The Carphone Warehouse Group PLC
Annual Report 2008

Delivering value

to customers and shareholders

The Carphone Warehouse

your phone, your way

Adapting to change

Positioning our business for the connected world

Our business has changed dramatically over the past five years, from a leading independent retailer of mobile phones to a full service telecoms provider, meeting the evolving needs of customers.

Investment
Scale
Efficiency
Proposition

The Carphone Warehouse
your phone, your way

The Carphone Warehouse theory of

evolution

15 years ago, The Carphone Warehouse was just a mobile phone retailer that made all its money at the point of sale and was totally reliant on growth in the mobile phone market for its business.

Over time, we have evolved the business model, both by introducing new services and by changing our terms of trade. Today, we offer customers the widest range of third party and own-brand communications services, coupled with impartial Carphone advice; and, unlike any other retailer in the world, we generate most of our profit through ongoing customer relationships, rather than through transactional revenue in our stores.

For more information, refer to our Group Overview on page 4.

Distribution

1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000

First MVNO launched

Under our virtual network operations we repackage mobile network capacity under our own brands to provide niche services to customers.

Insurance service launched

We provide 2.4m customers protection from loss, theft or damage of their mobile phone, and illegal usage of their airtime contract. We honour a very high proportion of claims within 24 hours. As we move into a broader product suite incorporating laptops and other connected devices, our insurance business continues to afford attractive growth prospects.

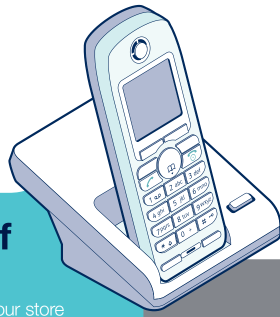
ARPU sharing agreements

We entered into our first ARPU sharing agreements with network operators, enabling us to share in the monthly spend of customers, improving earnings visibility and aligning our interests more closely with those of the networks.

International expansion

CPW entered the international retail market by opening its first stores in Ireland and under the Phone House brand in France. We now have over 2,400 stores in 9 European countries.

Distribution
UK Fixed Line



Launch of TalkTalk

Taking advantage of our store network, the Opal acquisition and the liberation of the UK fixed line telephone market, we launched TalkTalk as a direct competitor to BT.

TalkTalk

Best Buy Joint Ventures

We entered into two commercial agreements with Best Buy, a leading US consumer electronics retailer. Firstly, we launched Best Buy Mobile, an independent mobile retail format in the US, and secondly we launched the Geek Squad, a home technology support business, in the UK.

Acquired AOL internet access business

Acquiring the AOL UK broadband customer base, we became the number 3 broadband service provider in the UK.

2001 2002 2003 2004 2005 2006 2007

2002 2003 2004 2005 2006 2007

UK Fixed Line

Opal Telecom PLC acquired

We acquired Opal, a fixed line network operator serving the business market, in 2002. Its highly efficient telecoms network provided the platform for our push into the residential telephony market.

Onetel and Tele2 acquired

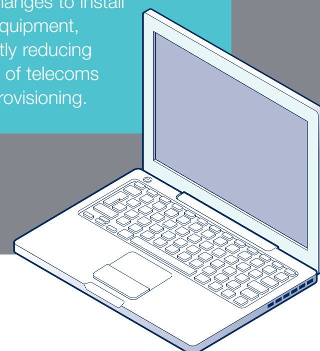
CPW acquired Onetel and Tele2 UK, two of our main competitors in residential telecoms, thus doubling our market share.

Launch of free broadband and LLU roll-out

Ofcom introduced regulated pricing on Local Loop Unbundling (LLU), which allowed CPW to access BT's exchanges to install its own equipment, significantly reducing the costs of telecoms service provisioning.

TPHT acquired

We acquired Hutchison Telecommunications GmbH, a German mobile service provider with over 500,000 subscription customers. We rebranded this business The Phone House Telecom.



