year. Growth was strong across all business units, with Online growth continuing to be exceptional, supported by the acquisition of One Stop Phone Shop in March 2005. From the year to March 2007, we are combining our Retail and Online business units for reporting purposes.

Retail and Online

The Group achieved 8.19m connections during the year, representing year-on-year growth of 24.1%. However, last year was a 53 week accounting period and on an equivalent 52 week basis, connections were up 26.0%.

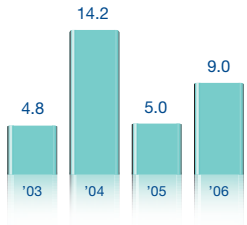
In subscription connections, the key driver for our Distribution business, we achieved 52 week growth of 23.6% to 3.42m. Market conditions continued to be attractive, with further growth in the European handset market driven by good customer offers and the strong handset pipeline. In addition, we again enjoyed a year of improving execution, allying a focus on exclusive product with an aggressive pricing strategy. We have now achieved compound annual growth of 17.1% in subscription connections over the last five years.

Our pre-pay business had a very good year, with 52 week connections up 31.7% to 4.25m. The strength of the overall pre-pay market continued unabated, and we successfully invested in pricing to take market share from generalist retailers. Our SIM-free sales were marginally up year-on-year at 0.52m, reflecting the relative strength of the pre-pay market.

Growth was strong across all business units, with Online growth continuing to be exceptional

Headline Financials	2006 £m	2005 £m
Revenue	**1,753.5**	1,436.9
Retail	**1,375.5**	1,160.2
Online	**203.5**	128.2
Insurance	**116.1**	102.0
Ongoing	**58.4**	46.5
Contribution	**246.1**	190.1
Retail	**127.5**	100.9
Online	**14.7**	7.7
Insurance	**45.5**	35.0
Ongoing	**58.4**	46.5
Support costs	**(84.1)**	(71.5)
EBITDA	**162.0**	118.6
Depreciation and amortisation	**(46.5)**	(35.4)
EBIT	**115.5**	83.2
EBIT %	**6.6%**	5.8%

CONTINUED STRONG LFL GROSS PROFIT PERFORMANCE (%)

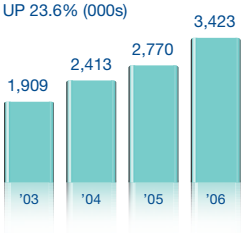


Distribution Division continued

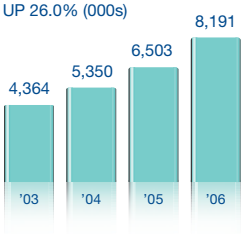
LIKE-FOR-LIKE GROSS PROFIT UP 9.0%

5 YEAR SUBSCRIPTIONS GROWTH OF 17.1%

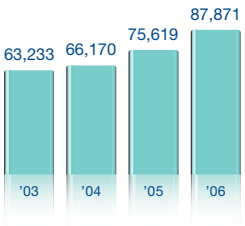
52 WEEK SUBSCRIPTION CONNECTIONS UP 23.6% (000s)



52 WEEK TOTAL CONNECTIONS UP 26.0% (000s)



AVERAGE SPACE UP 16.2% (sqm)



Connections (000s)

	52 weeks to 1 April 2006	52 weeks to 26 March 2005	53 weeks to 2 April 2005
Subscription	**3,423**	2,770	2,816
Pre-pay	**4,252**	3,227	3,272
SIM-free	**516**	506	512
Group	**8,191**	6,503	6,600

We opened 362 new stores during the year and closed 45. The total number of stores increased from 1,461 at March 2005 to 1,778 by March 2006. The total includes 140 franchise stores (March 2005: 70 franchises). Total average selling space excluding franchises increased by 13.3% to 83,128 sqm (2005: 73,399 sqm) and sales per square metre increased by 4.7% to £16,547 (2005: £15,807). Total average selling space including franchises increased by 16.2% to 87,871 sqm (2005: 75,619 sqm) and sales per square metre increased by 2.0% to £15,654 (2005: £15,343).

Total Retail revenues grew by 18.6% and gross profit by 23.1%. Like-for-like, after stripping out the impact of new store openings and the 53rd week last year, revenues grew by 5.9% and gross profit by 9.0%. The increase in revenues was driven by the strong connections growth through the year, though offset by a fall in revenue per connection from £189.7 to £185.2 driven by a change in mix.

Average cash gross profit per connection rose from £54.0 to £54.7. Gross profit per connection for subscription and pre-pay rose 2.9% and 6.9% respectively, with the average increase of 1.4% reflecting a higher proportion of pre-pay sales.

Contribution from Retail grew by 26.4% to £127.5m. The contribution margin rose from 8.7% to 9.3%, reflecting the strong growth in like-for-like gross profit. 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 30.6% to 31.4%. Overall Retail direct costs grew by 21.6%, driven by the greater store base and like-for-like growth in commission payments to our sales consultants. Within these figures, total rent costs increased by 17.3%, reflecting the rapid increase in space over the last two years.

In the UK, our store portfolio increased from 601 stores to 669 stores. New stores continue to generate an attractive return and the impact on existing outlets is minimal. We see ample opportunity for further expansion despite our significant presence, and aim to open a further 80 stores in the UK in the current year. Our focus is on retail park units, arterial routes and smaller towns.

Our businesses outside the UK continued to grow strongly. Spain is now our second largest market by some distance, with a portfolio of 338 stores. Connections were up 23.7% on a 52 week basis. During the year we acquired Planet Phone, a small chain of stores acting as an exclusive distributor for Telefonica Moviles.

Our French operations enjoyed a year of better growth after a subdued period of trading, as competition between the networks began to intensify. We opened 35 stores, taking the portfolio to 220, and achieved 52 week connections growth of 15.5%, with a better performance in the second half. We are encouraged by recent trends in France, with the launch of a number of MVNOs, including our own Virgin Mobile joint venture, set to stimulate the market further.

In The Netherlands and Sweden, our next most important retail markets, connections fell marginally year-on-year, after prolonged periods of strong market growth. Both businesses continue to hold good market positions and made significant contributions to overall Retail profitability. They have returned to growth in the new financial year, and we continue to invest in new stores in these territories.

Across our other five markets, comprising Belgium, Germany, Ireland, Portugal and Switzerland, we generated 52 week connections growth of 22.4%, with all countries trading well. Switzerland, in particular, achieved a very good turnaround from the poor performance in the previous year, and after 12 months of recovery we now intend to invest in further organic growth in that market.

Online connections increased by 61.7% year-on-year to 0.76m on a 52 week basis. Revenues were

£203.5m (2005: £128.2m) and contribution was £14.7m (2005: £7.7m). Underlying growth continued to be strong as our web and direct sales activities grew their market share, and overall performance was boosted by the acquisition of One Stop Phone Shop, a further online brand in the UK market, at the end of the previous year. We continue to review the European opportunity for direct and online channels.

Insurance

The Group offers a range of insurance products to its retail customers, providing protection against the replacement cost of a lost, stolen or damaged 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 16.7% to 1.92m. Within this figure, the business mix improved, with high tier policyholders (typically mobile subscription customers) up 24.1%. The non-UK base now represents 45.8% of the total.

Insurance revenues grew 13.8% to £116.1m (2005: £102.0m) and contribution increased by 30.0% to £45.5m (2005: £35.0m). The contribution margin expanded significantly as we began to benefit from the scale of our operations in a number of markets, fully underwriting our own business and the investment in new systems developed in the prior year.

We continue to see good growth prospects in our Insurance business. The main driver will continue to be growth in our subscription connections, but we have also recently relaunched the product suite with a move to risk-based pricing, which allows us to tailor individual policies much more closely to a customer's needs, while also matching the level of premium to the customer risk profile.

Ongoing

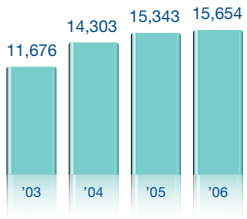
Ongoing revenue represents the share of customer call spend (or ARPU) we receive as a result of connecting subscription customers to certain networks. We are typically contractually entitled to our share of revenue for as long as a customer is active, so this income stream represents an important element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

Ongoing revenues grew by 25.6% to £58.4m year-on-year (2005: £46.5m). This performance reflects the sustained strong subscription connections growth over the last few years. We continue to view Ongoing share as a vital element of our network agreements, as it provides us excellent earnings visibility and clearly aligns our interests with those of the networks.

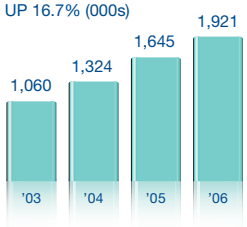
STRONG IMPROVEMENT IN INSURANCE MARGIN

SUBSCRIPTION GROWTH DRIVING RECURRING REVENUES

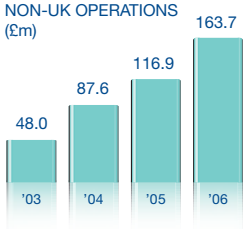
SALES PER SQUARE METRE UP 2.0% (£)



INSURANCE BASE UP 16.7% (000s)



CONTRIBUTION FROM NON-UK OPERATIONS (£m)

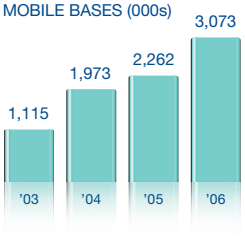


Operational Performance

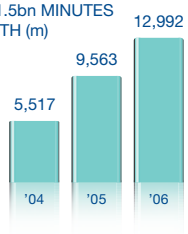
Telecoms Services Division

Revenues grew by 40.1% year-on-year, but margins fell as we invested heavily in our broadband and MVNO strategies

STRONG GROWTH ACROSS ALL MOBILE BASES (000s)



OPAL NETWORK NOW SWITCHING OVER 1.5bn MINUTES A MONTH (m)



Headline Financials	2006 £m	2005 £m
Revenue	**1,126.5**	804.0
Mobile	**459.8**	377.7
Fixed	**666.7**	426.3
Contribution	**109.5**	79.6
Mobile	**48.4**	45.3
Fixed	**61.1**	34.3
Support costs	**(29.7)**	(25.0)
EBITDA	**79.8**	54.6
Depreciation and amortisation	**(53.4)**	(32.0)
EBIT	**26.4**	22.6
EBIT %	**2.3%**	2.8%

The Group's Telecoms Services operations are split into two businesses, Mobile and Fixed. The Mobile business encompasses our German service provision business, The Phone House Telecom; our Facilities Management (FM) business, managing mobile customers on behalf of networks in the UK and France; and our MVNO operations. The Fixed business primarily comprises Opal, our business-to-business service and network operation, 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 40.1% year-on-year to £1,126.5m (2005: £804.0m), with good growth across all major business lines. Headline EBIT increased by 16.5% to £26.4m (2005: £22.6m). The Headline EBIT margin fell from 2.8% to 2.3% as we invested heavily in our broadband and MVNO strategies.

Mobile

Overall we achieved revenue growth of 21.7% to £459.8m (2005: £377.7m), with contribution rising 6.8% to £48.4m (2005: £45.3m).

The Phone House Telecom, our German service provision business, continued to perform well in a competitive market. The overall customer base was up 30.0%, and by March 2006 we had 1.17m customers, of whom 0.82m were on two year subscriptions. During the year we expanded our distribution channels, as planned, by opening new stores and signing up new distribution partners. Revenues rose by 13.1% to £337.4m, with contribution up by 40.1% to £49.8m. Subscription ARPUs fell, with one or two new channels delivering significantly lower customer ARPUs.

Total amortisation of SAC was £30.9m compared to £19.2m last year. The total cash cost of SAC during the year was £44.7m (2005: £22.5m), with the rise driven by our aggressive customer acquisition strategy. We anticipate that in the coming year, SAC cash costs will fall, with amortisation of SAC broadly in line with the cash cost.

Our MVNO operations recorded revenues of £46.2m (2005: £18.6m) and a loss of £9.6m (2005: contribution of £1.9m), reflecting our investment in building this segment. Our main goal for the year has been to relaunch our UK MVNO operations. At the start of

the year we introduced a new MVNO concept, Mobile World, to the market, offering significant discounts on calls to international numbers. We believe Mobile World can be exported to a number of our other markets. We relaunched Fresh, our no frills MVNO service in the UK, in October 2005. The response has been promising, and we continue to refine the proposition.

Our regional MVNO in France, Breizh Mobile, continued to make good progress in customer recruitment in Brittany. Just after the year end, we launched Virgin Mobile France, a joint venture with the Virgin Group, as a nationwide MVNO, with the Breizh operations forming part of the venture. We are targeting one million customers within three years, and are confident that we can build the business into an effective fourth operator in the French market.

FM revenues were £76.2m (2005: £60.9) and contribution was £8.2m (2005: £7.8m) Our UK FM base of customers managed on behalf of O2 and Vodafone rose 25.2% to 0.88m (2005: 0.67m). The contract with Vodafone expires in the summer, consistent with Vodafone's strategy of progressively taking all customer management in house, but this is not expected to have a material impact on profitability. The key drivers of our FM businesses are the number of customers under management, the quality of service we provide and our ability to retain customers. We continue to manage 0.6m customers in France on behalf of Orange and SFR, and will also provide call centre services to the new Virgin Mobile operation.

Fixed

Our fixed line operations continued to grow rapidly, with strong organic growth from customer recruitment boosted by two significant acquisitions during the year. Total revenues were £666.7m, up 56.4% year-on-year, and contribution was £61.1m, a rise of 78.0%.

Total revenues from business-to-business operations were £294.7m (2005: £267.3m), and contribution was £29.7m (2005: £31.5m). Opal, our UK network provider, generated revenues of £259.9m, an increase of 9.3% (2005: £237.7m). Revenues in the first half were adversely affected by the regulatory cuts to mobile termination rates made in September 2004, reducing average revenue per minute by approximately 12% over that period. As expected, revenue growth picked up in the second half as these effects annualised. In addition, Opal benefited from the inclusion of three months of revenue from the Onetel business base, acquired in December 2005.

The overall business environment continued to be competitive, which had a negative effect on contribution margin. Opal's contribution fell from £30.6m to £28.0m. However, the year saw investment in new areas such as TalkTalk Business, targeting the lower end of the small business market. Customer take-up has been very encouraging and profits from this unit, as well as a full year contribution from Onetel's business customer base, are expected to drive strong growth in underlying profits at Opal in the coming year.

From a network perspective, Opal is making good progress in the development of its own "21st Century Network" and the local loop unbundling programme. The new network structure will allow Opal to carry voice and data over the same platform, reducing unit costs and creating opportunities for additional services. The installation of our own equipment into BT's premises to enable us to unbundle customer lines is a fundamental part of the new network, with Opal's business operations set to benefit from the increased flexibility and lower regulated costs in the same way as TalkTalk. A key goal for the year ahead is to develop our expertise in providing broadband and related network services to our core business customer base.

Xtra, our Spanish fixed line network, recorded revenues of £34.7m (2005: £29.6m) and contribution of £1.6m (2005: £0.9m).

Total residential revenues rose from £159.0m to £372.0m, and contribution rose to £31.4m (2005: £2.9m). Our UK residential fixed line service, TalkTalk, is the main driver of revenues and profitability, recording turnover of £305.6m and contribution of £24.3m during the year, including the impact of the Onetel and Tele2 UK acquisitions. After SAC amortisation of £5.7m relating to broadband customers (2005: £0.6m) contribution was £18.6m.

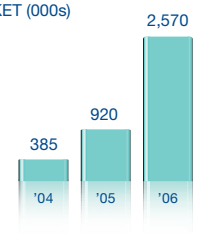
The main focus for TalkTalk continued to be customer recruitment, both through Carphone Warehouse stores and third party channels. At March 2006 we had 2.6m residential fixed line customers in the UK up from 0.9m at March 2005. This was significantly enhanced by the acquisition of two of our main competitors in the CPS

SUCCESSFUL RELAUNCH OF UK MVNO FRESH

TALKTALK BUSINESS SHOWING PROMISING TRENDS

21ST CENTURY NETWORK IN DEVELOPMENT

TALKTALK NOW HAS 10% OF UK RESIDENTIAL MARKET (000s)



Telecoms Services Division continued

ACQUISITION OF ONETEL AND TELE2 UK

INVESTMENT IN LOCAL LOOP UNBUNDLING

LAUNCH OF FREE BROADBAND

market, Onetel and Tele2 UK, in December 2005, bringing an additional 1.3m residential customers into the Group. We have made significant progress on the integration of these businesses into TalkTalk, a process that will be completed later this year when we finish migrating Onetel's traffic and customers onto our own network and billing platform. A reorganisation provision of £22.3m has been made for the cash costs arising from the integration of the Onetel business.

The market pricing structure for the provision of line rental to customers was finally addressed during the year, allowing us to start billing customers for their line as well as their calls. Previously, the wholesale price available from BT had been higher than BT's own retail price. Following this change we now have 722,000 customers on a unified bill for calls and line rental, equating to 28% of the total UK base. Our target is to increase this to 60% of the voice base in the coming year, because although line rental is still a zero margin product, it does increase customer tenure.

During the year we finalised our strategic review of the options for providing broadband to residential customers. As a result of the clear regulatory framework established by Ofcom and the undertakings made by BT, in conjunction with our own review of the market, we announced in November 2005 our plans to invest in local loop unbundling. Our initial goal was to install our equipment within 1,000 BT exchanges over the next three years at a cost of approximately £50m.

Subsequent to the year end, we have launched our commercial proposition for broadband in the UK: the provision of free broadband, forever, for customers taking our line rental and inclusive calls package. To support this aggressive strategy, we have accelerated our investment programme, and now aim to have 1,000 exchanges unbundled by May 2007, giving us nearly 70% coverage of the population.

Our longer term goal is a base of 3.5m residential customers by March 2009, of which at least half will be on our new bundled broadband proposition. In the short-term, the costs of recruitment will be high, as a significant proportion of customers will be loss-making for us before they are migrated onto unbundled lines: we anticipate a total operating loss from the project of approximately £50m in the year to March 2007, with free cash outflow (after capex and the full cash costs of acquiring customers) of around £110m. We are provisionally forecasting an incremental operating profit from the project of £30-40m in the year to March 2008, and a full payback on the cash investment within four years.

Our non-UK residential fixed line operations made steady progress during the year. We now provide services in Belgium, France, Germany, Ireland, Spain and Switzerland. At the year end we had 341,000 fixed line customers outside the UK, generating revenues of £66.4m (2005: £35.4m) and contribution of £7.1m (2005: £1.8m). Throughout Europe our fixed line model benefits from the low cost of customer acquisition that our store network gives us. We are reviewing our product strategy in each country to reflect market developments, so that in all cases we are achieving the maximum return for the Group from each customer.

Dealer Division

Headline Financials	2006 £m	2005 £m
Revenue	**188.4**	132.0
Contribution	**2.1**	1.5
Support costs	**(1.4)**	(1.5)
EBITDA	**0.7**	0.0
Depreciation and amortisation	**(0.8)**	(0.7)
EBIT	**(0.1)**	(0.7)
EBIT %	**(0.1%)**	(0.5%)

Dealer operations comprise our pre-pay voucher distribution business, our indirect distribution operations and the wholesale shipment of trade-in handsets. The division was boosted during the year by the acquisition of Hugh Symons, a major independent distributor in the UK market. Revenues were up 42.8% to £188.4m and the division reduced its Headline EBIT loss to £0.1m.

The 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.

Financial Performance

HEADLINE EARNINGS PER SHARE UP 33.8%

DIVIDEND UP 38.9%

OPERATING CASH FLOW OF £196.4M

Conversion to International Financial Reporting Standards (IFRS)

This is the first annual report required to be prepared under IFRS. Details of the impact of IFRS on financial information for 2004/05 were issued on 22 September 2005, and are available on the Group's website www.cpwplc.com. The adjustments made are summarised in note 29 to the financial statements.

Acquisitions

The Group made the following acquisitions during the year:

		Intangible assets arising	
	Net cash consideration £m	Acquisition intangibles £m	Goodwill £m
Onetel	134.6	62.2	96.1
Tele2 UK	8.2	2.0	9.8
Hugh Symons	5.2	–	9.5
Other	9.8	4.4	3.7
	157.8	68.6	119.1

Acquisition intangibles relate to customer bases and a distribution agreement.

Amortisation of acquisition intangibles and goodwill expense

The amortisation charge in respect of acquisition intangibles amounted to £18.0m (2005: £7.5m), the increase principally reflecting the Onetel acquisition. A goodwill expense of £1.8m (2005: £1.0m) has been recognised on acquired deferred tax assets that had not previously been recognised. These figures are excluded from Headline profit before tax and earnings per share figures.