The technological revolution

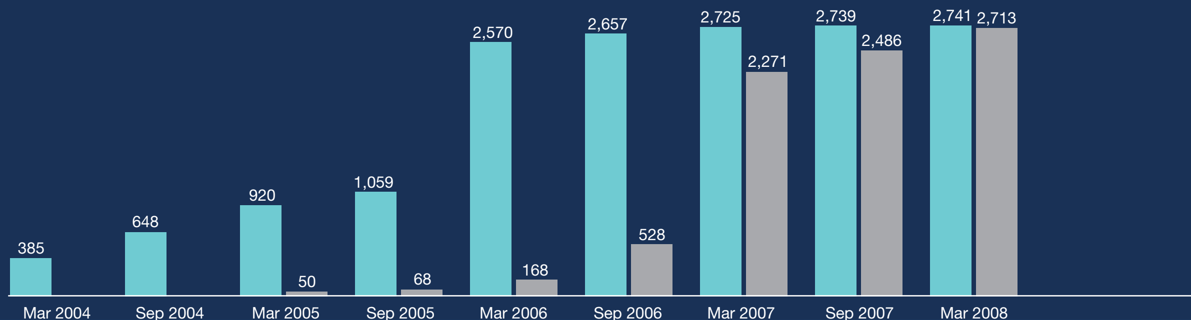
The growth of our business now means we are a full service provider attracting ‘mobile’ customers.

2004
After 15 years of rapid growth and innovation, the Distribution business was generating revenues of £1.6bn – nearly 90% of total Group revenue – and substantially all of its EBIT. The UK Fixed Line business, built on the foundations of the Opal acquisition in 2002, was just beginning to demonstrate rapid organic growth, with TalkTalk signing up nearly 400,000 customers in its first year.

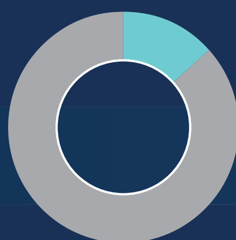
2008
Four years later, and Distribution revenues have almost doubled, driven by significant market share gains and a substantial store opening programme. However, through a series of acquisitions, a major network investment programme and the launch of ground-breaking new services, UK Fixed Line now accounts for nearly a third of Group revenues and over 40% of EBIT before central overheads.

Evolution of UK Fixed Line Business (000s)

Voice Broadband

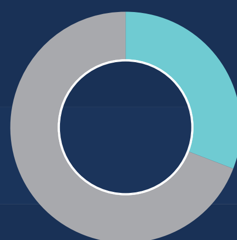


2004: Revenue Mix



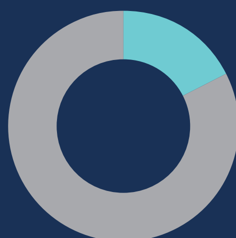
£1,862m
Total Revenue before eliminations
UK Fixed Line: 13%
Distribution: 87%

2008: Revenue Mix



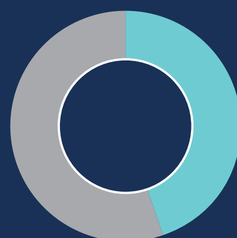
£4,516m
Total Revenue before eliminations
UK Fixed Line: 31%
Distribution: 69%

2004: EBITDA



£137m
EBITDA before PLC costs
UK Fixed Line: 18%
Distribution: 82%

2008: EBITDA



£502m
EBITDA before PLC costs
UK Fixed Line: 45%
Distribution: 55%

Our changing customer

For nearly 20 years we have been providing customers with simple, impartial advice on their choice of mobile phone, network and tariff. Today, customers understand their basic mobile phone needs very well; but at the same time, their need for help and advice in other rapidly-changing areas of connectivity is greater than ever.

As a provider of both home and mobile broadband and voice services, we are perfectly placed to deliver the “Connected World” to customers – giving them everything they need to enjoy a seamless experience as they access, edit, share and store a wide range of content both at home and on the move. Our recent partnership with Best Buy and our major push into the laptop market are just the first steps in a long journey along the next growth path.

For more information, refer to the Chairman’s Statement on page 6.