Reorganisation costs

Following the acquisition of Onetel in December 2005, we have commenced a reorganisation programme to integrate Onetel with the rest of the Group. The costs of this integration are estimated at £22.3m, reflecting redundancy and other employee costs, contract termination costs and network and customer migration costs. These costs have been recognised in the reported financial year. The substantial customer growth achieved through the acquisition of Onetel and Tele2 UK, together with the Group's major investment plans in respect of local loop unbundling and billing platforms, prompted a review during the period of the Group's systems and network infrastructure. This review resulted in an accelerated amortisation charge of £12.9m in respect of certain billing, customer management and other assets, which has been recognised in the period.

Interest and tax

Net interest of £5.7m was payable during the year, compared to a charge of £4.8m in the prior year. Significant investment in capital expenditure and acquisitions were financed out of operating cash flow and committed debt facilities now totalling £725m. The effective tax rate on a Headline basis was 19.6% (2005: 19.3%). The tax rate benefited from the utilisation of tax losses incurred in earlier years, and the effect of profit within low tax rate jurisdictions.

Earnings per share (EPS)

Headline EPS was 12.38p (2005: 9.25p). Statutory EPS was 7.99p (2005: 8.44p).

Cash flow and dividend

At 1 April 2006, the Group had net debt of £273.4m (2005: £68.4m). During the year the Group generated operating cash flow of £196.4m (2005: £168.6m). Cash generation remains a prime objective of the Group, allowing us to reinvest in the growth of the business and pursue a progressive dividend policy. We are proposing a final dividend of 1.75p per share, taking the total dividend for the financial year to 2.50p and representing growth of 38.9% over last year's 1.80p total dividend, slightly ahead of Headline EPS growth. The ex-dividend date is Wednesday 5 July 2006, with a record date of Friday 7 July 2006 and an intended payment date of Friday 4 August 2006.

Net debt	**2006 £m**	2005 £m
Operating cash flow	**196.4**	168.6
Tax and interest	**(19.4)**	(16.4)
Net operating cash flow	**177.0**	152.2
Property, plant and equipment (net)	**(86.9)**	(70.6)
Intangibles	**(104.7)**	(53.8)
Acquisitions	**(159.5)**	(35.5)
Total investment	**(351.1)**	(159.9)
Dividends	**(17.4)**	(12.7)
Shares	**(5.1)**	(5.3)
Net dividends and shares	**(22.5)**	(18.0)
Net cash outflow	**(196.6)**	(25.7)
Opening net debt	**(68.4)**	(40.6)
Foreign exchange and non-cash movements	**(8.3)**	(2.1)
	(273.4)	(68.4)

Financial Performance continued

Total investment increased from £159.9m to £351.1m year-on-year. In addition to the acquisitions noted above, the increase reflects an uplift in subscriber acquisition costs from £25.6m to £51.6m, and a substantial increase in investment in the Group's IT systems and infrastructure.

Balance sheet

The investment described above resulted in an increase in non-current assets from £730.3m to £1,014.9m year-on-year.

Acquisitions and organic growth in both Distribution and Telecoms Services are reflected in an increase in trade and other receivables from £353.9m to £554.5m. Correspondingly, there is a year-on-year increase in trade and other payables from £458.7m to £642.0m.

Provisions have increased from £57.8m to £123.5m during the year, reflecting reorganisation costs and other provisions associated with Onetel, and an increase in sales provisions, principally in respect of "cashback" promotions, the anticipated costs of which are provided for on sale.

Net deferred tax assets have increased from £0.5m to £34.9m, the largest driver of which is deferred tax on share-based payments.

Financing and treasury

The Group's operations are financed by committed bank facilities, retained profits and equity. During the period, the Group increased the revolving credit facility that was originally signed in September 2004 to £450m. This increased facility will expire in September 2009. New term loans, totalling £275m, were also agreed during the period, both to refinance the existing term loan and to assist with the acquisition of Onetel in December 2005. A £225m term loan, which expires in February 2011, was syndicated and was arranged by HSBC PLC, ING Bank NV, London Branch and The Royal Bank of Scotland PLC. A £50m bilateral facility was agreed with The Royal Bank of Scotland (Ireland) and this facility expires in December 2010. The terms of all three facilities are similar and the covenant packages are identical.

Net borrowings peaked at the end of 2005, mainly as a result of the Onetel and Tele2 UK acquisitions and the high working capital levels required during the peak Christmas trading period. The Group seeks to maintain comfortable headroom on its committed facilities at all times.

In addition to the revolving credit facility, 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. Cash and investments held for insurance purposes of approximately £77m (2005: £89m) are not immediately available to the Group. These funds are invested to maximise returns whilst ensuring at all times that such investments are within acceptable risk parameters.

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 and the Group's interest rate exposures are monitored regularly. The Group does not trade or speculate in any financial instruments.

Return on capital employed

Total shareholders' funds at March 2006 were £619.0m, compared to £548.0m at March 2005. After taking into account average net debt, and adjusting for the amortisation of acquisition intangibles and goodwill arising on historic minority acquisitions, the Group generated a return on capital employed of 16.9% (2005: 17.8%).

Assuming a weighted average cost of capital for the period of 6.6% (2005: 6.9%), this represents an increase in economic value added from £52.0m to £69.4m, being 11.0% and 10.3% respectively.

Roger Taylor, Chief Financial Officer

Governance

Corporate Responsibility

TREEHOUSE BECOMES A NEW CHARITY PARTNER

GET CONNECTED AUCTION RAISES OVER £100,000

The Group has a strong track record as a responsible employer, consumer and distributor. This year we have demonstrated a further increase in our level of commitment in all key areas of corporate responsibility from our charity, community and employee activities to our social and regulatory responsibilities.

We have a dedicated Corporate Social Responsibility (CSR) manager who co-ordinates strategy and actions across both elements, interacting with senior management within business operations, human resources and communications. Following the retirement of Martin Dawes at last year's Annual General Meeting, we are delighted that Sally Morgan has agreed to act as Board sponsor of the Group's CSR activities.

Charity, community and employee activities

The Carphone Warehouse continued its support of its two partner charities, Barnardo's and Get Connected, with a wide range of activities. The expansion of TalkTalk, The Carphone Warehouse's fixed line service, has enabled it to take on its own partner charity, TreeHouse, supporting the needs of children with autism throughout the UK. The Carphone Warehouse UK Foundation has also maintained its work, supporting smaller charities nominated by employees, and this year will expand its activities to provide more support for local communities. The Group supports the partnership in many ways, from donating gifts for sales and raffles, offering extra holiday for employees undertaking overseas treks and other specific volunteering activities, to donating profits from sales of accessories over the Christmas period.

Get Connected

The Carphone Warehouse has maintained and developed its six year relationship with Get Connected providing accommodation, phone lines and IT support as well as offering employees the opportunity to earn extra holiday or have matched time off to volunteer. In 2005 we undertook improvements to the charity's premises enabling wheelchair access to offer more volunteer opportunities. In March 2006 Charles Dunstone and Andrew Harrison hosted the second charity auction at BAFTA, Piccadilly. With continued support from suppliers and partners the charitable income increased to over £107,000. Employees and guests at the annual company ball raised an additional £30,000 for Get Connected's valuable work.

TreeHouse

The aim of TalkTalk is to enable people to communicate, making TreeHouse an ideal partner. TreeHouse was established in response to the huge unmet national need for specialist education for children with autism. Its aim is to provide an educational centre of excellence for children with autism and related communication disorders. TalkTalk has committed to donate 1 penny from every call to its directory enquiries service to help support its work as well as introducing them into the charity partnership to offer employees the opportunity to volunteer and raise funds. TreeHouse has recently launched an appeal for £11.5 million to construct a permanent building that will enable it to increase its support of children in need of specialist education. TalkTalk is committed to helping TreeHouse to see this ambition realised.

Namibia Trek

One of the year's highlights for both employees and charities was a trek with a difference to Namibia. Building on the huge success of previous treks, 61 employees each raised £2,000 to travel to Namibia and undertake a project to renovate a school in a hugely deprived area in the heart of the Namib Desert. As well as dramatically improving the lives of children who attend the school, the project also raised in excess of £50,000 for our partner charities supporting the needs of children in the UK.

Helping with Homelessness

We have continued our work with Business Action on Homelessness (BAOH), helping to develop skills and

Corporate Responsibility continued

HR POLICIES RESPOND TO EMPLOYEE FEEDBACK

DIVERSITY AND INCLUSION A KEY FOCUS

confidence in people who have been homeless by offering two-week work placements. This is a critical part of helping them back into the work place and, as well as developing vocational skills, individuals are also assisted with advice on CVs and interview techniques.

We have continued supporting Crisis Open Christmas, offering employees a day's leave to volunteer in one of the many shelters set up to provide support for those who are homeless and alone at Christmas. We also provide Crisis with support by providing mobile communications.

Employees

Our dedicated Human Resources departments continue to review and improve processes to ensure that the work environment, recruitment, training processes and employee satisfaction are of the highest standard. Each year we ask our employees how they feel about CPW through BackChat, a completely anonymous online questionnaire that enables us to examine the attitudes of every employee to all aspects of the business.

One of the areas highlighted in the 2004 report was that although the majority of employees felt that they could meet the requirements of their jobs without working excessive hours, this was still an area that could be improved upon. With this as a focus the introduction of initiatives such as core working hours, allowing more flexibility in the work place, have resulted in an 8% increase in favourable scores.

Last year 83% of employees felt that the training and development they received was valuable and worthwhile, and increased training opportunities have meant that the number of employees receiving training has increased this year by 6%. In addition to internal year-on-year comparisons we are able to compare our results to those of the external benchmarking norms which show very positive scores with particular highlights being:

- 69% of employees are confident that on important matters their feelings/thoughts are communicated upwards by their manager, 14% higher than the benchmark;
- 83% are proud to work for The Carphone Warehouse, 15% above the benchmark; and
- 65% of employees feel that change is managed effectively which is 32% above the benchmark and a great achievement in an organisation with high growth.

The success of this self analysis and resulting activities are reflected in the awards The Carphone Warehouse has won in the last year.

Sunday Times 6th Best Large Company to Work For

- No.1 for "Best Leadership" of all of the Best Big Companies
- No.1 for "Staff getting a buzz from working within their team"
- Shortlisted for "Giving Something Back"
- Shortlisted for "Well being"

Retail Week 2006

- Retailer of The Year

Mobile News 2006

- Customer Service
- Online Retailer

Uswitch

- TalkTalk: Home Phone Customer Satisfaction Award

Once again we will take the results of the survey to focus our activities across the Group to address areas that have not seen the improved results we would like.

A range of incentives helps boost pay and self-esteem, from earning up to £2,000 for recommending friends for a job to an annual awards ceremony hosted by celebrities, monthly beer nights and other events such as the company ball also strengthen working relationships. The Sunday Times 100 Best Company survey revealed that 81% of employees say their team is fun to work with and that their colleagues care a lot about each other.

Diversity and inclusion

The Group recognises the importance of diversity and inclusion, and has systems in place to recruit employees of different genders, ages, disabilities and ethnic origins. We recruit using totaljobs.com and jobability.com, the leading job site for disabled people, as well as through a number of ethnic magazines.

BackChat, our annual employee survey, enables us to measure the impact of actions taken to improve the working environment

The Group is implementing an online recruitment system and is also committed to putting in systems to measure diversity across the Group. Gender and race are now voluntarily recorded via BackChat to enable us to monitor inclusion and recruit and promote to specific audiences that we feel are under-represented.

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 matters give us confidence both that the risks to our business in these areas are relatively low, and also that controls are in place to ensure compliance with new laws and regulations where necessary.

Below we have identified the key regulatory and social risks currently affecting the Group. We have aimed to focus our update on areas where there has been a change in regulation or our approach during the year, or where new regulation is on its way. In other areas such as mobile phone crime and safe driving, there has been no material development, and our approach to these social issues is addressed in previous years' annual reports.

Waste Electrical and Electronic Equipment Directive & Restriction of the Use of Certain Hazardous Substances

Due to further industry consultation, the implementation of the Waste Electrical and Electronic Equipment (WEEE) Directive has been delayed to later in 2006. However, we are confident that we have the processes in place to ensure compliance with the objectives and obligations set out in the directive when they are finalised.

The Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Regulations 2005 Directive will be in force in the UK on 1 July 2006 and a working group has been actively ensuring compliance in line with this date.

Disability discrimination

To ensure that we are offering disabled customers the ability to obtain goods and services in just the same way as any other customer we have a special needs section on our retail website (www.carphonewarehouse.com), dedicated phone numbers for our customers, customer care packs containing magnifying glasses and easy-grip pens and billing in a number of formats for the visually impaired. Our corporate website complies 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.

Induction loops have been provided to all stores, and drop counters are now fitted in new stores as standard. Over 90% of our UK stores are 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.

Adult content

We continue to take the risks associated with adult content seriously and have introduced a code of practice in the UK to apply to all Carphone Warehouse branded web channels. As well as clearly classifying content as suitable for adults only, we include prerequisites to purchasing – such as only selling via credit card to ensure that a customer is over 18. This year we aim to introduce guidelines to address the risks associated with children accessing the internet via mobile and to advise parents on how best to set up mobile technology to prevent such access.

Environment

Our stores have a requirement to ensure that all packaging and store waste is returned to our warehouses to be recycled and re-used. The UK

PROTECTING THE ENVIRONMENT AND OUR CUSTOMERS

MAJOR REVIEW OF CARBON EMISSIONS

Corporate Responsibility continued

monthly buyers' guide is made from chlorine free paper and from wood from sustainable forests.

In addition, the Group has made a commitment to ensure that all cleaning products used in its stores and at the Support Centre are non-toxic and eco-friendly. We actively promote non-legislative recycling initiatives encouraging the recycling of paper, toner cartridges, batteries and drinks cans.

Handset recycling

In an era of global warming and dwindling natural resources, we are very concerned with the disposal of redundant mobile handsets and offer a service to dispose of old phones responsibly and raise valuable funds for charity. For every handset received, The Carphone Warehouse is donating £10 to The CPW Charity Partnership.

Funds will be shared between our charity partners. Re-use is the best form of recycling and this is the focus of The Carphone Warehouse Recycling Campaign. If a phone cannot be re-used it will be recycled in accordance with UK and European legislation.

Carbon emissions

The last year saw the start of a major review of our utilities consumption and CO_2 emissions, and the findings of the review are being addressed over the coming months. We will be working with recognised bodies to offset our carbon emissions. As a result, we expect to be the first UK retailer with a zero emission distribution fleet (through offset) during the course of the coming year.

Other specific measures we plan to put in place during the year include:

- Piloting a low carbon emission retail format;
- Reducing carbon emissions across our major sites; and
- Upgrading the distribution fleet and evaluating alternative fuel sources.

Mobile phones and health

Despite new studies in the British Medical Journal declaring that mobile phones are unlikely to damage health we will continue to support research into the effects of mobile phones on health. Additionally, The Carphone Warehouse continues to provide customers with all of the information on mobile phones and health concerns to enable them to make informed decisions. An independent and extensive health fact sheet is available in our stores and on our website. We also continue to list specific absorption rates for every handset in our buyers' guide every month, and on our website.

Board of Directors and Group Advisors

Executive Directors

Charles Dunstone, Chief Executive Officer

Age 41. 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.

Roger Taylor ACA, Chief Financial Officer

Age 41. Chief Financial Officer of the Group since January 2000. He is responsible for controlling the Group's finance function, financial reporting and procedures. He also manages the Group's investor relations and corporate finance function and is responsible for corporate development and strategic initiatives. He became a member of the Sport England Risk and Assurance Committee in 2005 and throughout the period was a Non-Executive Director of Berkeley Scott Group PLC.

James Dale FCA, Executive Chairman of Carphone Warehouse Assurance Limited

Age 66. 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.

David Goldie, Chief Operating Officer, Telecoms

Age 42. Joined the Group in November 2002 and appointed to the Board in July 2005. He has previously been Managing Director of Martin Dawes Telecommunications Limited which was sold to BT Cellnet in 1999, and then Chief Executive Officer of Opal Telecom which was acquired by The Carphone Warehouse in 2002. He is now the Chief Operating Officer of the Telecoms division, responsible for planning and executing the Group's fixed-line telecoms and broadband strategy. He is a Non-Executive Director of Cheshire Building Society.

Andrew Harrison, UK Chief Executive Officer

Age 35. Appointed to the Board in April 2006. He joined the Group in July 1995 as Strategy Manager, and became Commercial Director for the UK in 1998. He was appointed Chief Executive Officer of the UK business of The Carphone Warehouse in July 2001.

Non-Executive Directors

John Gildersleeve, Chairman

Age 61. Joined the Board in June 2000 and became Non-Executive Chairman in July 2005. He was an Executive Director of Tesco PLC until he retired in February 2004. He is Non-Executive Chairman of Gallaher Group PLC and Deputy Chairman of EMI Group PLC. Prior to this he was a Non-Executive Director of Lloyds TSB Bank PLC from 1994 to 1997 and Vodafone Group PLC from 1998 to 2000.

David Ross ACA, Deputy Chairman

Age 40. He became Deputy Chairman in July 2005. Prior to this, he was Chief Operating Officer between 1990 and July 2003 and was responsible for the strategic development of the Group's activities in mainland Europe. He is Non-Executive Chairman of National Express Group PLC and Gondola Holdings PLC. He is also a Non-Executive Director of Trinity Mirror PLC, Big Yellow Group PLC and Cosalt PLC.

Sir Brian Pitman

Age 74. 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.

Adrian Martin

Age 56. Joined the Board in November 2000. He is Chief Executive of Reynolds Porter Chamberlain LLP, a Non-Executive Director of M & C Saatchi PLC and an Independent Director of The Disasters Emergency Committee. Previously he was UK Managing Partner of BDO Stoy Hayward, where he was also Chairman of its International Policy Board.

David Mansfield

Age 52. Joined the Board in September 2005. He was previously Chief Executive of GCap Media plc, the UK's largest commercial radio company. He is also a director of the Radio Advertising Bureau Limited, the Commercial Radio Companies Association, the Digital Radio Development Bureau Limited and Digital Radio Plus Limited. He is currently a member of the Advisory Board of Ingenious Media Active Capital PLC.

Steven Esom

Age 45. Joined the Board in September 2005. He is currently Managing Director of Waitrose, the supermarket division of the John Lewis Partnership. He was appointed Managing Director in 2002 after six years as Director of Buying. Prior to joining Waitrose, he spent the major part of his career in various buying roles with J Sainsbury PLC.

Baroness Morgan of Huyton

Age 46. Joined the Board in November 2005. From November 2001 until May 2005, Sally Morgan was Director of Government Relations at 10 Downing Street. Prior to this she was Political Secretary to the Prime Minister from 1997-2001, and was appointed Minister for Women and Equalities in 2001.

Company Secretary

T S Morris

Board Committees

Audit Committee:
Adrian Martin (Chairman)
Sir Brian Pitman
David Mansfield
Steven Esom
Baroness Morgan

Remuneration Committee:
Sir Brian Pitman (Chairman)
Adrian Martin
David Mansfield
Steven Esom
Baroness Morgan

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

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

UBS
1 Finsbury Avenue
London EC2M 2PP

Registrars
Lloyds TSB Registrars
The Causeway, Worthing
West Sussex BN99 6DA

Auditors
Deloitte & Touche LLP, London

Registered Office
1 Portal Way
London W3 6RS
Registered number: 3253714

Corporate Governance

Introduction

The Board of Directors recognises the importance of high standards of corporate governance. This Report and the Remuneration Report set out on pages 26 to 32 explain that the Company has complied during the period with the principles contained in the Combined Code on Corporate Governance (Code) except as stated to the contrary in this Report.

In accordance with the Listing Rules issued by the Financial Services Authority, 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 35.

Board of Directors

Composition of the Board

There are currently five Executive Directors and seven Non-Executive Directors (including the Non-Executive Chairman and the Non-Executive Deputy Chairman). Biographies of each of the Directors, their responsibilities and Board Committee memberships are set out on page 21.

The following changes to the Board took place during the period. On 28 July 2005 Hans Snook resigned as Non-Executive Chairman, Martin Dawes resigned as Non-Executive Director, David Goldie was appointed as an Executive Director, David Ross moved from an Executive Director to become Non-Executive Deputy Chairman and John Gildersleeve moved from a Non-Executive Director to become Non-Executive Chairman. On this date the Company also announced that with effect from 29 September 2005 David Mansfield would become a new Non-Executive Director and that the Board was actively engaged in attracting additional Non-Executive Directors and expected to make further announcements in due course. Accordingly, on 29 September 2005 Steven Esom was appointed as a new Non-Executive Director and on 1 November 2005 Sally Morgan was appointed as a new Non-Executive Director. On 3 April 2006 Geoffroy Roux de Bezieux resigned as an Executive Director and Andrew Harrison was appointed as an Executive Director.