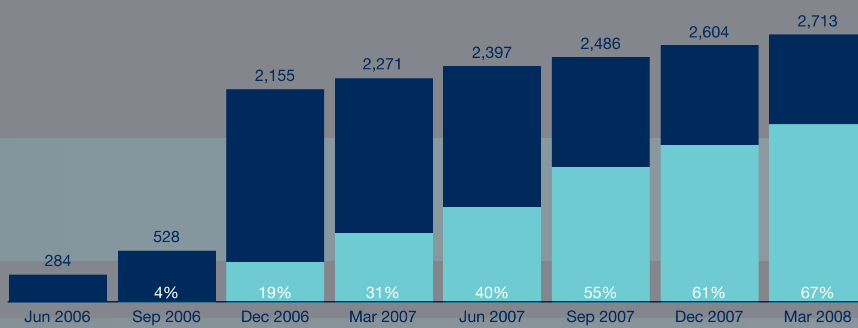
Our competitive

advantage

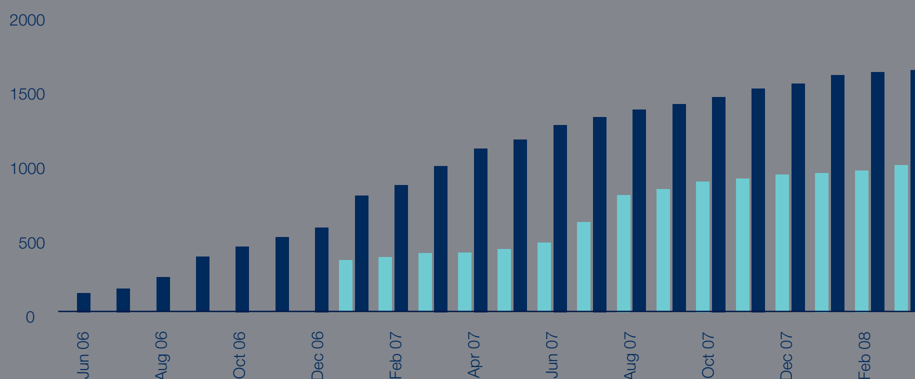
Our UK Fixed Line business has grown from its launch five years ago to being the number three operator, through a combination of organic growth and strategic acquisitions.

We have three major competitive advantages in our UK Fixed Line business: our distribution, our telecoms network and our scale. We are the only major residential telecoms player in the UK with a network of stores, which provide a consistent and low cost channel for customer recruitment. Increasingly they are also playing a role in explaining the complexities of wireless technology to customers. Our telecoms network is the only large scale all-IP network in the UK, meaning that voice and data traffic is carried over a single infrastructure, making us highly cost efficient and allowing the development of new value-added services over time. Scale is essential to generate an attractive return from the high fixed costs of a telecoms network; it creates barriers to entry for new players and means that the profitability of each marginal customer is very high.

Nearly 70% of customers on CPW Networks (000s)