Following such Board changes, half the Board, excluding the Non-Executive Chairman and Non-Executive Deputy Chairman now comprises independent Non-Executive Directors. The five Non-Executive Directors considered to be independent are Sir Brian Pitman, Adrian Martin, David Mansfield, Steven Esom and Sally Morgan. Consequently between 29 July 2005 and 31 October 2005 half of the Board, excluding the Non-Executive Chairman and Non-Executive Deputy Chairman, were not independent Non-Executive Directors as required by the Code. However the Board had taken all reasonable steps prior to and during this short period to identify and recruit new Non-Executive Directors and it was only a question of appointment dates that led to the short period of not having the requisite number of independent Non-Executive Directors. The Board also believed that the experience of those independent Non-Executive Directors who were on the Board during that short period was such that no individual or small group of individuals could dominate the Board's decision taking. The appointment of David Goldie as an Executive Director was approved at the Annual General Meeting held on 28 July 2005. The appointments of David Mansfield, Steven Esom and Sally Morgan as Non-Executive Directors and the appointment of Andrew Harrison as Executive Director, will be proposed at this year's Annual General Meeting on 27 July 2006 (AGM). Charles Dunstone is the Chief Executive Officer, John Gildersleeve is Non-Executive Chairman, David Ross is Non-Executive Deputy Chairman and Sir Brian Pitman is the Senior Independent Director. All new Directors went through a formal process of induction principally carried out by the Company Secretary.

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 and David Ross 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 David Ross, 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. 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 32.

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). All Directors formally attended these meetings with the exception of Sir Brian Pitman, who was absent for the Board meetings held on 26 May 2005, 27 July 2005 (Strategy Day) and 28 July 2005 and Steven Esom and Geoffroy Roux de Bezieux who were both absent from the meeting held on 30 March 2006. These absences were due to prior engagements that could not be changed. 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 retailing, 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 and documented 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 the 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 collated and analysed by the Company Secretary, who prepared reports as appropriate to the Chairman, the Senior Independent Director, the Chief Executive Officer and 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. The Board proposes that these exercises or similar ones be carried out each year.

Following such performance evaluation the Chairman confirms that all those Non-Executive Directors seeking election or 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 meets regularly with all the independent Non-Executive Directors usually in the evening prior to a Board meeting. This provides the opportunity to raise any questions regarding the performance of the Executive Directors or in respect of any other matters.

The Senior Independent Director also met with the Non-Executive Directors, in the absence of the Chairman, to assess the Chairman's effectiveness, having first reviewed the results of a performance evaluation questionnaire completed by all the Directors apart from the Chairman. 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 32.

Board Committees

There are three key 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. The Board has also recently proposed to create two new Committees dealing specifically with certain compliance matters affecting the Group in the areas of fixed line telephony and insurance. Further details will be given in next year's Annual Report.

Audit Committee

Prior to the changes to the Board detailed earlier in this Report, the Committee comprised the following independent Non-Executive Directors: Adrian Martin (Chairman), John Gildersleeve, Sir Brian Pitman and Martin Dawes. The Committee currently comprises the following independent Non-Executive Directors: Adrian Martin (Chairman), Sir Brian Pitman, David Mansfield, Steven Esom and Sally Morgan. 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 three times during the period. All members, whilst being a Director, attended each meeting, with the exception of Martin Dawes, who was absent from the meeting held on 17 May 2005 because he had a prior engagement that could not be changed. 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.

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 Company'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 Company'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;
- review the Company's arrangements by which employees may raise concerns in confidence;
- monitor and review the effectiveness of the Company'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;

Corporate Governance continued

- 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 Company'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 Company. 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. In order to safeguard the auditors' objectivity and independence, 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:

	2006 £'000	2005 £'000
Audit services:		
– statutory audit	**1,115**	836
– non-statutory audit	**14**	98
Further assurance services	**–**	15
Tax services:		
– compliance services	**7**	10
– advisory services	**115**	150
Other services	**22**	54
Total	**1,273**	1,163

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

Prior to the changes to the Board detailed earlier in this Report, the Committee comprised the following independent Non-Executive Directors: John Gildersleeve (Chairman), Sir Brian Pitman, Martin Dawes and Adrian Martin. The Committee currently comprises the following independent Non-Executive Directors: Sir Brian Pitman (Chairman), Adrian Martin, David Mansfield, Steven Esom and Sally Morgan.

The Committee met formally five times during the period and each member, whilst being a Director, attended every meeting with the exception of Martin Dawes who was absent on the 17 May 2005, Sir Brian Pitman who was absent on the 26 May 2005 and Steven Esom who was absent from the meeting on 30 March 2006. All absences were due to prior engagements that could not be changed. Other Directors, the Company Secretary, the Group Director of Human Resources, the Head of Compensation and Benefits 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 32. 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

Prior to the changes to the Board detailed earlier in this Report, the Committee comprised three independent Non-Executive Directors: Sir Brian Pitman (Chairman), John Gildersleeve, Martin Dawes and David Ross. The Committee currently comprises the following Non-Executive Directors: John Gildersleeve (Chairman), Sir Brian Pitman, Adrian Martin and David Ross. The Committee meets as and when required and met five times formally during the period. Every member, whilst being a Director, attended these meetings with the exception of David Ross who was absent on 29 March 2006 because he had a prior engagement that could not be changed.

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. Spencer Stuart was used as an external search consultancy for the appointment of future independent Non-Executive Directors and their work was carried out in conjunction with potential candidates sourced by the Group directly. The Committee recommended that Sally Morgan, David Mansfield and Steven Esom be appointed as independent Non-Executive Directors. The work of the Committee in respect of the appointment of John Gildersleeve as Non-Executive Chairman was noted in last year's Annual Report.

The Committee did not use an external search consultancy nor open advertising in respect of the appointments of David Goldie and Andrew Harrison, although the Committee did follow the other principles of the Code in leading and making recommendations to the Board. David Goldie and Andrew Harrison were both existing members of senior management

and the Committee determined that their appointments were 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.

All of the above recommendations were unanimously approved by the Board.

Risk management and internal control

The Company has established a risk management programme that assists management throughout the Company 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 Company 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 Company, 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.

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 Company. 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 Combined Code on Corporate Governance (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 27 July 2006.

The Regulations require the Company's auditors to report to the members on the "auditable part" of this Report (marked *) 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 Sir Brian Pitman (Chairman), Adrian Martin, David Mansfield (who was appointed to the Committee on 29 September 2005), Steven Esom (who was appointed to the Committee on 29 September 2005), and Sally Morgan (who was appointed to the Committee on 1 November 2005), all of whom are independent Non-Executive Directors. None of the members of the Committee has any personal financial interest, other than as shareholders, in the matters to be decided by the Committee, no potential conflicts of interest arising from cross-memberships and no day-to-day involvement in running the Group's business.

New Bridge Street Consultants LLP (NBSC) are lead advisors to the Committee and 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 22 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 to the Board 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 the added complexity of the business;
- Pay and conditions throughout the Group as a whole;
- The performance and growth of the Group which is now comparable to companies in the lower end of the FTSE 100.

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. In particular, the Committee has recognised that the complexity of the Group has increased significantly and that the remuneration policy should be adjusted to reflect the calibre of executives needed to continue to develop and grow the business.

The approach is to set fixed remuneration at median levels and to offer variable rewards which are linked to the performance of the Group, which can provide significant overall levels of remuneration for exceptional performance and shareholder value creation. Before long-term incentive share awards are taken into account, approximately 65% of Executive Directors' remuneration earned in the year was performance related. Charles Dunstone does 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, benefits and pension contribution (fixed);
- annual performance bonus (variable);
- share options (variable); and
- Performance Shares (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 2006 will be as follows:
Charles Dunstone £550,000, Roger Taylor £350,000, Jim Dale £185,000 (pro-rated for 4 days), David Goldie £275,000, Andrew Harrison £225,000. The increases over the year reflect very strong Group performance and a further increase in the size of the business and the complexity of the Directors' roles. Executive Directors also receive benefits in respect of cars or car allowances, private medical cover and a defined contribution pension scheme.

In considering the base salary levels, it is recognised that pension contributions to most senior executives are, generally, significantly below market levels.

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 31 March 2007 will have targets based on improvements in Headline EPS (see note 10 to the financial statements) for 80% of the bonus and the successful implementation of Free Broadband for the remaining 20%.

As with the Headline EPS range set for the period ended 1 April 2006, targets set for the forthcoming financial year will require exceptional performance of the Group. The initial threshold for annual bonus will be significantly ahead of the actual Headline EPS achieved in 2006.

In view of the significant strategic challenges in rolling out Free Broadband, the Committee has determined that a significant proportion of all Executive Directors' bonuses should be subject to a range of quantifiable targets relating to the achievement of key operational milestones.

The Remuneration Committee has determined that for the forthcoming financial year the annual bonus potential should be increased from 195% to 200% of base salary and that the threshold for compulsory deferral (into the Annual Deferred Bonus Plan) should only be enforced if Directors do not have a shareholding equivalent to at least 100% of their salary. The gain on any share options vested in the period (net of tax) and the value of any deferred and matching shares earned under the Deferred Annual Bonus Plan will be taken into account for this purpose.

Annual Deferred Bonus Plan

Executive Directors and senior managers 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 challenging annual bonus targets in order to earn a bonus in the first place, 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 1 April 2006 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. David Goldie had 10,958 options available to buy shares in the company under the UK savings-related share option scheme at 1 April 2006. The options are exercisable from 1 August 2006 at an excercise price of £0.73 per share. The options expire on 1 February 2007. No other Executive Director currently participates in the scheme.

Performance Share Plan

During the period ended 2 April 2005, senior managers, including Executive Directors, received awards of Performance Shares (as defined in the Annual General Meeting on 28 July 2004). 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. Further Performance Shares were awarded to certain senior managers in the period ended 1 April 2006. Details of the grants to Executive Directors and the performance targets are set out in the share tables later in the Report.

The Remuneration Committee is currently considering the terms of further grants to be made under the Performance Share Plan for the forthcoming year, which will vest in 2009 and 2010. Grant will be subject to performance and will be made within the limits agreed by shareholders when the Plan was adopted in 2004. The performance conditions applying to awards to Executive Directors will continue to be a mixture of stretching Headline EPS and TSR targets.

Details of the performance conditions for grants under the Performance Share Plan during the forthcoming financial year will be disclosed in next year's Annual Report.

Remuneration Report continued

Aggregate remuneration*

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

Director	Basic salary/fees £'000	Taxable benefits (i) £'000	Annual bonuses (ii) £'000	**2006 Total £'000**	2005 Total £'000
Executive					
J H Dale	126	10	250	**386**	279
C W Dunstone	431	34	878	**1,343**	689
D Goldie	240	14	488	**742**	–
G Roux de Bezieux	274	17	556	**847**	446
R W Taylor	293	14	585	**892**	500
Non-Executive					
M Dawes	9	–	–	**9**	31
S Esom	20	–	–	**20**	–
J Gildersleeve	186	–	–	**186**	35
D Mansfield	20	–	–	**20**	–
A Martin	49	–	–	**49**	45
S Morgan	17	–	–	**17**	–
Sir B Pitman	48	–	–	**48**	35
D Ross	170	8	–	**178**	413
H R Snook	50	–	–	**50**	150
Aggregate emoluments	1,933	97	2,757	**4,787**	2,623

Notes

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

(ii) Annual bonuses for the period ended 1 April 2006 were accrued at the balance sheet date and will be paid in June 2006. For this period, the bonus was based on a range of stretching Headline EPS targets. Headline EPS for the period was 12.38p (an increase of 33.8% over the previous year) which resulted in the maximum bonus of 195% of salary being earned.

The Remuneration Committee is satisfied that this bonus has provided an excellent link between reward and operating performance, and the creation of further shareholder value.

Pension contributions*

The schedule below sets out payments to defined contribution pension schemes on behalf of Executive Directors. Geoffroy Roux de Bezieux and Roger Taylor were members of a UK stakeholder pension scheme. Roger Taylor opted to move to a Self Invested Pension Plan during the year. David Goldie has a fixed amount of salary paid into a defined contribution pension plan. Under the schemes 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 has 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 2006**	£'000 2005
J H Dale	**6**	7
D Goldie	**48**	–
G Roux de Bezieux	**14**	12
R W Taylor	**15**	14
Total	**83**	33

Share options*

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

	At 2 April 2005 or date of appointment	Exercised during the period	At 1 April 2006 or date of resignation	Exercise price per share £	Exercisable from	Expiry date
J H Dale	200,000		200,000	1.50	19/05/2002	19/05/2010
	200,000		200,000	2.00	19/05/2002	19/05/2010
	300,000	(300,000) (v)	–	0.83	11/06/2005	11/06/2012
	222,222		222,222	0.90 (i)	06/06/2006	06/06/2013
	922,222	(300,000)	622,222			
G Roux de Bezieux	3,500,000		3,500,000	1.50	19/05/2002	19/05/2010
	120,000		120,000	1.25	21/05/2004	21/05/2011
	475,000		475,000	0.83	11/06/2005	11/06/2012
	422,222		422,222	0.90 (i)	06/06/2006	06/06/2013
	4,517,222	–	4,517,222			
R W Taylor	250,000		250,000	0.80	14/07/2000	01/02/2010
	500,000		500,000	1.00	14/07/2000	01/02/2010
	200,000		200,000	1.50	19/05/2002	19/05/2010
	200,000		200,000	2.00	19/05/2002	19/05/2010
	240,000		240,000	1.25	21/05/2004	21/05/2011
	500,000		500,000	0.83	11/06/2005	11/06/2012
	444,444		444,444	0.90 (i)	06/06/2006	06/06/2013
	2,334,444	–	2,334,444			
H R Snook	1,000,000		1,000,000	0.80	23/03/2005	23/03/2012
	1,000,000	–	1,000,000			

Notes

(i) Options granted in June 2003 (exercisable from June 2006) 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 to upper quartile performance. No options are exercisable for below median performance. Upper quartile performance has been achieved.

(ii) The TSR calculation is independently calculated for the Remuneration Committee by NBSC.

(iii) 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.

(iv) The market price per share was 309.0p as at 1 April 2006. The market price during the year varied between 132.2p and 327.0p.

(v) Exercised on 29 June 2005 when the market price was 1.81p.

Remuneration Report continued

Performance Shares*

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

			Granted during the period			
Name	Type of award	2 April 2005	Number of shares	Date of award	Share price on date of award £	1 April 2006
J H Dale	Basic	250,000	–	–	–	250,000
	Stretch	250,000	–	–	–	250,000
	Super Stretch	250,000	–	–	–	250,000
D Goldie	Basic	450,000	400,000	12/04/2005	1.62	850,000
	Stretch	450,000	–	–	–	450,000
	Super Stretch	450,000	–	–	–	450,000
G Roux de Bezieux	Basic	450,000	–	–	–	450,000
	Stretch	450,000	–	–	–	450,000
	Super Stretch	450,000	–	–	–	450,000
R W Taylor	Basic	450,000	–	–	–	450,000
	Stretch	450,000	–	–	–	450,000
	Super Stretch	450,000	–	–	–	450,000

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 250 Index over a three year performance period. The remaining 50% of shares will vest in July 2008, subject to the Company'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 vest fully is summarised below:

	TSR	Headline EPS
Basic awards	Outperform FTSE 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 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 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 appropriate adjustment is made to Headline EPS targets set under UK GAAP for the impact of International Financial Reporting Standards.

Executive Directors' service contracts

All Executive Directors and David Ross 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 £69,000, £36,750 and £21,250 respectively. During the period Roger Taylor was a Non-Executive Director of Berkeley Scott Group PLC for which he received £13,750. David Goldie is a Non-Executive Director of The Cheshire Building Society for which he received £24,750.

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

Each of the Non-Executive Directors, except David Ross, has a letter 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 0.1 p		
Director	**1 April 2006**	2 April 2005	Date of contract
C W Dunstone	**298,028,535**	304,578,535	26 June 2000
J H Dale	**168,044**	150,500	30 March 2001
S Esom	**3,500**	–	29 September 2005
J Gildersleeve	**246,000**	246,000	14 April 2005
D Goldie	**1,057,350**	–	1 July 2005
A Harrison	**401,400**	–	3 April 2006
D Mansfield	**500**	–	29 September 2005
A H Martin	**12,461**	12,461	26 May 2005
S Morgan	**1,982**	–	1 November 2005
Sir B Pitman	**14,687**	14,687	26 May 2005
D P J Ross	**193,840,759**	199,840,759	4 July 2002
G Roux de Bezieux	**7,966,740**	9,938,670	26 June 2000
R W Taylor	**1,458,385**	2,276,806	2 March 2000

The following dealings by Directors took place during the period:

On 7 June 2005 C W Dunstone sold 6,000,000 shares.

On 17 June 2005 D P J Ross sold 6,000,000 shares.

On 29 June 2005 J H Dale exercised options and sold 300,000 shares.

On 6 July 2005 C W Dunstone transferred 100,000 shares by way of a gift to certain employees of the Group.

On 7 June 2005, under the Annual Deferred Bonus Plan, R W Taylor was awarded 31,579 shares, G Roux de Bezieux was awarded 28,070 shares and J H Dale was awarded 17,544 shares. These shares will not vest until 1 July 2006.

On 28 July 2005 G Roux de Bezieux sold 2,000,000 shares.

On 27 September 2005 R W Taylor sold 850,000 shares.

On 24 January 2006 S Esom purchased 3,500 shares.

On 1 February 2006 S Morgan purchased 1,982 shares.

On 8 February 2006 C W Dunstone transferred 450,000 shares by way of gift to The Charles Dunstone Charitable Trust.

As potential beneficiaries under the Employee Share Ownership Trust (ESOT), the Executive Directors are deemed to be interested in all of the shares held by the ESOT, which at 1 April 2006 amounted to 14,092,675 shares.

Remuneration Report continued

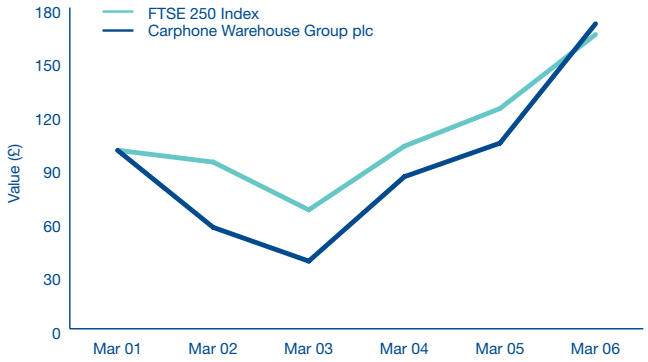
Performance graph

Graph 1 shows the Group's performance compared to the TSR performance of the FTSE 250 Index over the last five financial years. A three month rolling average has been applied.

The FTSE 250 index 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.

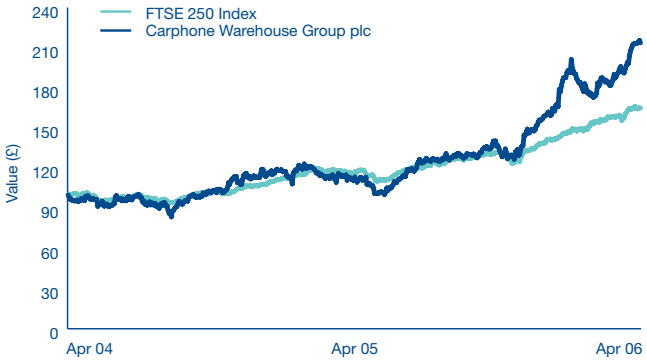
Graph 2 shows similar information as Graph 1 but measured from 1 April 2004, with TSR measured on a daily basis. This graph is relevant as it reflects the TSR performance condition for the 2004 award of Performance Shares.

Graph 1



This graph shows the value, by 1 April 2006, of £100 invested in Carphone Warehouse Group PLC on 31 March 2001 compared with the value of £100 invested in the FTSE 250 Index. Values are calculated on a rolling three month average basis. The other points plotted are the values at intervening financial period-ends.

Graph 2 **Source: Datastream**



This graph shows the value, by 1 April 2006, of £100 invested in Carphone Warehouse Group PLC on 1 April 2004 compared with the value of £100 invested in the FTSE 250 Index. The graph shows daily movements in these values over the period.

This report was approved by the Board on 6 June 2006.

Sir Brian Pitman
6 June 2006

Directors' Report

The Directors have pleasure in presenting the Annual Report and financial statements of The Carphone Warehouse Group PLC for the 52 weeks ended 1 April 2006.

Principal activities and review of the business

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

A detailed review of the business is contained in the Operating and Financial Performance Review on pages 9 to 16 in accordance with s234ZZB of the Companies Act 1985. Our responsibility under s234ZA of the Companies Act have been included in the statement of Directors' Responsibilities set out on page 34.