Unbundled exchanges now covering around 80% of the UK population



Competitors' networks

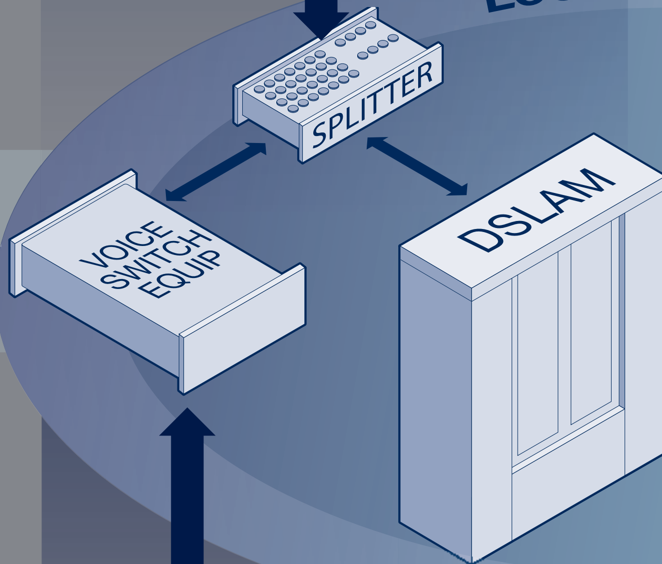
Last Generation Network 1970's to 2005

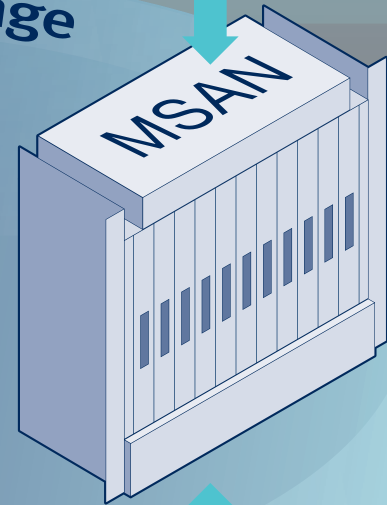
- Voice and data separate exchange networks
- High costs to run two networks
- Limited product set
- Limited customer experience

Carphone Warehouse networks

Next Generation Network 2005 to future

- CPW bypasses BT equipment
- Broadband and voice across own network
- Lower cost base
- Competitive tariffs
- Cost advantage to customer
- New services onstream quickly
- Better customer experience – control and choice over services





Local exchange

Voice network

Data network

Combined voice and data network

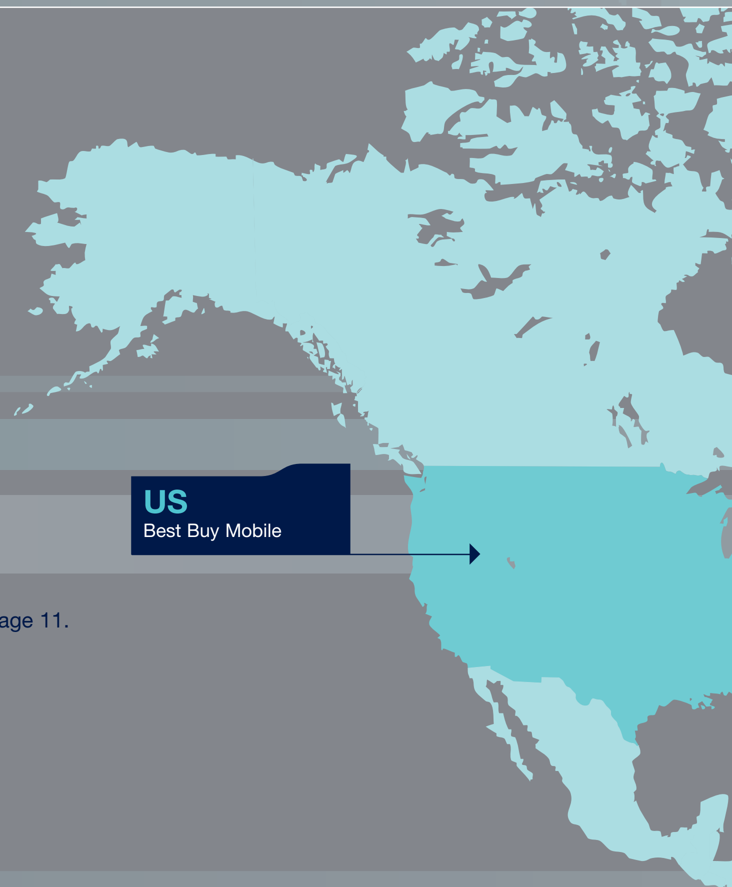
For more information, refer to the glossary on page 5.