Results

The profit before taxation for the financial period decreased from £91.9m in the prior period to £81.0m. An interim dividend of 0.75p per share (2005 – 0.55p) was paid in the period. The Directors recommend the payment of a final dividend of 1.75p per share (2005 – 1.25p). Subject to shareholders' approval at the Annual General Meeting, the final dividend will be paid on 4 August 2006 to shareholders on the register at the close of business on 7 July 2006. Details of significant events since the balance sheet date are provided in note 32 to the financial statements.

Directors

The names and brief biographical details of the Directors are shown on page 21. 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 32.

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. Details of the average credit period taken on trade payables are provided in note 18 to the financial statements.

Donations

The Group made charitable donations of £107,000 during the period (2005 – £477,000). 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 notes 22 and 23 to the financial statements.

Property, plant and equipment

Movements in property, plant and equipment are set out in note 13 to the financial statements. In the opinion of the Directors the current open market value of the Group's interests in freehold land and buildings exceeds the book value by £27.9m at 1 April 2006. It is expected that any capital gains would either be covered by capital losses or carried forward for relief against capital expenditure.

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 2006:

	Number of shares	Percentage of share capital
Wellington Management Company LLP	50,458,712	5.7%

The total interests of the Directors are detailed in the Remuneration Report on pages 26 to 32.

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 2006

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 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.

Each of the persons who is a Director at the date of approval of this Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Financial Statements

Independent Auditors' Report

Independent Auditors' Report to the members of The Carphone Warehouse Group PLC

We have audited the Group financial statements of The Carphone Warehouse Group PLC for the 52 weeks ended 1 April 2006 which comprise the consolidated income statement, consolidated statement of changes in equity, consolidated balance sheet, the consolidated cash flow statement and the related notes 1 to 32. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration Report that is described as having been audited.

We have reported separately on the individual Company financial statements of The Carphone Warehouse Group PLC.

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

The Directors' responsibilities for preparing the Annual Report, the Remuneration Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements and the part of the Remuneration Report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the Group financial statements and the part of the Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements. We also report to you if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' transactions with the Company and other members of the Group is not disclosed.

We also report to you if, in our opinion, the Company has not complied with any of the four directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long-term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 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 statement on internal control covers 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 Remuneration Report and we consider the implications for our Report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements and the part of the 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 Group 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 Group financial statements and the part of the 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 Group financial statements and the part of the Remuneration Report described as having been audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the Group's affairs as at 1 April 2006 and of its profit for the 52 week period then ended; and
- the Group financial statements and the part of the Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Group financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

6 June 2006

Consolidated Income Statement

For the 52 weeks ended 1 April 2006

	Notes	Before amortisation of acquisition intangibles, goodwill expense and reorganisation costs 52 weeks ended 1 April 2006 £'000	Amortisation of acquisition intangibles, goodwill expense and reorganisation costs (see note 10) 52 weeks ended 1 April 2006 £'000	After amortisation of acquisition intangibles, goodwill expense and reorganisation costs 52 weeks ended 1 April 2006 £'000	Before amortisation of acquisition intangibles and goodwill expense 53 weeks ended 2 April 2005 £'000	Amortisation of acquisition intangibles and goodwill expense (see note 10) 53 weeks ended 2 April 2005 £'000	After amortisation of acquisition intangibles and goodwill expense 53 weeks ended 2 April 2005 £'000
Revenue							
Existing operations		**2,922,073**		**2,922,073**	2,355,093		2,355,093
Acquisitions	2	**124,330**		**124,330**	–		–
	2	**3,046,403**		**3,046,403**	2,355,093		2,355,093
Cost of sales	2	**(2,063,021)**		**(2,063,021)**	(1,630,936)		(1,630,936)
Gross profit	2	**983,382**		**983,382**	724,157		724,157
Operating expenses excluding amortisation and depreciation	2,3,4	**(740,892)**	**(22,288)**	**(763,180)**	(550,808)	–	(550,808)
EBITDA		**242,490**	**(22,288)**	**220,202**	173,349	–	173,349
Depreciation	2,3	**(49,585)**		**(49,585)**	(40,792)		(40,792)
Amortisation	2,3,4	**(51,127)**	**(30,955)**	**(82,082)**	(27,309)	(7,506)	(34,815)
Goodwill expense	2,3	**–**	**(1,825)**	**(1,825)**	–	(958)	(958)
Operating profit		**141,778**	**(55,068)**	**86,710**	105,248	(8,464)	96,784
Existing operations	2	**129,512**	**(20,407)**	**109,105**	105,248	(8,464)	96,784
Acquisitions	2	**12,266**	**(34,661)**	**(22,395)**	–	–	–
Profit before interest and taxation	2,3	**141,778**	**(55,068)**	**86,710**	105,248	(8,464)	96,784
Interest payable	7	**(13,799)**		**(13,799)**	(10,748)		(10,748)
Interest receivable	7	**8,090**		**8,090**	5,903		5,903
Profit before taxation		**136,069**	**(55,068)**	**81,001**	100,403	(8,464)	91,939
Taxation	8	**(26,670)**	**16,210**	**(10,460)**	(19,394)	1,361	(18,033)
Net profit for the financial period		**109,399**	**(38,858)**	**70,541**	81,009	(7,103)	73,906
Earnings per share							
Basic	11	**12.38p**		**7.99p**	9.25p		8.44p
Diluted	11	**11.65p**		**7.51p**	8.86p		8.08p

The accompanying notes are an integral part of this consolidated income statement. All amounts relate to continuing operations.

Consolidated Statement of Changes in Equity

For the 52 weeks ended 1 April 2006

	Notes	52 weeks ended 1 April 2006 £'000	53 weeks ended 2 April 2005 £'000
At the beginning of the period		**547,959**	480,728
Adoption of IAS32 and IAS39	30	**(7,741)**	–
At 3 April 2005		**540,218**	480,728
Net profit for the financial period		**70,541**	73,906
Currency translation	23	**(3,644)**	5,718
Tax on items recognised directly in reserves	23	**19,597**	1,996
Net change in available-for-sale investments	23	**4,236**	–
Issue of share capital	23	**10,684**	2,750
Net purchase of own shares	23	**(15,851)**	(8,064)
Cost of share-based payments	6,23	**10,665**	3,608
Equity dividends	9,23	**(17,443)**	(12,683)
At the end of the period		**619,003**	547,959

The accompanying notes are an integral part of this consolidated statement of changes in equity.

Consolidated Balance Sheet

As at 1 April 2006

	Notes	1 April 2006 £'000	2 April 2005 £'000
Non-current assets			
Goodwill	12	**568,630**	452,023
Other intangible assets	12	**159,274**	69,369
Property, plant and equipment	13	**241,744**	198,220
Non-current asset investments	14	**10,264**	6,069
Deferred tax assets	8	**34,938**	4,570
		1,014,850	730,251
Current assets			
Stock	15	**138,047**	95,185
Trade and other receivables	16	**554,472**	353,890
Current asset investments	17	**5,233**	60,468
Cash and cash equivalents	19	**98,093**	41,576
		795,845	551,119
Total assets		**1,810,695**	1,281,370
Current liabilities			
Trade and other payables	18	**(642,009)**	(458,685)
Corporation tax liabilities		**(42,669)**	(37,556)
Loans and other borrowings	19	**(56,733)**	(71,994)
Provisions	21	**(123,538)**	(57,829)
		(864,949)	(626,064)
Non-current liabilities			
Trade and other payables	18	**(6,689)**	(4,753)
Loans and other borrowings	19	**(320,054)**	(98,494)
Deferred tax liabilities	8	**–**	(4,100)
		(326,743)	(107,347)
Total liabilities		**(1,191,692)**	(733,411)
Total assets and liabilities		**619,003**	547,959
Equity			
Share capital	22,23	**888**	877
Share premium reserve	23	**418,359**	402,136
Capital redemption reserve	23	**30**	30
Translation reserve	23	**2,074**	5,718
Accumulated profits	23	**197,652**	139,198
Funds attributable to equity shareholders		**619,003**	547,959

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

The financial statements on pages 36 to 66 were approved by the Board on 6 June 2006 and signed on its behalf by:

C W Dunstone
Chief Executive Officer

R W Taylor
Chief Financial Officer

Consolidated Cash Flow Statement

For the 52 weeks ended 1 April 2006

	Notes	52 weeks ended 1 April 2006 £'000	53 weeks ended 2 April 2005 £'000
Operating activities			
Operating profit		**86,710**	96,784
Adjustments for non-cash items:			
Share-based payments		**10,665**	3,608
Depreciation		**49,585**	40,792
Amortisation (before reorganisation costs)		**69,125**	34,815
Goodwill expense		**1,825**	958
Reorganisation costs		**35,245**	–
Operating cash flows before movements in working capital		**253,155**	176,957
(Profit) loss on disposal of property, plant and equipment and intangible assets		**(1,013)**	482
Increase in trade and other receivables		**(138,086)**	(81,523)
Increase in stock		**(41,359)**	(14,745)
Increase in trade and other payables		**95,440**	66,632
Increase in provisions		**28,228**	20,810
Cash generated from operations		**196,365**	168,613
Taxation paid		**(13,739)**	(11,641)
Net cash generated from operating activities		**182,626**	156,972
Investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		**2,540**	1,363
Acquisition of subsidiaries, net of cash acquired	14	**(157,835)**	(35,300)
Interest paid		**(13,799)**	(10,748)
Interest received		**8,090**	5,903
Acquisition of intangible assets		**(104,710)**	(53,782)
Acquisition of property, plant and equipment		**(89,425)**	(71,988)
Acquisition of non-current asset investments		**(1,659)**	(172)
Cash flows from investing activities		**(356,798)**	(164,724)
Financing activities			
Proceeds from the issue of share capital		**10,684**	2,750
Net purchase of own shares		**(15,851)**	(8,064)
Increase in borrowings		**197,625**	22,866
Receipts from (payments to acquire) current asset investments		**56,619**	(49,663)
Dividends paid		**(17,443)**	(12,683)
Cash flows from financing activities		**231,634**	(44,794)
Net increase (decrease) in cash and cash equivalents		**57,462**	(52,546)
Cash and cash equivalents at the start of the period		**19,352**	71,638
Effect of exchange rate fluctuations		**143**	260
Cash and cash equivalents at the end of the period	24	**76,957**	19,352
Cash and cash equivalents for the purposes of this statement comprise:			
Cash and cash equivalents	19	**98,093**	41,576
Bank overdrafts	19	**(21,136)**	(22,224)
		76,957	19,352

Notes to the Financial Statements

1 Accounting policies

a) Basis of preparation

The Carphone Warehouse Group PLC (the Company) is a company incorporated in the United Kingdom.

The consolidated financial statements of The Carphone Warehouse Group PLC and all of its subsidiaries (the Group) have been prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements are the first annual financial statements that the Group has prepared in accordance with IFRS and consequently the Group has complied with IFRS1 'First-time Adoption of International Financial Reporting Standards'. The Company continues to apply UK GAAP in the preparation of its individual financial statements, which are contained on pages 68 to 72.

The Group's date of transition to IFRS is 28 March 2004 and comparative information in the financial statements is restated to reflect the Group's adoption of IFRS except where otherwise required or permitted by IFRS1. IFRS1 requires an entity to comply with each IFRS effective at the reporting date for its first financial statements prepared under IFRS. As a general rule, IFRS1 requires such standards to be applied retrospectively. However, the standard allows several optional exemptions from full retrospective application. The Group has elected to take advantage of the following exemptions:

- The Group has adopted IFRS3 'Business Combinations' to the extent that it applies to acquisitions post 28 March 2004. Acquisitions before that date are recorded as under previous accounting rules as the Group has taken advantage of the exemption allowed in IFRS1 regarding business combinations recognised before the date of transition to IFRS. All goodwill and intangible assets will be tested for impairment, as required by IAS36 'Impairment of Assets', goodwill on an annual basis and other intangible assets when there is an indicator of impairment. In addition, the Group has taken advantage of the exemption allowed in IFRS1 not to apply IAS21 'The Effects of Changes in Foreign Exchange Rates' retrospectively to fair value adjustments and goodwill arising in business combinations that occurred before the date of transition to IFRS.
- The Group has elected to take advantage of the exemption allowed in IFRS1 regarding cumulative translation differences. Accordingly, the cumulative translation differences for all foreign operations are deemed to be nil at the date of transition to IFRS.
- The Group has elected to apply the exemptions in IAS32 'Financial Instruments: Disclosure and Presentation' and IAS39 'Financial Instruments: Recognition and Measurement' allowing the application of these standards from 3 April 2005 only.
- The Group has elected to take advantage of the exemptions allowed in IFRS1 regarding IFRS2 'Share-based Payment'. The Group has applied the exemptions for share-based payments granted on or before 7 November 2002.
- The Group has elected to take advantage of the exemptions allowed in IFRS1 regarding IFRS4 'Insurance Contracts', allowing the application of this standard from 3 April 2005 only.

The reconciliations required by IFRS1 are set out in note 29. Specifically, note 29 provides reconciliations of the Group's net assets as prepared under UK GAAP to those prepared in accordance with IFRS as at 28 March 2004 (the opening balance sheet as at the date of transition to IFRS) and 2 April 2005 as well as a reconciliation of the Group's profit prepared under UK GAAP to that prepared in accordance with IFRS for the period ended 2 April 2005.

These financial statements have been prepared in accordance with IFRS as adopted for use in the European Union and as applied in accordance with the provisions of the Companies Act 1985, and therefore comply with Article 4 of the European Union International Accounting Standard regulation.

At the date of authorisation of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

- IFRS7 'Financial Instruments Disclosures', and the related amendment to IAS1 'Presentation of financial statements' on capital disclosures.
- IFRIC4 'Determining Whether an Arrangement Contains a Lease'.
- IFRIC8 'Scope of IFRS2'.
- IFRIC9 'Reassessment of Embedded Derivatives'.
- 2005 amendments to IAS21 'Net Investment in a Foreign Entity'.
- 2005 revisions to IAS39 for fair value options and guarantees.

The Directors anticipate that the adoption of these standards and interpretations will have no material impact on the financial statements of the Group.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The Group's principal accounting policies are set out below.

b) Basis of consolidation

The consolidated financial statements incorporate the results of the Group to 1 April 2006. The results of subsidiaries acquired or sold during the period are included from or to the date on which control passed. Intercompany transactions and balances are eliminated on consolidation.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring accounting policies used into line with those used by the Group.

c) Foreign currency translation

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 and are retranslated at each balance sheet date. Hedge accounting as defined by IAS39 has not been applied in either period.

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. Goodwill is held in the currency of the operations to which it relates. Exchange differences arising on the translation of opening net assets, goodwill and results of overseas operations are dealt with through the translation reserve. All other exchange differences are included in the income statement.

The principal exchange rates against Sterling used in these financial statements are as follows:

	Average 52 weeks ended 1 April 2006	Average 53 weeks ended 2 April 2005	**Closing 1 April 2006**	Closing 2 April 2005
Euro	**1.4644**	1.4680	**1.4333**	1.4573
Swedish Krona	**13.6833**	13.3756	**13.5185**	13.3519
Swiss Franc	**2.2737**	2.2615	**2.2668**	2.2629

In the event that a foreign operation is sold, the gain or loss on disposal recognised in the income statement is determined after taking into account the cumulative currency translation differences that are attributable to the operation.

Notes to the Financial Statements continued

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

Distribution:
Distribution revenue comprises revenue generated from the sale of mobile communication products and services, commission 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 lives 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 lives of the relevant policies.
- All other revenue is recognised when the relevant goods or services are provided.

Telecoms Services:
Telecoms Services revenue 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 lives of the relevant customers.

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

e) Share-based payments
The Group issues equity settled share-based payments to certain employees. Equity settled share-based payments are measured at fair value at the date of grant, and expensed over the vesting period, based on the Group's estimate of the number of shares that will eventually vest.

Fair value is measured by use of a Binomial model for share-based payments with internal performance criteria (such as Earnings Per Share targets) and a Monte Carlo model for those with external performance criteria (such as Total Shareholder Return targets).

For schemes with internal performance criteria, the number of options expected to vest is recalculated at each balance sheet date, based on expectations of performance against target and of leavers prior to vesting. The movement in cumulative expense since the previous balance sheet is recognised in the income statement, with a corresponding entry in reserves.

For schemes with external performance criteria, the number of options expected to vest is adjusted only for expectations of leavers prior to vesting. The movement in cumulative expense since the previous balance sheet is recognised in the income statement, with a corresponding entry in reserves.

f) Pensions
Contributions to defined contribution schemes are charged to the income statement as they become payable in accordance with the rules of the scheme.

g) Dividends
Dividend income is recognised when payment has been received. Final dividend distributions are recognised as a liability in the financial statements in the period in which they are approved by the Group's shareholders. Interim dividends are recognised in the period in which they are paid.

h) Leases
Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Lease incentives and rent-free periods are amortised through the income statement over the period of the lease.

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

Deferred tax is provided in full on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base.

Deferred tax liabilities represent tax payable in future periods in respect of taxable temporary differences. Deferred tax assets represent tax recoverable in future periods in respect of deductible temporary differences, the carry-forward of unused tax losses and credits. Deferred tax is determined using the tax rates that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax is provided on the unremitted earnings of overseas subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Current and deferred tax is recognised in the income statement except where it relates to an item recognised directly in reserves, in which case it is recognised directly in reserves.

Deferred tax assets and liabilities are offset where there is a legal right to do so in the relevant jurisdictions.

j) Intangible assets
Goodwill:
Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is recognised initially as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. At the acquisition date, goodwill is allocated to each of the cash-generating units (CGUs) expected to benefit from the combination and held in the currency of the operations to which the goodwill relates. Goodwill is reviewed at least annually for impairment, or more frequently where there is an indication that goodwill may be impaired. Impairment is determined by assessing the future cash flows of the CGUs to which the goodwill relates. Where the future cash flows are less than the carrying value of goodwill, an impairment charge is recognised in the income statement.

On disposal of a subsidiary undertaking, the relevant goodwill is included in the calculation of the profit or loss on disposal.

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 as an intangible asset, to the extent that they are supported by expected future cash inflows, and amortised on a straight-line basis through operating expenses in the income statement over the minimum subscription period. Subscriber acquisition

costs for customers with no minimum subscription commitment are reflected in operating expenses as incurred.

Software and licenses:
Software and licenses include internal infrastructure and design costs incurred in the development of software for internal use. Internally generated software is recognised as an intangible asset only if it can be separately identified, it is probable that the asset will generate future economic benefits, and the development cost can be measured reliably. Where these conditions are not met, development expenditure is recognised as an expense in the period in which it is incurred. Software and licenses are amortised on a straight-line basis over their estimated useful economic lives of up to 8 years.

Key money:
Key money paid to enter a property is stated at cost, net of amortisation and any provision for impairment. Amortisation is provided on key money at rates calculated to write off the cost, less estimated residual value, on a straight-line basis over 10 years or the lease term if less.

Acquisition intangibles:
Acquired intangible assets (acquisition intangibles), such as customer bases acquired through a business combination, are capitalised separately from goodwill and amortised over their useful lives of up to 5 years on a straight-line basis. The value attributed to such assets is based on the future economic benefit that is expected to be derived from them.

k) Property, plant and equipment
Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all property, plant and equipment 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, network and office equipment	12.5-50% per annum
Fixtures and fittings	20-25% per annum
Motor vehicles	25% per annum

l) Recoverable amount of non-current assets
At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down through an accelerated amortisation charge to its recoverable amount. The recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets or groups of assets.

m) Investments
All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

The Group adopted IAS32 'Financial Instruments: Disclosure and Presentation' and IAS39 'Financial Instruments: Recognition and Measurement' from 3 April 2005, as a result of which the Group's investments are categorised as available-for-sale and recorded at fair value from this date.

Changes in fair value, together with any related deferred tax, are taken directly to reserves, and recycled to the income statement when the investment is sold or is determined to be impaired.

n) 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.

o) Cash and cash equivalents
Cash and cash equivalents represent cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash.

p) Loans and other borrowings
Loans and other borrowings represent bank overdrafts, uncommitted bank loans, committed loans and loan notes issued by the Group.

Bank fees and legal costs associated with the securing of external financing are capitalised as prepayments and amortised over the term of the relevant loan. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

q) Financial instruments
The Group uses forward currency contracts to reduce its exposure to exchange rate fluctuations. From 3 April 2005, such contracts are measured at their fair value based on contracted exchange rates. Hedge accounting as defined by IAS39 has not been applied to the financial statements in either period and changes in fair value are recognised in the income statement.

r) Provisions
Provisions are recognised when the Group has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are discounted where the time value of money is considered to be material.

Provisions are categorised as follows:

Insurance:
Full provision is made for the estimated cost of all claims notified but not settled at the balance sheet date. Provision is also made for the estimated cost of claims incurred but not reported at the balance sheet date, based on historic experience of the value of such claims.

Reorganisation:
Reorganisation provisions are only recognised where plans are demonstrably committed and where appropriate communication to those affected has been undertaken at the balance sheet date. Provisions are not recognised in respect of future operating losses.

Sales:
Sales provisions relate to "cash-back" and similar promotions, product warranties, product returns, and network operator performance penalties. The anticipated costs of these items are assessed by reference to historic trends and any other information that is considered to be relevant.

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, and costs associated with onerous contracts. All such provisions are assessed by reference to the best available information at the balance sheet date.

s) Use of critical accounting estimates and assumptions
Estimates and assumptions used in the preparation of the financial statements

Notes to the Financial Statements continued

are continually reviewed and revised as necessary. While every effort is made to ensure that such estimates and assumptions are reasonable, by their nature they are uncertain, and as such changes in estimates and assumptions may have a material impact on the financial statements.

The principal balances in the financial statements where changes in estimates and assumptions may have a material impact are as follows:

Subscriber acquisition costs:
Estimates made in relation to future cash inflows and to rates of in-contract churn are based on the best information available at the balance sheet date, but such estimates may differ from actual results.

Recoverable amount of non-current assets:
All non-current assets, including goodwill and other intangible assets, are reviewed for potential impairment using estimates of future economic benefits attributable to them. Such estimates may differ from the benefits that ultimately arise, and materially affect the recoverable value of the asset.

Trade and other receivables:
Provisions for irrecoverable receivables are based on extensive historic evidence, and the best available information in relation to specific issues, but are nevertheless inherently uncertain.

Current taxation:
The complex nature of tax legislation across the tax jurisdictions in which the Group operates necessitates the use of many estimates and assumptions, where the outcome may differ from that assumed.

Deferred taxation:
The extent to which tax losses can be utilised depends on the extent to which taxable profits are generated in the relevant jurisdictions in the foreseeable future, and on the tax legislation then in force, and as such the value of associated deferred tax assets is uncertain.

Provisions:
The Group's reorganisation provisions are based on the best information available to management at the balance sheet date. However, the future costs assumed are inevitably only estimates, which may differ from those ultimately incurred.

Sales provisions are based on historic patterns: of redemption for promotions, product return rates for returns and warranties, and penalty rates from network operators. The Group has extensive data in all areas; however, if the historic patterns on which the provisions are based change significantly in the future, the financial statements may be materially impacted.

Provisions relating to the disposal of excess property necessitate assumptions in respect of period to disposal and exit costs, which may differ from the ultimate cost of disposal.

2 Segmental reporting

Divisional results are analysed as follows:

	Revenue		Profit before interest and taxation	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000
Headline (see note 10)				
Retail	**1,375,501**	1,160,228	**127,485**	100,884
Online	**203,481**	128,238	**14,729**	7,684
Insurance	**116,054**	101,977	**45,536**	35,018
Ongoing	**58,447**	46,527	**58,447**	46,527
Contribution			**246,197**	190,113
Support costs			**(84,153)**	(71,462)
Depreciation			**(35,700)**	(29,778)
Amortisation			**(10,860)**	(5,638)
Distribution	**1,753,483**	1,436,970	**115,484**	83,235
Fixed	**666,687**	426,290	**61,055**	34,303
Mobile	**459,773**	377,749	**48,414**	45,314
Contribution			**109,469**	79,617
Support costs			**(29,703)**	(24,963)
Depreciation			**(13,231)**	(10,402)
Amortisation			**(40,143)**	(21,590)
Telecoms Services	**1,126,460**	804,039	**26,392**	22,662
Dealer	**188,376**	131,952	**2,102**	1,513
Contribution			**2,102**	1,513
Support costs			**(1,422)**	(1,469)
Depreciation			**(654)**	(612)
Amortisation			**(124)**	(81)
Dealer	**188,376**	131,952	**(98)**	(649)
Statutory				
Headline Distribution	**1,753,483**	1,436,970	**115,484**	83,235
Goodwill expense			**(1,825)**	(958)
Reorganisation costs (see note 4)			**(4,445)**	–
Distribution	**1,753,483**	1,436,970	**109,214**	82,277
Headline Telecoms Services	**1,126,460**	804,039	**26,392**	22,662
Amortisation of acquisition intangibles			**(17,998)**	(7,506)
Reorganisation costs (see note 4)			**(30,800)**	–
Telecoms Services	**1,126,460**	804,039	**(22,406)**	15,156
Dealer	**188,376**	131,952	**(98)**	(649)
Elimination of intra-group transactions	**(21,916)**	(17,868)	**–**	–
Total Group	**3,046,403**	2,355,093	**86,710**	96,784

The segmental reporting divisions presented above are based on the Group's internal management and reporting structure. Transactions between segments are on an arm's length basis and support costs are allocated to segments based on the extent to which they relate to the relevant business streams.

Notes to the Financial Statements continued

2 Segmental reporting continued

Divisional capital expenditure, assets and liabilities are analysed as follows:

	2006				2005			
	Capital expenditure* £'000	**Assets £'000**	**Liabilities £'000**	**Net assets £'000**	Capital expenditure* £'000	Assets £'000	Liabilities £'000	Net assets £'000
Distribution	**94,442**	**1,068,253**	**(767,693)**	**300,560**	68,497	779,097	(443,380)	335,717
Telecoms Services	**99,693**	**742,442**	**(423,999)**	**318,443**	57,273	502,273	(290,031)	212,242
Total Group	**194,135**	**1,810,695**	**(1,191,692)**	**619,003**	125,770	1,281,370	(733,411)	547,959

*Includes expenditure on property, plant and equipment and intangible assets, excluding goodwill and acquisition intangibles.

Capital expenditure, assets and liabilities associated with the Dealer division are not separable from those of Distribution, and are therefore reported within that division.

Details of the locations of the Group's operations are provided in the Group Overview at the front of the Annual Report.

Results by geographical location are analysed by origin as follows:

	Revenue		**Capital expenditure***		**Total assets**	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000	**2006 £'000**	2005 £'000
United Kingdom	**1,820,057**	1,358,580	**99,010**	75,368	**1,098,764**	693,585
France	**205,792**	169,158	**11,347**	7,074	**200,931**	161,936
Germany	**396,842**	334,143	**54,792**	27,146	**167,073**	143,473
Spain	**254,364**	186,671	**11,632**	8,193	**143,496**	110,860
Other	**369,348**	306,541	**17,354**	7,989	**200,431**	171,516
Rest of Europe	**1,226,346**	996,513	**95,125**	50,402	**711,931**	587,785
Total Group	**3,046,403**	2,355,093	**194,135**	125,770	**1,810,695**	1,281,370

*Includes expenditure on property, plant and equipment and intangible assets, excluding goodwill and acquisition intangibles.

The difference between revenue by destination and revenue by origin is not material.

The information above includes the following amounts in respect of material acquisitions, all of which were in the United Kingdom, during the period:

	Revenue £'000	**Profit (loss) before taxation £'000**	**Total assets £'000**
Distribution	**12,835**	**343**	**5,391**
Telecoms Services	**111,495**	**(25,182)**	**159,858**
	124,330	**(24,839)**	**165,249**

Details of acquisitions are given in note 14.

The results of material acquisitions are analysed as follows:

			2006	2005
	Existing operations £'000	**Acquisitions £'000**	**Total £'000**	Total £'000
Revenue	**2,922,073**	**124,330**	**3,046,403**	2,355,093
Cost of sales	**(1,982,639)**	**(80,382)**	**(2,063,021)**	(1,630,936)
Gross profit	**939,434**	**43,948**	**983,382**	724,157
Depreciation	**(47,608)**	**(1,977)**	**(49,585)**	(40,792)
Amortisation	**(69,709)**	**(12,373)**	**(82,082)**	(34,815)
Goodwill expense	**(1,825)**	**–**	**(1,825)**	(958)
Reorganisation costs (see note 4)	**–**	**(22,288)**	**(22,288)**	–
Other operating expenses	**(711,187)**	**(29,705)**	**(740,892)**	(550,808)
Operating profit	**109,105**	**(22,395)**	**86,710**	96,784

3 Profit before interest and taxation

a) Profit before interest and taxation is stated after charging:

	2006 £'000	2005 £'000
Depreciation of property, plant and equipment (see note 13)	**49,585**	40,792
Amortisation of acquisition intangibles (see note 12)	**17,998**	7,506
Amortisation of other intangible fixed assets (before reorganisation costs) (see notes 4 and 12)	**51,127**	27,309
Goodwill expense (see note 12)	**1,825**	958
Amounts written off stock	**12,324**	9,144
Share-based payments (see note 6)	**10,665**	3,608
Other employee costs (see note 5)	**393,023**	289,775
Rentals under operating leases – property	**71,885**	57,975
Auditors' remuneration for audit services	**1,129**	934
Auditors' remuneration for non-audit services	**144**	214

Further auditors' remuneration of £15,000 in respect of due diligence was capitalised within the cost of investments in the previous period.

A more detailed analysis of auditors' remuneration is provided in the Corporate Governance Report on pages 22 to 25.

b) Analysis of operating expenses

	2006 £'000	2005 £'000
Operating expenses excluding amortisation and depreciation	**763,180**	550,808
Depreciation	**49,585**	40,792
Amortisation	**82,082**	34,815
Goodwill expense	**1,825**	958
Total operating expenses	**896,672**	627,373

4 Reorganisation costs

The following items have been shown separately given their size or one-off nature:

	Note	2006 £'000	2005 £'000
Reorganisation costs	a	**22,288**	–
Accelerated amortisation	b	**12,957**	–
		35,245	–

a) As detailed in note 14, the Group acquired Onetel in December 2005. Since then, the Group has commenced a reorganisation programme to integrate Onetel with the rest of the Group. The costs of this integration are estimated at £22.3m, comprising the following:

	£'000
Redundancy and other employee costs	11,934
Contract termination costs	4,977
Network and customer migration costs	4,919
Other	458
	22,288

b) The substantial customer growth achieved through the acquisition of Onetel and Tele2 UK, together with the Group's major investment plans in respect of local loop unbundling and billing platforms, prompted a review during the period of the Group's systems and network infrastructure.

This review represented a consideration of the extent to which the carrying value of the Group's assets should be reduced either because they have no further use or because their useful economic lives have reduced significantly. The result of this review was an accelerated or one-off amortisation charge in respect of the following assets:

	£'000
Billing infrastructure and customer management systems	8,908
Other	4,049
	12,957

Both these items are expected to attract tax relief at 30% and accordingly a tax credit of £10.6m has been recognised at 1 April 2006.

Notes to the Financial Statements continued

5 Employee costs

The average monthly number of employees (including Executive Directors) was:

	2006 Number	2005 Number
Administration	**2,501**	1,953
Distribution and sales	**12,762**	10,305
	15,263	12,258

Their aggregate remuneration (including Executive Directors) comprised:

	2006 £'000	2005 £'000
Wages and salaries	**338,833**	249,134
Social security costs	**51,343**	38,735
Other pension costs	**2,847**	1,906
	393,023	289,775
Share-based payments (see note 6)	**10,665**	3,608
	403,688	293,383

In addition to the costs recognised in the income statement, employee costs of £22.2m were capitalised in the period in relation to internally generated software (2005 – £13.2m).

A further £1.5m of employee costs were incurred in the period and offset against the reorganisation provision arising from the Onetel acquisition (see note 4).

Compensation earned by key management, comprising the Executive Directors and other employees who serve on the Executive Committee, was as follows:

	2006 £'000	2005 £'000
Salaries and fees	**3,219**	2,741
Performance bonuses	**3,632**	4,736
Benefits	**182**	111
Pension costs	**181**	72
Share-based payments	**2,313**	591
	9,527	8,251

Details of Directors' remuneration are provided in the Remuneration Report on pages 26 to 32.

At 1 April 2006 loans of £1.1m (2005 – £1.0m) were outstanding from certain Group executives, none of whom was a Director of the Company.

6 Share-based payments

The Group issues equity settled share-based payments to certain employees, through the following schemes:

a) Performance Share Plan:

During the period the Group made awards of nil cost options under a Performance Share Plan. These awards are subject to a mixture of Headline earnings per share (see note 11) and Total Shareholder Return (TSR) performance targets measured over a three or four year performance period. Details of the performance targets are provided in the Remuneration Report on pages 26 to 32. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest.

The following table illustrates the number and weighted average exercise prices (WAEP) of share options for the scheme:

	2006		2005	
	Number 000's	WAEP £	Number 000's	WAEP £
Outstanding at the beginning of the period	**27,870**	**–**	–	–
Granted during the period	**2,955**	**–**	27,870	–
Forfeited during the period	**(1,392)**	**–**	–	–
Outstanding at the end of the period	**29,433**	**–**	27,870	–
Exercisable at the end of the period	**–**	**–**	–	–

The options outstanding at 1 April 2006 had a weighted average remaining contractual life of 8.9 years (2005 – 9.8 years).

6 Share-based payments continued

b) Executive Share Option Scheme:

The Group has an Executive Share Option Scheme which provides for a grant price equal to the average quoted market price of the Company's shares on the date of the grant. Options granted from June 2002 are subject to TSR performance conditions as described in the Remuneration Report on pages 26 to 32. The vesting period is generally three years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest.

The following table illustrates the number and WAEP of share options for the scheme:

	2006		2005	
	Number 000's	**WAEP £**	Number 000's	WAEP £
Outstanding at the beginning of the period	**47,826**	**1.04**	52,497	1.03
Granted during the period	**100**	**1.35**	–	–
Forfeited during the period	**(826)**	**0.90**	(1,342)	0.97
Exercised during the period	**(14,541)**	**1.05**	(3,329)	0.87
Outstanding at the end of the period	**32,559**	**1.05**	47,826	1.04
Exercisable at the end of the period	**20,276**	**1.13**	21,024	1.27

The options outstanding at 1 April 2006 had a weighted average remaining contractual life of 5.8 years (2005 – 6.7 years). The options exercised during the period were exercised at a weighted average market price of £1.95 (2005 – £1.61).

Share options outstanding at the end of the period have the following exercise prices:

Expiry date	Exercise price £	**2006 Number 000's**	2005 Number 000's
01/04/09	0.25	**560**	580
01/04/09	0.50	**230**	260
02/04/09	0.80	**667**	667
02/04/09	1.00	**167**	167
02/04/09	1.00	**167**	167
25/07/09	0.25	**–**	10
25/07/09	0.50	**70**	290
06/10/09	0.50	**60**	120
01/02/10	0.80	**250**	500
01/02/10	0.80	**100**	200
01/02/10	1.00	**650**	1,000
01/02/10	1.00	**200**	200
19/05/10	1.50	**4,543**	5,760
19/05/10	2.00	**600**	600
24/06/10	1.50	**2,000**	4,000
21/05/11	1.25	**2,847**	5,072
01/12/11	1.30	**115**	431
25/03/12	0.80	**1,000**	1,000
11/06/12	0.83	**5,981**	13,662
28/11/12	0.86	**70**	70
06/05/13	0.90	**11,852**	12,740
07/11/13	1.35	**430**	330
		32,559	47,826

The summary above includes 20.2m (2005 – 34.7m) options that were granted before 7 November 2002. In accordance with IFRS2 'Share-based Payment', no cost has been recognised in respect of these options.

Notes to the Financial Statements continued

6 Share-based payments continued

c) Retail Share Option Scheme:

The Group has a Retail Share Option Scheme, which is open to senior employees in the UK Retail business. The scheme provides for a grant price equal to the average quoted market price of the Company's shares on the date of grant. Options granted are subject to performance criteria. The vesting period is generally three years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest.

The following table illustrates the number and WAEP of share options for the scheme:

	2006		2005	
	Number 000's	WAEP £	Number 000's	WAEP £
Outstanding at the beginning of the period	**7,325**	**1.54**	5,950	1.44
Granted during the period	**906**	**2.51**	2,810	1.71
Forfeited during the period	**(1,367)**	**1.56**	(1,435)	1.44
Outstanding at the end of the period	**6,864**	**1.67**	7,325	1.54
Exercisable at the end of the period	**–**	**–**	–	–

The options outstanding at 1 April 2006 had a weighted average remaining contractual life of 8.4 years (2005 – 9.2 years).

d) Other employee share option schemes:

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 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 on the date of grant.

In addition, options were granted to UK employees at the time of the Group's admission to the London Stock Exchange.

The following table illustrates the number and WAEP of share options for the schemes:

	2006		2005	
	Number 000's	WAEP £	Number 000's	WAEP £
Outstanding at the beginning of the period	**7,795**	**0.91**	5,807	0.78
Granted during the period	**3,660**	**1.38**	3,498	1.15
Forfeited during the period	**(1,534)**	**1.12**	(1,010)	0.95
Exercised during the period	**(977)**	**0.67**	(500)	0.97
Outstanding at the end of the period	**8,944**	**1.09**	7,795	0.91
Exercisable at the end of the period	**710**	**0.87**	741	0.86

The options outstanding at 1 April 2006 had a weighted average remaining contractual life of 2.3 years (2005 – 2.6 years).

The summary above includes 1.5m (2005 – 2.6m) options that were granted before 7 November 2002. In accordance with IFRS2, no cost has been recognised in respect of these options.

The options exercised during the period were exercised at a weighted average market price of £1.90 (2005 – £1.42).

e) Fair value models:

Nil cost options with internal performance targets are valued using the market price of a share at the date of grant discounted for expected future dividends to the date of exercise. The fair values of other options with internal performance targets are estimated at the date of grant using a Binomial model. The inputs into the Binomial model are as follows:

	2006	2005
Expected volatility (%)	**30.0**	30.0
Risk free rate (%)	**4.5**	4.5
Dividend yield (%)	**2.0**	2.0

Expected volatility has been arrived at by using the historical volatility of the Group's share price, and the volatility of the share price of similar companies whose shares have been listed for longer than those of the Group, over a period comparable with the expected lives of the options. The assumptions made to incorporate the effects of expected early exercise have been included by assuming an expected option life based on historical exercise patterns for each option scheme.

The fair values of options with external performance targets are estimated at the date of grant using a Monte Carlo model. The model combines the market price of a share at the date of grant with the probability of meeting performance criteria, based on the historical performance of the Group's shares. A dividend yield of 2.0% has been assumed in the model.

f) Charge to income statement:

During the period the Group recognised a charge of £10.7m (2005 – £3.6m) in respect of equity settled share-based payments.

7 Interest payable and receivable

Interest payable is analysed as follows:

	2006 £'000	2005 £'000
Interest on bank loans and overdrafts	**13,307**	9,736
Amortisation of fees on bank facilities	**209**	852
Other interest payable	**283**	160
	13,799	10,748

Interest receivable is analysed as follows:

	2006 £'000	2005 £'000
Interest on cash and cash equivalents	**928**	1,050
Profit on disposal of available-for-sale investments	**5,953**	3,067
Movements in the fair value of forward currency contracts	**247**	–
Income from forward currency contracts	**769**	998
Other interest receivable	**193**	788
	8,090	5,903

8 Taxation

The tax charge comprises:

	2006 £'000	2005 £'000
Current tax:		
UK corporation tax	**8,384**	17,611
Overseas tax	**16,008**	8,770
	24,392	26,381
Adjustments in respect of prior periods:		
UK corporation tax	**(5,757)**	(6,801)
Overseas tax	**3,440**	(1,499)
Total current tax	**22,075**	18,081
Deferred tax:		
Origination and reversal of timing differences	**(9,075)**	(48)
Adjustments in respect of prior periods	**(2,540)**	–
Total deferred tax	**(11,615)**	(48)
Total tax charge	**10,460**	18,033

The total tax charge includes a credit of £10.6m (2005 – £nil) in respect of reorganisation costs recognised in the period (see note 4). The tax charge relating to Headline earnings (see note 10) in the period is £26.7m (2005 – £19.4m), representing an effective tax rate of 19.6% (2005 – 19.3%). The tax charge relating to statutory earnings in the period is £10.5m (2005 – £18.0m) representing an effective tax rate of 12.9% (2005 – 19.6%).