Our exciting prospects

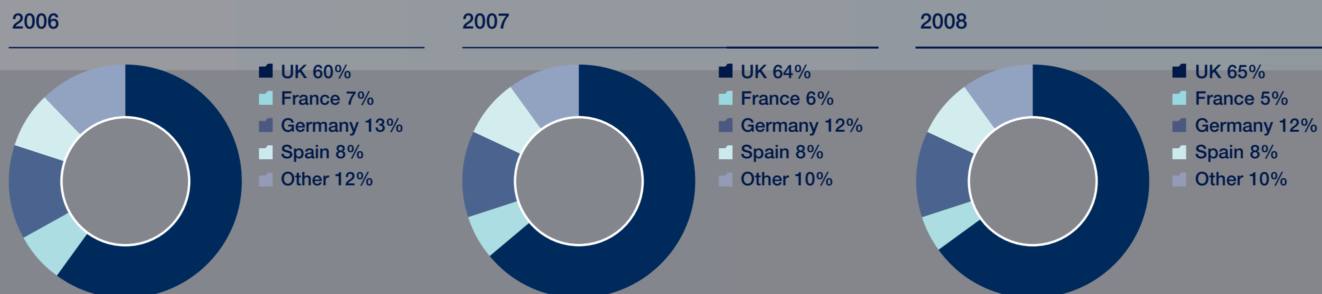
Carphone Warehouse has continued to grow strongly over its short life by always looking around the corner to see how its markets are likely to change.

We then adapt the model accordingly to take advantage of new growth opportunities and defend ourselves from new challenges. The present is no different. We are on the cusp of a new wave of growth in the mobile industry, as mobile data services become truly mass market and customers begin to use their handsets and other connected devices for services beyond voice and text messaging. The growth we are experiencing in the sale of mobile email platforms, smart phones and mobile broadband is just the start of this process: during the coming year, we will be rolling out a range of laptops into all our UK stores, for connection to fixed or mobile broadband networks; as we enter 2009, we will be trialling the first "big box" format stores with our new partner Best Buy; who knows what additional devices and services will be available in the near future?

For more information, refer to our Operating Review commencing on page 11.



Revenue



New growth opportunities

With our proven entrepreneurial vision and a strong balance sheet, we are well positioned to take advantage of new growth opportunities in the coming years. We see scope for continued roll-out of our small format Carphone Warehouse and Phone House stores, as we seek to grow our market share across Europe and evolve our retail model. The new venture with Best Buy has the potential to re-invent consumer electronics retailing in a number of European territories and create significant value for shareholders. Finally, the value of providing broadband to people's homes is, we think, only just beginning to be realised. In the future, the broadband connection will be the hub of an extraordinary array of devices and services in the home. We aim to invest in the quality and capacity of our network, in the development of innovative new services, and in further customer acquisition, to maximise the value of the asset we have created.

Netherlands
Stores: **191**
Connections: **0.33m**

UK
Stores: **808**
Connections: **6.21m**

Sweden
Stores: **95**
Connections: **0.46m**

Ireland
Stores: **69**
Connections: **0.55m**

Belgium
Stores: **84**
Connections: **0.42m**

Portugal
Stores: **168**
Connections: **0.47m**

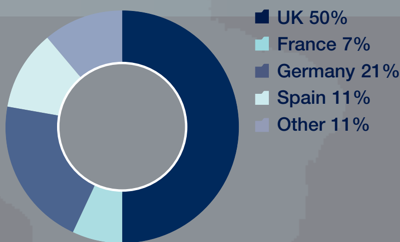
Germany
Stores: **265**
Connections: **0.43m**

France
Stores: **311**
Connections: **0.93m**

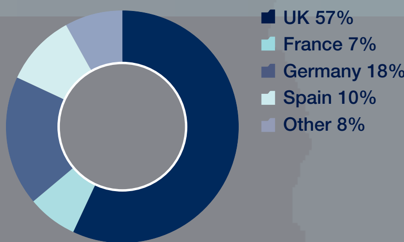
Spain
Stores: **420**
Connections: **1.52m**