The principal differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax of 30% to profit before taxation are as follows:

	2006 £'000	2005 £'000
Profit before taxation	**81,001**	91,939
Profit before taxation at 30%	**24,300**	27,582
Items attracting no tax relief or liability	**4,945**	9,907
Use of tax losses brought forward and income taxed at lower rates	**(12,961)**	(11,156)
Adjustments in respect of prior periods	**(4,857)**	(8,300)
Other timing differences not recognised in deferred tax	**(967)**	–
Total tax charge	**10,460**	18,033

Notes to the Financial Statements continued

8 Taxation continued

Tax on items charged to equity is as follows:

	2006 £'000	2005 £'000
Current tax credit on share-based payments	**3,703**	–
Deferred tax credit on share-based payments	**15,820**	1,996
Deferred tax credit on other items	**74**	–
	19,597	1,996

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the period:

	Acquisition intangibles £'000	Share-based payments £'000	Timing differences on capitalised costs £'000	Tax losses £'000	Other timing differences £'000	Total £'000
At 2 April 2005	(1,662)	7,876	(13,481)	5,865	1,872	470
Adoption of IAS39 and IAS32 (see note 30)	–	–	–	–	(218)	(218)
Charge to income	3,867	3,483	558	567	3,140	11,615
Charge to equity	–	15,820	–	–	74	15,894
Acquisition of subsidiaries	(8,056)	–	10,760	–	4,473	7,177
At 1 April 2006	**(5,851)**	**27,179**	**(2,163)**	**6,432**	**9,341**	**34,938**

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2006 £'000	2005 £'000
Deferred tax assets	**34,938**	4,570
Deferred tax liabilities	**–**	(4,100)
	34,938	470

At 1 April 2006 the Group has unused tax losses of £166.4m (2005 – £146.6m) available for offset against future taxable profits. A deferred tax asset of £6.4m (2005 – £5.9m) has been recognised in respect of £20.3m (2005 – £15.7m) of such losses, based on expectations of recovery in the foreseeable future.

No deferred tax asset has been recognised in respect of the remaining £146.1m (2005 – £130.9m) as there is insufficient evidence that there will be suitable taxable profits against which these losses can be recovered. Included within unrecognised tax losses are amounts of £16.7m (2005 – £18.4m) that will expire between 2014 and 2018 and £9.3m (2005 – £12.8m) that will expire between 2008 and 2013. Other losses may be carried forward indefinitely.

At 1 April 2006, the aggregate amount of temporary differences associated with the undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was £25.9m (2005 – £17.8m). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of their reversal and it is probable that they will not reverse in the foreseeable future.

9 Equity dividends

	2006 £'000	2005 £'000
Final dividend for the period ended 27 March 2004 of 0.90p per ordinary share	**–**	7,869
Interim dividend for the period ended 2 April 2005 of 0.55p per ordinary share	**–**	4,814
Final dividend for the period ended 2 April 2005 of 1.25p per ordinary share	**11,005**	–
Interim dividend for the period ended 1 April 2006 of 0.75p per ordinary share	**6,438**	–
	17,443	12,683

Proposed final dividend for the period ended 1 April 2006 of 1.75p per ordinary share	**15,283**

The proposed final dividend for the period ended 1 April 2006 is subject to shareholders' approval at the Annual General Meeting and has not been included as a liability in these financial statements.

The expected cost of the proposed final dividend for the period ended 1 April 2006 reflects the fact that the Group's Employee Share Ownership Trust has agreed to waive its rights to receive dividends (see note 23).

10 Reconciliation of Headline information to statutory information

	2006				2005			
	EBITDA £'000	**Operating profit £'000**	**Profit before taxation £'000**	**Profit after taxation £'000**	EBITDA £'000	Operating profit £'000	Profit before taxation £'000	Profit after taxation £'000
Headline	**242,490**	**141,778**	**136,069**	**109,399**	173,349	105,248	100,403	81,009
Operating expenses excluding amortisation and depreciation:								
Reorganisation costs (see note 4)	**(22,288)**	**(22,288)**	**(22,288)**	**(22,288)**	–	–	–	–
Amortisation:								
On acquisition intangibles	**–**	**(17,998)**	**(17,998)**	**(17,998)**	–	(7,506)	(7,506)	(7,506)
Reorganisation costs (see note 4)	**–**	**(12,957)**	**(12,957)**	**(12,957)**	–	–	–	–
	–	**(30,955)**	**(30,955)**	**(30,955)**	–	(7,506)	(7,506)	(7,506)
Goodwill expense	**–**	**(1,825)**	**(1,825)**	**(1,825)**	–	(958)	(958)	(958)
Taxation:								
On reorganisation costs (see note 4)	**–**	**–**	**–**	**10,574**	–	–	–	–
On acquisition intangibles and goodwill expense	**–**	**–**	**–**	**5,636**	–	–	–	1,361
	–	**–**	**–**	**16,210**	–	–	–	1,361
Statutory	**220,202**	**86,710**	**81,001**	**70,541**	173,349	96,784	91,939	73,906

EBITDA represents earnings before interest, taxation, depreciation, amortisation and goodwill expense. Contribution represents EBITDA before support costs. EBIT represents earnings before interest and taxation.

Headline information is provided because the Directors consider that it provides assistance in understanding underlying performance.

11 Earnings per share

	2006 £'000	2005 £'000
Statutory earnings	**70,541**	73,906
Headline earnings (see note 10)	**109,399**	81,009

	2006 Number of shares 000's	2005 Number of shares 000's
Weighted average number of shares:		
For basic earnings per share	**883,393**	875,569
Dilutive effect of share options	**55,287**	39,078
For diluted earnings per share	**938,680**	914,647

	Basic pence per share		**Diluted pence per share**	
	2006	2005	**2006**	2005
Earnings per share	**7.99**	8.44	**7.51**	8.08
Headline earnings per share (see note 10)	**12.38**	9.25	**11.65**	8.86

Headline earnings per share is provided because the Directors consider that it provides assistance in understanding underlying performance.

Notes to the Financial Statements continued

12 Goodwill and other intangible fixed assets

	Goodwill £'000
At 2 April 2005	452,023
Acquisition of subsidiaries (see note 14)	119,105
Adjustments to deferred consideration	(4,531)
Goodwill expense	(1,825)
Foreign exchange	3,858
At 1 April 2006	**568,630**
At 1 April 2006	
Cost (gross carrying amount)	571,413
Accumulated goodwill expense	(2,783)
Net carrying amount	**568,630**
At 2 April 2005	
Cost (gross carrying amount)	452,981
Accumulated goodwill expense	(958)
Net carrying amount	452,023

A goodwill expense of £1.8m has been recognised in the period in relation to previously acquired tax losses (2005 – £1.0m).

	Subscriber acquisition costs £'000	Software and licenses £'000	Key money £'000	Acquisition intangibles £'000	Total other intangibles £'000
At 2 April 2005	18,930	21,664	21,255	7,520	69,369
Acquisition of subsidiaries (see note 14)	–	–	–	68,641	68,641
Additions	51,598	48,937	4,175	–	104,710
Disposals	–	(81)	–	–	(81)
Amortisation	(36,931)	(12,354)	(1,842)	(17,998)	(69,125)
Accelerated amortisation (see note 4)	–	(12,957)	–	–	(12,957)
Adjustments to deferred consideration	–	–	–	(1,900)	(1,900)
Foreign exchange	583	14	20	–	617
At 1 April 2006	**34,180**	**45,223**	**23,608**	**56,263**	**159,274**
At 1 April 2006					
Cost (gross carrying amount)	102,456	83,727	32,095	83,773	302,051
Accumulated amortisation	(68,276)	(38,504)	(8,487)	(27,510)	(142,777)
Net carrying amount	**34,180**	**45,223**	**23,608**	**56,263**	**159,274**
At 2 April 2005					
Cost (gross carrying amount)	49,983	37,123	27,888	17,032	132,026
Accumulated amortisation	(31,053)	(15,459)	(6,633)	(9,512)	(62,657)
Net carrying amount	18,930	21,664	21,255	7,520	69,369

Goodwill has been allocated to cash-generating units (CGUs), which are generally based on geographical location. The carrying amount of goodwill by geographical location is as follows:

	2006 £'000	2005 £'000
UK	**261,437**	149,829
France	**91,077**	89,603
Germany	**73,054**	71,851
Spain	**46,564**	45,797
Other	**96,498**	94,943
	568,630	452,023

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows for the following five years based on an estimated growth rate averaging 2.5%. The average pre-tax rate used to discount the forecast cash flows is 10%.

13 Property, plant and equipment

	Freehold land and buildings £'000	Short leasehold costs £'000	Computer hardware, network and office equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost						
At 2 April 2005	54,724	61,364	128,872	100,351	2,310	347,621
Additions	6,285	5,458	44,469	32,748	465	89,425
Disposals	(228)	(3,218)	(1,458)	(2,760)	(335)	(7,999)
Acquisitions (see note 14)	52	–	3,791	79	–	3,922
Foreign exchange	33	652	573	844	5	2,107
At 1 April 2006	**60,866**	**64,256**	**176,247**	**131,262**	**2,445**	**435,076**
Depreciation						
At 2 April 2005	(1,988)	(20,720)	(63,699)	(61,893)	(1,101)	(149,401)
Charge for the period	(941)	(6,331)	(23,939)	(17,834)	(540)	(49,585)
Disposals	124	2,565	1,293	2,327	244	6,553
Foreign exchange	(20)	(206)	(272)	(397)	(4)	(899)
At 1 April 2006	**(2,825)**	**(24,692)**	**(86,617)**	**(77,797)**	**(1,401)**	**(193,332)**
Net book value						
At 1 April 2006	**58,041**	**39,564**	**89,630**	**53,465**	**1,044**	**241,744**
At 2 April 2005	52,736	40,644	65,173	38,458	1,209	198,220

	Freehold land and buildings £'000	Short leasehold costs £'000	Computer hardware, network and office equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost						
At 28 March 2004	50,570	47,487	92,296	86,675	2,299	279,327
Additions	4,299	13,918	36,997	16,203	571	71,988
Disposals	(145)	(2,509)	(4,134)	(3,804)	(615)	(11,207)
Acquisitions	–	1,526	3,044	162	43	4,775
Foreign exchange	–	942	669	1,115	12	2,738
At 2 April 2005	54,724	61,364	128,872	100,351	2,310	347,621
Depreciation						
At 28 March 2004	(1,118)	(17,918)	(46,325)	(50,149)	(1,084)	(116,594)
Charge for the period	(918)	(4,924)	(20,044)	(14,327)	(579)	(40,792)
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)	(20,720)	(63,699)	(61,893)	(1,101)	(149,401)
Net book value						
At 2 April 2005	52,736	40,644	65,173	38,458	1,209	198,220
At 28 March 2004	49,452	29,569	45,971	36,526	1,215	162,733

Notes to the Financial Statements continued

14 Non-current asset investments

	Total £'000
At 2 April 2005	6,069
Adoption of IAS32 and IAS39 (see note 30)	(2,294)
At 3 April 2005	3,775
Additions	1,659
Movements in fair value	4,830
At 1 April 2006	**10,264**

Non-current asset investments at 2 April 2005 principally comprise the Group's interest in Wireless Frontiers, an independently managed wireless investment fund. Additions in the period represent investments in which the Group holds a minority shareholding of less than 20%.

The fair value of non-current asset investments has been determined using European Venture Capital Association (EVCA) guidelines. Movements in fair value are recognised in reserves in accordance with IAS39.

a) Principal Group investments

The Group has 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	Distribution and Telecoms Services
The Phone House SAS	France	Distribution
Phone Warehouse SL	Spain	Distribution
Opal Telecom Limited*	England and Wales	Telecoms Services
The Phone House Telecom GmbH	Germany	Telecoms Services
TalkTalk Telecom Limited*	England and Wales	Telecoms Services
Onetel Telecommunications Limited (formerly Centrica Telecommunications Limited)*	England and Wales	Telecoms Services
New Technology Insurance	Ireland	Insurance
The Carphone Warehouse Resources Limited	England and Wales	Investment company

*held directly by the Company.

14 Non-current asset investments continued

b) Acquisitions

i) Onetel

On 19 December 2005, the Group acquired 100% of the issued share capital of Centrica Telecommunications Limited, Onetel Limited, Telco Holdings Limited, Awardmodel Limited and their subsidiaries (Onetel), all of which are registered in England and Wales, for a gross cash consideration of £169.6m. Onetel is involved in the provision of telecommunications services to both residential and business customers.

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

	Book value £'000	Accounting policy alignments £'000	Fair value adjustments £'000	Fair value to the Group £'000
Non-current assets				
Intangible assets	–	–	62,179	62,179
Property, plant and equipment	18,776	–	(15,106)	3,670
Deferred tax assets	755	–	6,960	7,715
Current assets				
Stock	384	–	(331)	53
Trade and other receivables	51,357	(1,656)	(508)	49,193
Cash and cash equivalents	35,006	–	–	35,006
Total assets	106,278	(1,656)	53,194	157,816
Current liabilities				
Trade and other payables	(66,170)	(335)	(5,103)	(71,608)
Corporation tax liabilities	(440)	–	–	(440)
Provisions	(931)	–	(11,305)	(12,236)
Total liabilities	(67,541)	(335)	(16,408)	(84,284)
Total assets and liabilities	38,737	(1,991)	36,786	73,532
Goodwill				96,107
Satisfied by cash				169,639

Net cash outflows in respect of the acquisition comprised:

	£'000
Gross cash consideration	169,639
Cash acquired	(35,006)
	134,633

Fair value adjustments relate principally to:

- the recognition of acquisition intangibles, being customer bases with a value of £25.1m and a distribution agreement with British Gas with a value of £37.1m;
- the write-down of property, plant and equipment to its market value or value in use;
- the recognition of deferred tax assets, principally in respect of accelerated capital allowances;
- the recognition of unrecorded liabilities and provision for onerous contracts.

No value has been attributed to the Onetel brand.

The goodwill arising on the acquisition of Onetel is attributable primarily to the removal of a significant competitor to TalkTalk in the residential telecommunications market and the anticipated future operating synergies arising from the combination.

The Group's results for the period reflect revenue from Onetel of £87.3m and a loss before taxation of £26.0m, after reorganisation costs of £22.3m.

Notes to the Financial Statements continued

14 Non-current asset investments continued

ii) Tele2 UK

On 16 December 2005, the Group acquired 100% of the issued share capital of Tele2 UK Communications Limited (Tele2 UK), a company registered in England and Wales, for a gross cash consideration of £11.5m. Tele2 UK is involved in the provision of telecommunications services to residential customers.

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

	Book value £'000	Fair value adjustments £'000	Fair value to Group £'000
Non-current assets			
Intangible assets	–	1,978	1,978
Current assets			
Trade and other receivables	6,077	(438)	5,639
Cash and cash equivalents	3,315	–	3,315
Total assets	9,392	1,540	10,932
Current liabilities			
Trade and other payables	(6,306)	–	(6,306)
Corporation tax liabilities	(24)	–	(24)
Provisions	–	(2,353)	(2,353)
Non-current liabilities	(6,330)	(2,353)	(8,683)
Deferred tax liabilities	–	(538)	(538)
	–	(538)	(538)
Total liabilities	(6,330)	(2,891)	(9,221)
Total assets and liabilities	3,062	(1,351)	1,711
Goodwill			9,822
Satisfied by cash			11,533

Net cash outflows in respect of the acquisition comprised:

	£'000
Gross cash consideration	11,533
Cash acquired	(3,315)
	8,218

Fair value adjustments relate principally to:

- the recognition of acquisition intangibles, being customer bases with a value of £2.0m;
- provision for onerous contracts.

The Group's results for the period reflect revenue from Tele2 UK of £10.1m and a profit before taxation of £1.4m.

14 Non-current asset investments continued

iii) Hugh Symons

On 6 December 2005, the Group acquired the UK trade and assets of Hugh Symons Communications Limited, a distributor registered in England and Wales, for a gross cash consideration of £5.2m and further deferred consideration, which is contingent on future financial performance, of up to £5.0m payable over two years.

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

	Book value £'000	Accounting policy alignments £'000	Fair value to the Group £'000
Current assets			
Trade and other receivables	5,426	–	5,426
Stock	969	–	969
Total assets	6,395	–	6,395
Current liabilities			
Trade and other payables	(5,395)	(300)	(5,695)
Total liabilities	(5,395)	(300)	(5,695)
Total assets and liabilities	1,000	(300)	700
Goodwill			9,451
			10,151
Satisfied by			
Cash			5,151
Deferred consideration			5,000
			10,151

Net cash outflows in respect of the acquisition comprised:

	£'000
Gross cash consideration	5,151

The Group's results for the period reflect revenue from Hugh Symons of £12.8m and a profit before taxation of £0.3m.

iv) Other acquisitions

The Group made a number of other acquisitions during the period for a gross cash consideration of £6.9m and provided for contingent deferred consideration of up to £0.2m payable over the next two years. These acquisitions resulted in goodwill of £2.1m.

Included within other cash paid in the period is £3.0m in relation to deferred consideration for acquisitions made in previous periods.

In addition, goodwill was reduced by £4.5m during the period as a result of adjustments to contingent deferred consideration and increased by £1.6m as a result of adjustments to fair value on previous acquisitions.

The following summary shows the net cash outflow on acquisitions during the year:

	Gross cash consideration £'000	Cash acquired £'000	Net cash outflow £'000
Onetel	169,639	(35,006)	134,633
Tele2 UK	11,533	(3,315)	8,218
Hugh Symons	5,151	–	5,151
Other	9,861	(28)	9,833
	196,184	(38,349)	157,835

Companies acquired in the period contributed £17.3m to the Group's net operating cashflows, gave rise to net interest costs of £2.4m and utilised £1.5m for capital expenditure.

Combined proforma revenue and profit before taxation for the Group, assuming all acquisitions had been made on 3 April 2005, are £3,462.0m and £59.0m respectively.

15 Stock

	£'000	£'000
Finished goods and goods for resale	**138,047**	95,185

The difference between the balance sheet value of stock and its replacement cost is not material.

Notes to the Financial Statements continued

16 Trade and other receivables

	2006 £'000	2005 £'000
Trade receivables	**505,400**	317,261
Other receivables	**10,965**	7,667
Prepayments and accrued income	**38,107**	28,962
	554,472	353,890

Trade receivables are stated at their initial value reduced by appropriate provision for estimated irrecoverable amounts. Included within trade receivables are provisions for doubtful debts of £50.3m (2005 – £35.3m). The average credit period taken on trade receivables, calculated by reference to the amount owed at the period end as a proportion of total revenue in the period, adjusted to take account of the timing of acquisitions, was 53 days (2005 – 47 days).

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

17 Current asset investments

	2006 £'000	2005 £'000
Available-for-sale investments	**5,153**	60,468
Forward currency contracts	**80**	–
	5,233	60,468

There are no listed investments within current asset investments (2005 – £40.4m). From 3 April 2005 the Group adopted IAS32 and IAS39 (see note 30) and from this date current asset investments are stated at market value, which is provided by third-party fund managers. At 2 April 2005 the investments are shown at cost and do not reflect the impact of these standards.

The reduction in current asset investments during the period is primarily due to the liquidation of insurance investments into cash and cash equivalents.

18 Trade and other payables

Current:	2006 £'000	2005 £'000
Trade payables	**352,101**	254,768
Other taxes and social security costs	**69,831**	33,612
Other creditors	**34,089**	44,648
Accruals and deferred income	**185,988**	125,657
	642,009	458,685

Non-current:	2006 £'000	2005 £'000
Other creditors	**6,689**	4,753

The average credit period taken on trade payables, calculated by reference to the amounts owed at the period end as a proportion of the amounts invoiced by suppliers in the period, adjusted to take account of the timing of acquisitions, was 43 days (2005 – 44 days).

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

19 Cash and cash equivalents, loans and other borrowings

Cash and cash equivalents comprise:

	2006 £'000	2005 £'000
Cash at bank and in hand	**51,840**	29,012
Short-term bank deposits and money market funds	**46,253**	12,564
	98,093	41,576

The effective interest rate on bank deposits and money market funds was 4.54% (2005 – 4.44%).

Loans and other borrowings comprise:

Current:	Maturity	2006 £'000	2005 £'000
Bank overdrafts	On demand	**21,136**	22,224
Other uncommitted bank loans	On demand	**20,039**	90
Loan notes	On demand	**15,558**	19,680
£120m term loan	2005	**–**	30,000
		56,733	71,994
Non-current:			
£120m term loan	2006-2008	**–**	73,494
£450m revolving credit facility	2009	**40,000**	25,000
£50m term loan	2010	**50,000**	–
£225m term loan	2011	**230,054**	–
		320,054	98,494

All borrowings are unsecured.

Bank overdrafts and other uncommitted bank loans:
The Group has a variety of overdraft facilities in Sterling, Euro and other European currencies, all of which are repayable on demand. These facilities are domiciled in various countries and interest is charged at standard overdraft rates in the countries concerned. Some of the Group's major banks make uncommitted facilities available to assist with short-term liquidity management. These facilities bear interest based on the appropriate local interest rates. These facilities are repayable on demand.

Loan notes:
The Group has issued a number of interest-bearing loan notes. These loan notes are repayable on demand and expire between 2012 and 2015. Additional loan notes of £2.4m were issued during the period and £6.6m were redeemed or cancelled.

£450m Revolving Credit Facility (RCF):
The £300m RCF, which was signed in September 2004, was increased to £450m during the period by inviting the existing members of the banking syndicate to subscribe for additional commitments. All other terms and conditions remain unchanged, including the covenant package, and the facility remains repayable in full in September 2009. The interest rate payable in respect of drawings under this facility is at a margin over LIBOR for the relevant currency and for the appropriate period. The actual margin applicable to any drawing depends on the ratio of debt to EBITDA calculated in respect of the most recent accounting period.

£120m and £225m term loans:
A new five-year £225m term loan was signed in February 2006, part of the proceeds of which was used to repay and cancel the £120m term loan originally signed in 2003. The interest rate is calculated in a similar manner to the £450m RCF. The loan is repayable in full in February 2011. The term loan is drawn in Euro at 1 April 2006 and its value at that date of £230.1m reflects the exchange rate at the period end.

£50m term loan:
A new five-year bi-lateral £50m term loan was signed in December 2005, the proceeds of which were used in relation to the Onetel acquisition. The interest rate is calculated in a similar manner to the £450m RCF. The loan is repayable in full in December 2010.

Notes to the Financial Statements continued

19 Cash and cash equivalents, loans and other borrowings continued

Borrowing facilities:

The Group had undrawn committed borrowing facilities at 1 April 2006, in respect of which all conditions precedent had been met, as follows:

	2006 £'000	2005 £'000
Maturing in 2009	**410,000**	275,000

The undrawn committed facilities shown above are the undrawn portion of the £450m RCF.

Debt maturity profile:

The maturity of the Group's borrowings is as follows:

	2006 £'000	2005 £'000
Less than 1 year	**56,733**	71,994
1 to 2 years	**–**	30,000
2 to 3 years	**–**	30,000
3 to 4 years	**40,000**	38,494
4 to 5 years	**280,054**	–
Total	**376,787**	170,488

Currency profile of borrowings:

	2006			2005		
By instrument	**Sterling £'000**	**Euro £'000**	**Total £'000**	Sterling £'000	Euro £'000	Total £'000
Bank loans and overdrafts	**130,331**	**230,898**	**361,229**	28,662	122,146	150,808
Loan notes	**15,558**	**–**	**15,558**	19,680	–	19,680
Total	**145,889**	**230,898**	**376,787**	48,342	122,146	170,488

Liquidity risk:

To ensure the continuity of Group funding whilst also minimising the interest cost, its borrowings are spread between long-term committed facilities, short-term uncommitted bank loans and, to ensure flexibility, overdrafts whilst short-term cash surpluses are invested overnight.

20 Financial instruments

The Operating and Financial Performance Review on pages 9 to 16 provides an explanation of the role that financial instruments have in managing the Group's currency and interest rate risk.

Interest rate profile of financial assets and liabilities:

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. Future cashflows arising from these financial assets and liabilities depend on interest periods agreed at the time of rollover and, as such, all financial assets and liabilities are classified as floating rate.

The weighted average interest rate for loans and overdrafts was 3.28% (2005 – 3.53%), reflecting a high proportion of Euro borrowings.

The book value and fair value of the Group's financial assets and liabilities is as follows:

	2006		2005	
	Book value £'000	**Fair value £'000**	Book value £'000	Fair value £'000
Financial assets				
By instrument				
Cash at bank and in hand	**51,840**	**51,840**	29,012	29,012
Short-term bank deposits and money market funds	**46,253**	**46,253**	12,564	12,564
Available-for-sale investments	**5,153**	**5,153**	60,468	62,613
Forward currency contracts	**80**	**80**	–	–
Financial liabilities				
By instrument				
Bank overdrafts	**(21,136)**	**(21,136)**	(22,224)	(22,224)
Other uncommitted bank loans	**(20,039)**	**(20,039)**	(90)	(90)
Committed bank loans	**(320,054)**	**(320,054)**	(128,494)	(128,494)
Loan notes	**(15,558)**	**(15,558)**	(19,680)	(19,680)
Forward currency contracts	**–**	**–**	–	(167)

The fair value of available-for-sale investments has been provided by third-party fund managers. Other fair values have been arrived at by discounting future cashflows, assuming no early redemption, or by revaluing forward currency contracts to period-end market rates or rates as appropriate to the instrument.

Foreign exchange derivatives:

The Group uses forward currency contracts to hedge transactional exposures. These are mainly denominated in Euros and US dollars and primarily cover stock purchases. The Group also uses forward currency contracts to hedge balance sheet assets and liabilities and also for short-term liquidity management.
The Group currently holds no currency option contracts.

At 1 April 2006, the total notional principal amount of outstanding forward currency contacts was £129.4m (2005 – £50.6m).

All currency derivatives are shown in the financial statements at fair value and no currency derivatives are designated as cash flow hedges. The amount transferred to income in respect of these currency derivatives was £0.2m (2005 – £nil).

The Group does not hedge the balance sheet translation risk of its foreign operations.

Functional currency:

The functional currency of individual companies within the Group varies with the territory in which they operate and the four currencies in which subsidiary companies prepare their accounts are: Sterling, Euro, Swiss franc and Swedish krona. Material financial assets and financial liabilities held by Group companies which differ from their functional currency are as follows:

	2006				2005			
	Sterling £'000	**Euro £'000**	**Other £'000**	**Total £'000**	Sterling £'000	Euro £'000	Other £'000	Total £'000
Financial liabilities								
By functional currency of Group operation								
Sterling	**–**	**(213,664)**	**8,408**	**(205,256)**	–	(103,894)	12,196	(91,698)
Other	**–**	**–**	**–**	**–**	218	2	–	220
Total	**–**	**(213,664)**	**8,408**	**(205,256)**	218	(103,892)	12,196	(91,478)

The financial assets are shown before the effect of hedging, which removes foreign exchange risk. The financial liabilities hedge net inter-company currency exposures and, as such, do not create foreign exchange risk.

Embedded derivatives:

There are no contracts containing embedded derivatives that have been identified and accounted for separately as required by IAS39.

Notes to the Financial Statements continued

21 Provisions

	Insurance £'000	Reorganisation £'000	Sales £'000	Other £'000	Total £'000
At 2 April 2005	7,026	6,799	28,758	15,246	57,829
Acquisitions (see note 14)	–	–	–	14,589	14,589
Utilised in the period	(26,722)	(4,911)	(67,070)	(6,444)	(105,147)
Released in the period	–	(1,921)	–	(1,029)	(2,950)
Charge to income statement	29,100	22,288	105,610	1,962	158,960
Foreign exchange	–	12	134	111	257
At 1 April 2006	**9,404**	**22,267**	**67,432**	**24,435**	**123,538**

Provisions are categorised as follows:

Insurance:
Insurance provisions represent the anticipated costs of all policyholder claims notified but not settled and claims incurred but not reported at the balance sheet date. Insurance provisions are expected to be utilised within one year.

Reorganisation:
Reorganisation provisions at the start of the period relate principally to a store closure programme launched in the period ended 30 March 2002, and the costs associated with the ongoing implementation of shared service functions. As detailed in note 4, following the acquisition of Onetel, the Group commenced a reorganisation programme to integrate Onetel with the rest of the Group. The costs of this integration are estimated at £22.3m, principally being redundancy and other employee costs, contract termination costs, and network and customer migration costs. These costs are expected to be incurred substantially in the period ending 31 March 2007.

Sales:
Sales provisions relate to "cash-back" and similar promotions, product warranties, product returns, and network operator performance penalties. Sales provisions are expected to be used within the following 12 to 24 months.

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, and costs associated with onerous contracts.

22 Share capital

	2006 million	2005 million	**2006 £'000**	2005 £'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	**888**	877	**888**	877

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

23 Reserves

	Share capital £'000	Share premium reserve £'000	Capital redemption reserve £'000	Translation reserve £'000	Accumulated profits £'000	Total £'000
At 2 April 2005	877	402,136	30	5,718	139,198	547,959
Adoption of IAS32 and IAS39 (see note 30)	–	–	–	–	(7,741)	(7,741)
At 3 April 2005	877	402,136	30	5,718	131,457	540,218
Net profit for the financial period	–	–	–	–	70,541	70,541
Currency translation	–	–	–	(3,644)	–	(3,644)
Tax on items recognised directly in reserves	–	–	–	–	19,597	19,597
Net change in available-for-sale investments	–	–	–	–	4,236	4,236
Issue of share capital	11	16,223	–	–	(5,550)	10,684
Net purchase of own shares (see below)	–	–	–	–	(15,851)	(15,851)
Cost of share-based payments (see note 6)	–	–	–	–	10,665	10,665
Equity dividends (see note 9)	–	–	–	–	(17,443)	(17,443)
At 1 April 2006	**888**	**418,359**	**30**	**2,074**	**197,652**	**619,003**

Net purchase of own shares:
The Group has an Employee Share Ownership Trust (ESOT) which holds 14.1m shares (2005 – 7.5m) in the Company for the benefit of the Group's employees.

The ESOT has waived its rights to receive dividends and none of the shares has been allocated to specific schemes.

At 1 April 2006 the shares had a carrying value of £23.5m and a market value of £43.5m (2005 – carrying value £12.0m, market value £12.5m).

24 Analysis of changes in net debt

	At 2 April 2005 £'000	Adoption of IAS32 and IAS39 £'000	Cash flows £'000	Exchange differences £'000	Non-cash movements £'000	**At 1 April 2006 £'000**
Cash and cash equivalents	41,576	–	56,357	160	–	**98,093**
Bank overdrafts	(22,224)	–	1,105	(17)	–	**(21,136)**
	19,352	–	57,462	143	–	**76,957**
Current loans and other borrowings	(49,770)	–	14,174	(1)	–	**(35,597)**
Non-current loans and other borrowings	(98,494)	–	(211,799)	(9,761)	–	**(320,054)**
	(148,264)	–	(197,625)	(9,762)	–	**(355,651)**
Current asset investments	60,468	1,978	(56,619)	–	(594)	**5,233**
Total	(68,444)	1,978	(196,782)	(9,619)	(594)	**(273,461)**

	At 28 March 2004 £'000	Cash flows £'000	Exchange differences £'000	At 2 April 2005 £'000
Cash and cash equivalents	72,813	(31,525)	288	41,576
Bank overdrafts	(1,175)	(21,021)	(28)	(22,224)
	71,638	(52,546)	260	19,352
Current loans and other borrowings	(15,099)	(34,668)	(3)	(49,770)
Non-current loans and other borrowings	(107,916)	11,802	(2,380)	(98,494)
	(123,015)	(22,866)	(2,383)	(148,264)
Current asset investments	10,805	49,663	–	60,468
Total	(40,572)	(25,749)	(2,123)	(68,444)

Details of cash flows associated with acquisitions during the period are provided in note 14.

25 Commitments under operating leases

The Group leases retail units and offices under non-cancellable operating leases. The leases have varying terms, purchase options, escalation clauses and renewal rights.

Future minimum rentals payable under non-cancellable operating leases as at 1 April 2006 are as follows:

	2006 £'000	2005 £'000
Operating leases which expire:		
Within one year	**74,636**	60,857
In two to five years	**228,965**	212,338
After five years	**234,369**	216,771
	537,970	489,966

The Group has some leases that include revenue related rental payments that are contingent on store performance. The analysis above includes only the minimum rental commitment.

26 Capital commitments

	2006 £'000	2005 £'000
Expenditure contracted, but not provided for in the financial statements	**20,189**	10,371

Notes to the Financial Statements continued

27 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 £2.8m (2005 – £1.9m).

Defined benefit schemes:

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

28 Contingent liabilities

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, the Directors continue to believe that there is no financial exposure to this issue within the financial statements.

29 Reconciliation of profit and net assets under UK GAAP to IFRS

As explained in note 1, these financial statements are the first annual financial statements that the Group has prepared in accordance with IFRS.

Details of the adjustments that affect statutory profit, Headline profit and net assets in the relevant comparative periods, together with full reconciliations between UK GAAP and IFRS, were issued on 22 September 2005 and are available on the Group's website, www.cpwplc.com.

The adjustments are summarised as follows:

	Notes	53 weeks ended 2 April 2005 £'000
Statutory profit before taxation as reported under UK GAAP		68,874
Adjustments:		
Share-based payments	a	(1,181)
Goodwill and other intangible assets	b	24,765
Other adjustments	c	(519)
Statutory profit before taxation as reported under IFRS		91,939
Taxation as reported under UK GAAP		(19,910)
Deferred tax on IFRS adjustments	d	1,877
Statutory profit after taxation as reported under IFRS		73,906
Headline profit before taxation as reported under UK GAAP		102,103
Adjustments:		
Share-based payments	a	(1,181)
Other adjustments	c	(519)
Headline profit before taxation under IFRS		100,403
Taxation as reported under UK GAAP		(19,910)
Deferred tax on IFRS adjustments	d	516
Headline profit after taxation under IFRS		81,009

	Notes	At 28 March 2004	At 2 April 2005
Net assets as reported under UK GAAP		471,843	502,942
Adjustments:			
Share-based payments	a	–	–
Goodwill and other intangible assets	b	–	24,765
Other adjustments	c	(4,245)	(4,764)
Deferred tax on IFRS adjustments	d	5,261	9,134
Translation differences	e	–	4,914
Proposed dividends	f	7,869	10,968
Total assets and liabilities under IFRS		480,728	547,959

29 Reconciliation of profit and net assets under UK GAAP to IFRS continued

Explanation of adjustments:

a) Share-based payments

IFRS requires that the fair value of share options granted after the prescribed date of 7 November 2002 is charged to the income statement over the vesting period.

The charge is based on the fair value, measured using a Binomial model for share-based payments with internal performance criteria and a Monte Carlo model for share-based payments with external performance criteria, of the shares that are expected to vest (see note 6). Under UK GAAP, a charge was only made to the income statement for share options granted at an exercise price below market value.

As a result, an additional charge of £1.2m arose in the 53 weeks ended 2 April 2005, principally in respect of the Executive Share Option Scheme.

The cost of the options is accrued in reserves and therefore has no impact on shareholders' equity.

The additional IFRS charge is partially offset in the income statement by a deferred tax credit of £0.3m in the 53 weeks ended 2 April 2005.

b) Goodwill and other intangible assets

Under UK GAAP, capitalised goodwill was amortised over its useful economic life. Under IFRS, goodwill is not amortised but is tested at least annually for impairment. Goodwill amortisation of £33.2m charged under UK GAAP in the 53 weeks ended 2 April 2005 has therefore been reversed under IFRS.

IFRS also requires that, on acquisition, specific intangible assets are identified and recognised and then amortised over their useful economic lives. Such acquisition intangibles include customer bases and customer lists, to which value is first attributed at the time of acquisition. In the 53 weeks ended 2 April 2005, amortisation on these acquisition intangibles is £7.5m. These assets were previously included in goodwill and amortised over a period of up to 20 years.

Under IFRS, deferred subscriber acquisition costs, software and licenses and key money are reclassified as intangible assets.

Under UK GAAP, the value of acquired tax losses was only recognised in determining goodwill to the extent that their utilisation could be foreseen at the time of acquisition, whereas under IFRS goodwill is adjusted for the value of acquired tax losses as they are utilised, even if this utilisation could not be foreseen at the time of acquisition.

A goodwill expense of £1.0m has been recognised in the 53 weeks ended 2 April 2005 in relation to acquired tax losses.

c) Other adjustments

Other adjustments relate principally to property lease incentives and holiday pay.

Under IFRS, property lease incentives are recognised over the full length of the lease, rather than the period to the first rent review. This results in an additional charge of £0.5m in the 53 weeks ended 2 April 2005 and a reduction in net assets of £2.3m at 2 April 2005 and £1.7m at 28 March 2004.

An accrual for holiday pay has also been recognised under IFRS, the value of which is £2.5m at 2 April 2005 and 28 March 2004.

d) Deferred tax on IFRS adjustments

Deferred tax on these adjustments relates largely to share-based payments and acquisition intangibles.

Deferred tax on share-based payments results in a tax credit of £0.3m in the 53 weeks ended 2 April 2005 and a cumulative tax credit of £7.1m and £4.9m in reserves at 2 April 2005 and 28 March 2004 respectively. Deferred tax on share-based payments is calculated on the difference between the market price at the date of the financial statements and the option exercise price; as a result the tax effect will not correlate exactly to the share-based payment charge.

IFRS also requires the creation of a deferred tax liability in respect of acquisition intangibles which have no tax base, resulting in a corresponding increase in acquisition intangibles and goodwill. Deferred tax is credited to the income statement over the period as amortisation is charged, resulting in a credit to the tax charge of £1.4m in the 53 weeks ended 2 April 2005.

Other deferred tax adjustments relate principally to lease incentives.

e) Translation differences

IFRS requires goodwill to be held in the currency of the operations to which it relates; as a result, a translation difference to increase reserves by £4.9m was recognised for the period ended 2 April 2005. In addition, the Group has taken advantage of the exemption allowed in IFRS1 not to apply IAS21 'The Effects of Changes in Foreign Exchange Rates' retrospectively to fair value adjustments and goodwill arising in business combinations that occurred before the date of transition to IFRS.

f) Proposed dividends

Under IFRS, dividends proposed but not yet authorised are not accrued in the financial statements.

Dividend accruals have therefore been reversed, resulting in an increase in total equity of £11.0m at 2 April 2005 and £7.9m at 28 March 2004.

Notes to the Financial Statements continued

30 Adoption of IAS32 and IAS39

The Group has chosen to adopt IAS32 'Financial Instruments: Disclosure and Presentation' and IAS39 'Financial Instruments: Recognition and Measurement' prospectively from 3 April 2005, in accordance with the transitional provisions. As a result, the relevant comparative information for the 53 weeks ended 2 April 2005 does not reflect the impact of these standards.

The adoption of IAS39 causes a reduction in shareholders' equity of £7.7m as at 3 April 2005, made up of the following amounts shown net of taxation:

	Note	£'000
Fair value of current asset investments and forward currency contracts	a	1,760
Fair value of non-current asset investments	b	(2,294)
Financial liabilities	c	(7,207)
Reduction in shareholders' equity		(7,741)

a) Fair value of current asset investments and forward currency contracts

Under UK GAAP, current asset investments were recorded at the lower of cost and realisable value. Under IAS32 and IAS39, the Group's current asset investments are categorised as available-for-sale and recorded at fair value. Changes in fair value, together with any related deferred tax, are taken directly to reserves and recycled to the income statement when investments are sold or determined to be impaired. The impact of revaluing the Group's current asset investments at 3 April 2005, net of deferred tax, is an increase in reserves of £1.9m.

In addition, under IAS32 and IAS39 the Group's forward currency contracts are recognised in the financial statements at fair value, based on contracted exchange rates. Under UK GAAP contracts were valued at the exchange rate prevailing at the balance sheet date. Changes in fair value, together with any related deferred tax, are taken to the income statement. The impact of fair valuing forward currency contracts at 3 April 2005, net of deferred tax, is a reduction in reserves of £0.1m.

b) Fair value of non-current asset investments

Under UK GAAP, non-current asset investments were held at cost less any provision for permanent diminution in value. Under IFRS, the Group's non-current asset investments are categorised as available-for-sale and recorded at fair value. Fair value at 3 April 2005 has been determined using European Venture Capital Association guidelines and results in a reduction in reserves of £2.3m. This diminution in value is not considered to be permanent. Changes in fair value, together with any related deferred tax, are taken directly to reserves.

c) Financial liabilities

IAS39 requires financial liabilities to be maintained in the balance sheet until they are legally extinguished, unlike UK GAAP, which required a provision to the extent that it was considered probable that there would be an outflow of economic benefit. Liabilities of £7.2m have been reinstated to reflect this requirement at 3 April 2005.

31 Related party transactions

During the reporting period G Roux de Bezieux, a Director of the Company, held 5% of the issued share capital of Omer Telecom SAS, a subsidiary of the Group.

32 Post balance sheet events

On 3 April 2006, the Group signed a joint venture agreement with Virgin Group Investments Limited (Virgin) to operate a nationwide mobile virtual network operator (MVNO) in France. The MVNO will operate under the Virgin Mobile brand, using the Orange network. The Group and Virgin will each own and fund 48.5% of the joint venture, with management owning and funding 3.0%. The assets and customers of Omer Telecom SAS, the Group's existing MVNO operations in France, will be included within the joint venture.

Statement of Directors' Responsibilities on the Company Financial Statements

The Directors are responsible for preparing the annual report and the financial statements. The Directors have chosen to prepare the accounts for the Company in accordance with United Kingdom Generally Accepted Accounting Practice.

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of its profit or loss for that period. In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report on the Company Financial Statements

Independent Auditors' Report to the Members of The Carphone Warehouse Group PLC

We have audited the individual Company financial statements of The Carphone Warehouse Group PLC for the 52 weeks ended 1 April 2006 which comprise the balance sheet and related notes 1 to 13. These individual Company financial statements have been prepared under the accounting policies set out therein.

The Corporate Governance statement and the Remuneration Report are included in the Group annual report of The Carphone Warehouse Group PLC for the 52 weeks ended 1 April 2006. We have reported separately on the Group financial statements of The Carphone Warehouse Group PLC for the 52 weeks ended 1 April 2006 and on the information in the Remuneration Report that is described as having been audited.