EBITDA

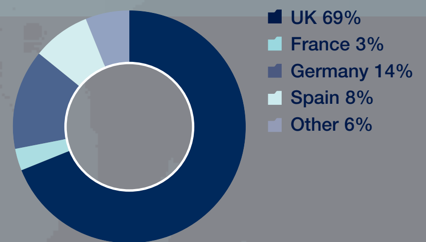
2006



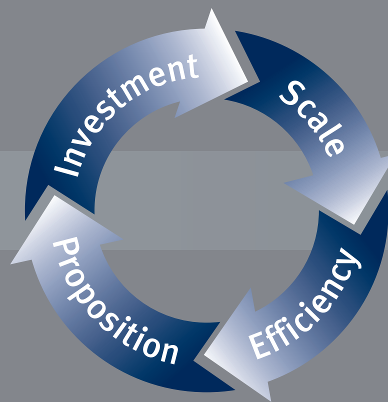
2007



2008



The connected world is here...



For more information on our strategy, refer to page 8.

The Carphone Warehouse

your phone, your way

The Carphone Warehouse Group PLC
Annual Report 2008

The Carphone Warehouse

your phone, your way

The Carphone Warehouse is Europe's leading independent retailer of mobile phones and services, with over 2,400 stores in 9 countries.

Over the past 5 years, The Carphone Warehouse has built up a substantial Fixed Line business, which already contributes a significant proportion of the Group's profits and is set to be a major driver of future profitable growth.

To find out more about The Carphone Warehouse Group PLC visit:
www.cpwplc.com

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Delivering on our broadband promises

The major achievement of the last 12 months has been the material uplift in UK Fixed Line profitability from migrating customers onto our own highly efficient network.

Summary 2007/08

- Continued strong growth in revenues and earnings
- Total telecoms subscription connections* up 13%
- 267 net new stores opened
- Over 2.7m UK broadband customers
- 1.8m customers unbundled, equivalent to 67% of the broadband customer base
- Continued investment in broadband infrastructure

Headline Financials**

Revenue

£4,474m

2007: £3,992m

Revenue up 12%, reflecting continued connections growth and expansion of the broadband base

EBITDA

£466m

2007: £294m

EBITDA up 59%, as broadband moves strongly into profitability

Profit Before Tax (PBT)

£216m

2007: £123m

PBT growth of 75%, driven by the benefits of migrating customers onto our own telecoms network

Earnings Per Share (EPS)

20.1p

2007: 11.8p

Headline basic EPS up 70%, reflecting the strong rise in Headline PBT and the continued benefit of a low effective tax rate

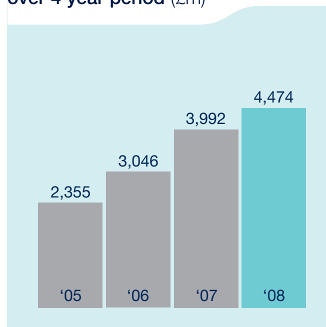
*Telecoms subscription connections represent combined mobile and fixed line subscription connections.

**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.

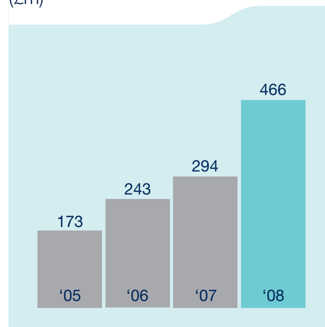
Headline Financials

	2008 £m	2007 £m
Revenue	**4,474**	3,992
Headline results		
EBITDA	**466**	294
Profit before tax	**216**	123
Earnings per share	**20.1p**	11.8p
Statutory results		
Profit before tax	**124**	68
Earnings per share	**13.0p**	7.5p
Reorganisation costs	**15**	–
Dividend per share	**4.25p**	3.25p

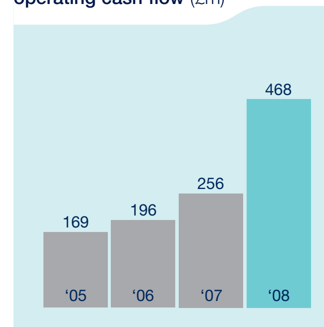
Compound revenue growth of 17% over 4 year period (£m)