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

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report and the individual Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the individual Company financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the individual Company financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report on page 33 is consistent with the individual Company financial statements. We also report to you if, in our opinion, 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 other transactions is not disclosed.

We read the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the individual Company financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the individual Company financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the individual Company 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 individual Company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the individual Company financial statements.

Opinion

In our opinion:

- the individual Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 1 April 2006;
- the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

6 June 2006

Company Balance Sheet

As at 1 April 2006

	Notes	1 April 2006 £'000	Restated 2 April 2005 £'000
Fixed assets			
Investments	4	**725,861**	415,402
		725,861	415,402
Current assets			
Current asset investments	5	**80**	–
Debtors	6	**788,965**	481,096
		789,045	481,096
Creditors: amounts falling due within one year	7	**(597,280)**	(436,586)
Net current assets		**191,765**	44,510
Total assets less current liabilities		**917,626**	459,912
Creditors: amounts falling due after more than one year	8	**(320,054)**	(100,958)
Net assets		**597,572**	358,954
Capital and reserves			
Called-up share capital	10	**888**	877
Share premium	11	**418,359**	402,136
Profit and loss account	11	**178,325**	(44,059)
Total capital employed	12	**597,572**	358,954

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

The financial statements on pages 68 to 72 were approved by the Board on 6 June 2006 and signed on its behalf by:

C W Dunstone
Chief Executive Officer

R W Taylor
Chief Financial Officer

Notes to the Company Financial Statements

1 Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards under the historical cost convention, as modified by FRS26 'Financial Instruments: Measurement' as detailed below. The following principal accounting policies have been applied consistently throughout the period and the preceding period, except as required by accounting standards that came into force in the current financial period, which are as follows:

FRS20 'Share-based Payment'
Requires that the fair value of options granted, defined at the date of grant, is recognised in the profit and loss account over the vesting period (see Share-based payments below).

FRS21 'Events After The Balance Sheet Date'
Requires that dividends proposed but not yet authorised are not recognised as assets or liabilities in the financial statements.

FRS26 'Financial Instruments: Measurement'
Requires third-party investments to be recorded at fair value rather than cost.

During the period the Company also adopted FRS23 'The Effects of Changes in Foreign Exchange Rates', FRS25 'Financial Instruments: Disclosure and Presentation', and FRS28 'Corresponding Amounts'. The adoption of these standards has not had a significant impact on the Company's financial statements.

Investments

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

The Company adopted FRS26 from 3 April 2005, as a result of which its third-party investments are categorised as available-for-sale and recorded at fair value from this date.

Changes in fair value, together with any related deferred tax, are taken directly to reserves, and recycled to the profit and loss account when the investment is sold or is determined to be impaired.

Share-based payments

The Company issues equity settled share-based payments to certain employees. Equity settled share-based payments are measured at fair value at the date of grant, and expensed over the vesting period, based on the Company's estimate of the number of shares that will eventually vest.

Fair value is measured by use of a Binomial model for share-based payments with internal performance criteria (such as Earnings Per Share targets) and a Monte Carlo model for those with external performance criteria (such as Total Shareholder Return targets).

For schemes with internal performance criteria, the number of options expected to vest is recalculated at each balance sheet date, based on expectations of performance against target and of leavers prior to vesting. The movement in cumulative expense since the previous balance sheet is recognised in the profit and loss account, with a corresponding entry in reserves.

For schemes with external performance criteria, the number of options expected to vest is adjusted only for expectations of leavers prior to vesting. The movement in cumulative expense since the previous balance sheet is recognised in the profit and loss account, with a corresponding entry in reserves.

The Company has applied the requirements of FRS20 'Share-based Payment', which in accordance with the transitional provisions has been applied to all grants of equity instruments after 7 November 2002.

Dividends

Dividends receivable from the Company's subsidiaries are recognised only when they are approved by shareholders.

Final dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recognised in the period in which they are paid.

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.

Financial instruments

The Company uses forward currency contracts to reduce its exposure to exchange rate fluctuations. From 3 April 2005, such contracts are measured at their fair value based on contracted exchange rates. Changes in fair value are recognised in the income statement.

Notes to the Company Financial Statements continued

2 Profit and loss account

In accordance with the exemption permitted by section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented separately.

Audit fees for the audit of the Company only financial statements are £0.01m (2005 – £0.01m).

3 Equity dividends

	2006 £'000	2005 £'000
Final dividend for the period ended 27 March 2004 of 0.90p per ordinary share	–	7,869
Interim dividend for the period ended 2 April 2005 of 0.55p per ordinary share	–	4,814
Final dividend for the period ended 2 April 2005 of 1.25p per ordinary share	11,005	–
Interim dividend for the period ended 1 April 2006 of 0.75p per ordinary share	6,438	–
	17,443	12,683

Proposed final dividend for the period ended 1 April 2006 of 1.75p per ordinary share	15,283	

The proposed final dividend for the period ended 1 April 2006 is subject to shareholders' approval at the Annual General Meeting and has not been included as a liability in these financial statements.

The expected cost of the proposed final dividend for the period ended 1 April 2006 reflects the fact that the Group's Employee Share Ownership Trust has agreed to waive its rights to receive dividends.

4 Fixed asset investments

	£'000
At 2 April 2005	415,402
Adoption of FRS25 and FRS26 (see note 12)	(2,294)
Restated at 3 April 2005	413,108
Additions	302,033
Disposals	(363)
Foreign exchange	6,253
Movements in fair value	4,830
At 1 April 2006	**725,861**

Included within fixed asset investments at 2 April 2005 is £409.3m relating to subsidiary undertakings and £6.1m relating to third-party investments. The third-party investments relate principally to an interest in Wireless Frontiers, an independently managed wireless investment fund.

The fair value of third-party fixed asset investments has been determined using European Venture Capital Association (EVCA) guidelines. Movements in fair value are recognised in reserves in accordance with FRS26 (see note 12).

Details of the Company's investments in material subsidiary undertakings is provided in note 14 to the Group's financial statements.

5 Current asset investments

	2006 £'000	2005 £'000
Forward currency contracts	80	–

6 Debtors

	2006 £'000	Restated 2005 £'000
Amounts falling due within one year:		
Amounts owed by Group undertakings	**787,831**	459,317
Prepayments and accrued income	**1,134**	627
	788,965	459,944
Amounts falling due after more than one year:		
Amounts owed by Group undertakings	**–**	21,152
	788,965	481,096

Following the adoption of FRS21, dividends receivable from subsidiaries are recognised only when approved by the shareholders. Included within amounts owed by Group undertakings at 2 April 2005 as previously reported were dividends receivable from subsidiaries of £161.4m.

7 Creditors: amounts falling due within one year

	2006 £'000	Restated 2005 £'000
Loans and overdrafts	**45,448**	67,499
Amounts owed to Group undertakings	**537,297**	353,007
Other creditors	**4,096**	11,296
Accruals and deferred income	**10,439**	4,784
	597,280	436,586

In accordance with FRS21, dividends proposed but not yet authorised of £11.0m recognised as a liability at 2 April 2005 have been derecognised.

8 Creditors: amounts falling due after more than one year

	2006 £'000	2005 £'000
Loans	**320,054**	98,420
Other creditors	**–**	2,538
	320,054	100,958

9 Financial instruments

The Company has applied the exemption under FRS25 not to disclose details of financial instruments held by the Company only. Full disclosure of the Group's financial instruments under IAS32 'Financial Instruments: Disclosure and Presentation' and IAS39 'Financial Instruments: Recognition and Measurement' is provided in note 20 to the Group financial statements.

10 Share capital

	2006 million	2005 million	2006 £'000	2005 £'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	**888**	877	**888**	877

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

Notes to the Company Financial Statements continued

11 Reserves

	Share capital £'000	Share premium £'000	Profit and loss account £'000	Total £'000
At 2 April 2005 as previously stated	877	402,136	106,324	509,337
Prior year adjustments (see note 12)	–	–	(150,383)	(150,383)
At 2 April 2005 as restated	877	402,136	(44,059)	358,954
Adoption of FRS25 and FRS26 (see note 12)	–	–	(2,461)	(2,461)
At 3 April 2005	877	402,136	(46,520)	356,493
Retained profit for the financial period	–	–	216,816	216,816
Change in fair value of fixed asset investments	–	–	4,830	4,830
Issue of share capital	11	16,223	–	16,234
Cost of share-based payments	–	–	3,199	3,199
At 1 April 2006	**888**	**418,359**	**178,325**	**597,572**

The profit attributable to the shareholders of the Company for the period is £234.3m (2005 – loss of £13.2m).

12 Reconciliation of movements in shareholders' funds

	2006 £'000	2005 £'000
Profit (loss) for the financial period	**234,259**	(13,172)
Equity dividends	**(17,443)**	(12,683)
	216,816	(25,855)
Change in fair value of fixed asset investments	**4,830**	–
Issue of share capital	**16,234**	4,877
Cost of share-based payments	**3,199**	2,427
Net movement in shareholders' funds	**241,079**	(18,551)
Opening shareholders' funds as previously stated	**509,337**	518,665
Prior year adjustments	**(150,383)**	(141,160)
Opening shareholders' funds as restated	**358,954**	377,505
Adoption of FRS25 and FRS26	**(2,461)**	–
Shareholders' funds at 3 April 2005	**356,493**	377,505
Closing shareholders' funds	**597,572**	358,954

As explained in note 1, the Company has implemented FRS21 in the period, and in accordance with the standard has restated prior period figures to reflect this.

As explained in note 1, the Company has implemented FRS25 and FRS26 in the period, and in accordance with the standard has restated shareholders' funds at 3 April 2005 to reflect this. The effect of the adjustment is to recognise a reduction in the fair value of fixed asset investments by £2.3m and a reduction in the fair value of forward currency contracts of £0.2m at 3 April 2005.

13 Related party transactions

The Company has taken advantage of the exemption under FRS8 'Related Party Disclosures' not to provide details of related party transactions with other Group companies, as more than 90% of the voting rights of the subsidiaries are controlled by the Group.

Five Year Record (unaudited)

	IFRS 2006 £m	IFRS 2005 £m	UK GAAP 2005 £m	UK GAAP 2004 £m	UK GAAP 2003 £m	UK GAAP 2002 £m
Headline results						
Revenue	**3,046.4**	2,355.1	2,355.1	1,849.0	1,841.5	1,152.7
EBITDA	**242.5**	173.3	154.8	122.8	90.0	72.8
PBT	**136.1**	100.4	102.1	76.3	57.0	46.8
Assets employed						
Non-current assets	**1,014.8**	730.2	674.0	604.6	511.7	412.7
Net current assets (liabilities) before provisions	**54.4**	(17.1)	0.1	25.1	24.4	72.9
Provisions	**(123.5)**	(57.8)	(68.0)	(40.2)	(31.1)	(42.4)
Non-current liabilities	**(326.7)**	(107.3)	(103.2)	(117.7)	(49.4)	(39.1)
Total assets and liabilities	**619.0**	548.0	502.9	471.8	455.6	404.1
Financed by						
Shareholders' funds	**619.0**	548.0	502.9	471.8	455.6	403.3
Equity minority interests	**–**	–	–	–	–	0.8
Funds attributable to equity shareholders	**619.0**	548.0	502.9	471.8	455.6	404.1
Headline earnings per share						
Basic	**12.4p**	9.3p	9.4p	6.8p	5.3p	4.4p
Diluted	**11.7p**	8.9p	9.0p	6.7p	5.2p	4.4p

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of The Carphone Warehouse Group PLC ("Company") will be held at the Ramada Encore Hotel, 4 Portal Way, Gypsy Corner/A40, London W3 6RT on 27July 2006 at 11am to consider the following business:

Ordinary Resolutions

1. To receive the accounts and reports of the Directors and Auditors for the period ended 1 April 2006.
2. That the Remuneration Report set out in the Annual Report 2006 be approved.
3. That a final dividend of 1.75 pence per ordinary share for the period ended 1 April 2006 be declared.
4. That David Ross be re-elected as a Director.
5. That Steven Esom be elected as a Director.
6. That David Mansfield be elected as a Director.
7. That Baroness Morgan be elected as a Director.
8. That Andrew Harrison be elected as a Director.
9. That Deloitte & Touche LLP be re-appointed as auditors of the Company and to authorise the Board to determine the auditors' remuneration.

Special Resolutions

10. That the Directors be generally and unconditionally authorised for the purpose of section 80(1) of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act), such authority being limited to the allotment and issue of relevant securities up to an aggregate nominal amount of £295,834 being the aggregate nominal amount of one third of the issued share capital of the Company as at 1 April 2006 and shall expire on the date falling 15 months after the passing of this resolution or, if sooner, at the conclusion of the Company's Annual General Meeting in 2007 and provided that the Directors may, at any time before such authority expires, make offers, agreements or other arrangements which would or might require such securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to any such offer, agreement or other arrangement as if such authority had not expired.
11. That the Directors be empowered pursuant to section 95 of the Act to allot equity securities (as defined in section 94(2) of the Act) pursuant to the authority conferred by resolution 9 as if section 89(1) of the Act did not apply to any such allotment, such power being limited to:
    - 11.1 The allotment of equity securities in connection with a rights issue in favour of the holders of ordinary shares of 0.1p each in the capital of the Company ("Ordinary Shares") where the equity securities respectively attributable to the interests of all such holders are proportionate (as nearly as may be practicable) to the respective numbers of Ordinary Shares held by them, but including, in connection with such an issue, the making of such arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements or problems under the laws of any territory or the requirements of any regulatory body or any stock exchange; and
    - 11.2 The allotment (other than pursuant to the powers conferred pursuant to resolution 11.1) of equity securities up to an aggregate nominal amount equal to £44,375 being five per cent of the aggregate nominal amount of the issued share capital of the Company as at 1 April 2006 and shall expire on the date falling 15 months after the passing of this resolution or, if sooner, at the conclusion of the Company's Annual General Meeting in 2007 save that the Directors may, at any time before such expiry, make offers, agreements or other arrangements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offer, agreement or other arrangements as if the power conferred hereby had not expired.
12. That the Company be and is hereby unconditionally and generally authorised for the purposes of section 166 of the Act to make market purchases (as defined in section 163 of the Act) of Ordinary Shares provided that:
    - 12.1 The maximum aggregate number of shares hereby authorised to be purchased is 88,750,138;
    - 12.2 The minimum price which may be paid is the 0.1p nominal value of each share;
    - 12.3 The maximum price (exclusive of expenses) which may be paid for such shares is an amount no more than 5% above the average of the middle market quotations of the Company's Ordinary Shares derived from the daily official list of the London Stock Exchange PLC for the five business days immediately before the day on which the purchase is made;
    - 12.4 This authority shall expire on the date falling 15 months after the passing of this resolution or, if sooner, at the conclusion of the Company's Annual General Meeting in 2007; and
    - 12.5 The Company may make a contract or contracts to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts.

By order of the Board

T.S.Morris
Company Secretary

6 June 2006

Registered Office
1 Portal Way
London
W3 6RS

Explanatory Notes to the Resolutions

Remuneration Report
Resolution 2
The Company is required under the Directors' Remuneration Report Regulations 2002 ("Regulations") to produce a remuneration report for shareholders which must comply with the Regulations, be approved by the Board and filed with the Registrar of Companies. The Report must also be approved by the shareholders.

Dividend
Resolution 3
Final dividends must be approved by shareholders but must not exceed the amount recommended by Directors. If the meeting approves the final dividend it will be paid out in accordance with the Financial Calendar set out on page 77 of the Annual Report.

Directors
Resolutions 4, 5, 6, 7 and 8
David Ross is required to retire by rotation and to stand for re-election every three years pursuant to the Company's Articles of Association adopted on 13th July 2000 ("Articles"). Steven Esom and David Mansfield were appointed as Directors with effect from 29 September 2005. Sally Morgan was appointed as a Director with effect from 1 November 2005 and Andrew Harrison was appointed as a Director with effect from 3 April 2006. The Articles require that all Directors appointed by the Board are elected by the Company's shareholders at the Annual General Meeting following their appointment. No director may vote in respect of his own appointment. Biographical details of those Directors seeking election and re-election are given on page 21 of the Annual Report and will be available at the meeting.

Auditors
Resolutions 9
The Company is required to appoint auditors at each general meeting at which accounts are presented, to hold office until the end of the next such meeting. This resolution is recommended by the Audit Committee and proposes the re-appointment of the Company's existing auditors Deloitte & Touche LLP, and follows good practice in giving authority to the Audit Committee to determine their remuneration.

Allotment of shares
Resolutions 10 and 11
These resolutions renew the Directors' authority to issue relevant securities up to an aggregate nominal amount of £295,834 being a sum equal to one third of the issued ordinary share capital of the Company at 1 April 2006.

The Directors will also be able to make issues for cash on a non pre-emptive basis. The proposed limit of £44,375 represents 5% of the nominal amount of the issued ordinary share capital as at 1 April 2006.

The Company had 887,501,376 ordinary shares of 0.1p each in issue at 1 April 2006 and the Company's authorised share capital is 1,500,000,000 ordinary shares of 0.1p each.

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

Repurchase of shares
Resolution 12
This grants the Company authority to purchase its own shares up to a maximum amount of 88,750,138 until the Annual General Meeting in 2007. The Companies Act 1985 permits a company to purchase its own shares provided that the purchase has been authorised by the Company in a general meeting. It is common practice for listed companies to seek such authority and the Directors consider that it is prudent to seek such authority at the Annual General Meeting.

The amount represents 10% of the ordinary shares in issue as at 1 April 2006. The authority is limited to the stated upper and lower prices payable for the shares which reflects the requirements of the UK Listing Authority.

As at 6 June 2006 there were 77,135,884 outstanding options granted and unexercised under all share option schemes operated by the Company which, if exercised, would represent 8.7% of the existing issued ordinary share capital of the Company. If this authority to repurchase was exercised in full, such options would represent approximately 9.5% of the issued share capital at such date.

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

General notes

1. Eligibility to attend
The Company specifies that only those shareholders on the register of members as at 6pm on 25 July 2006 are entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after 6pm on 25 July 2006 shall be disregarded in determining the right of any person to attend or vote at the meeting.

2. Proxy voting
A shareholder who is entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and, on a poll, to vote on his/her behalf. A proxy need not be a member of the Company. To be valid, a form of proxy, a form of which is enclosed, and any power of attorney or the authority under which it is signed or a duly certified copy thereof must be lodged with the registrars of the Company, Lloyds TSB, whose details are found on page 21 of the Annual Report, before 11am on 25 July 2006. Shareholders who return completed proxy voting forms may still attend the meeting instead of their proxies and vote in person if they wish. In the event of a poll in which the shareholder votes in person, his/her proxy votes lodged with the Company will be excluded.

3. Electronic voting
Instructions for registering your votes electronically are appended to the form of proxy enclosed with this notice.

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 7RA01) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

Explanatory Notes to the Resolutions continued

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

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

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

6. Directions
Directions to the address of the meeting are as follows:

From the West
Exit M25 at junction 16 and take the M40 eastbound towards Central London. Continue onto A40 along Western Avenue. At the Gypsy Corner interchange, turn onto A4000, Victoria Road, towards North Acton. Take the first right onto Portal Way and then first right again. The hotel is situated 200m along on the right.

From the North
Exit M1 at junction 1. At Staples Corner roundabout, join the A406 North Circular Road, westbound. At Hangar Lane roundabout, take second exit onto A40 direction Central London. After approximately 1 mile, turn left at the Gypsy Corner interchange onto A4000, Victoria Road, towards North Acton. Take the first right into Portal Way and then first right again. The hotel is situated 200m along on the right.

From the South
Take the M25 clockwise, exiting at junction 16 and take the M40 eastbound towards Central London. Continue onto A40 along Western Avenue. At the Gypsy Corner interchange, turn left onto A4000, Victoria Road, towards North Acton. Take the first right into Portal Way and then first right again. The hotel is situated 200m along on the right.

From London
Take the A501 westbound onto the A40. Turn left onto A4000 towards Acton. Follow road round to the right, and at traffic lights cross the A40 onto Victoria Road towards North Acton. Take the first right into Portal Way and then first right again. The hotel is situated 200m along on the right.

By tube
The nearest tube station is North Acton (on the central line). As you leave the station turn right and walk up the steps and down the path. At the end of the path you will see the BBC building directly in front of you, walk across the road and turn right. Follow the road round towards the left. You are now in Portal Way, cross the road and follow signs to the Ramada Encore Hotel.

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

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

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

Their contact number is: 0845 604 1207.

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

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

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

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

13. Smoking
Smoking will not be permitted in the auditorium.

Financial Calendar

	Key dates
Results announcement	6 June 2006
Ex-dividend date	5 July 2006
Record date	7 July 2006
Dividend payment date	4 August 2006
Interim results announcement	2 November 2006

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