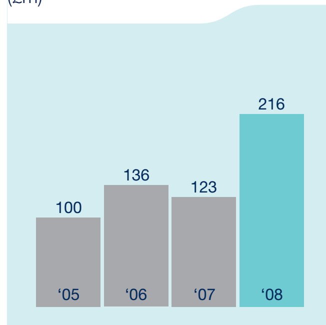
EBITDA up 59% year-on-year (£m)



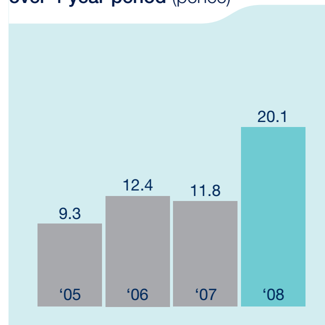
Continued strong growth in operating cash flow (£m)



Year-on-year PBT growth of 75% (£m)



Compound EPS growth of 21% over 4 year period (pence)



Dividend up 31% (pence)

Improving quality of service and profitability

The Carphone Warehouse is Europe's leading independent retailer of mobile phones and services, with 2,411 stores across 9 countries. Our UK Fixed Line business has grown from its launch five years ago to being the number three operator in residential telephony and broadband, through a combination of strong organic growth and strategic acquisitions.

Distribution

Comprises our Retail operations, mobile airtime reselling business and all other directly related business streams.

Overview of Business Divisions

Retail (including Online)

Provision of mobile handsets and connections, accessories, and related products and services through 2,411 stores, call centres and the web across 9 European countries.

Strategy
To grow our market share by opening new stores and developing additional distribution channels; to evolve the business model, to address the changing needs of customers by providing a wider range of hardware and connectivity options.

Insurance

Provision of insurance products covering loss, theft or damage to mobile handsets. 2.4m customers across Europe.

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 through improved management of existing customers.

Ongoing

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

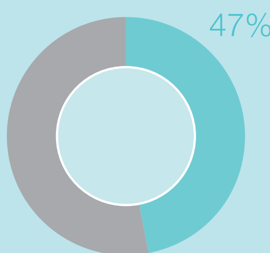
Strategy
To maintain or improve existing arrangements and seek ARPU-sharing agreements with additional networks.

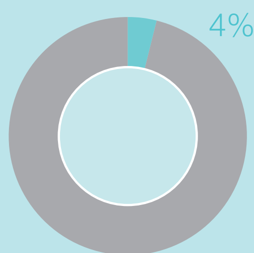
Mobile

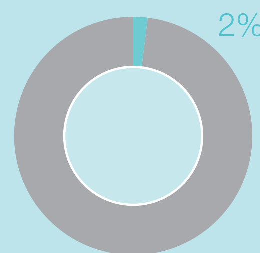
Reselling mobile network capacity and developing our own brands to broaden the proposition available to our retail customers in the UK and Germany.

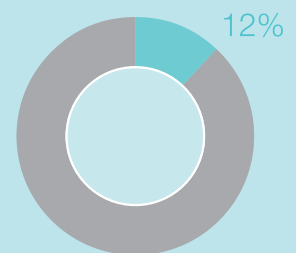
Strategy
To bring innovative products to market to attract new customers and to manage existing customers profitably.

% of Group Revenue









Brands

UK Fixed Line

Comprises our business-to-business and residential fixed line telecoms business in the UK.

Overview of Business Divisions

Business (B2B)

Provision of voice, data and value-added services to businesses in the UK.

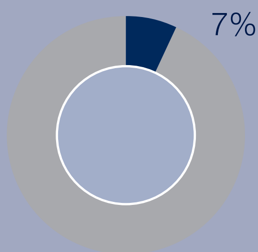
Residential

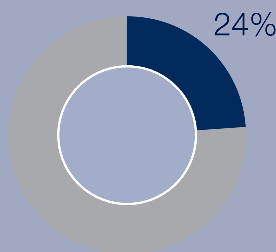
Provision of voice and broadband services to residential customers in the UK under the TalkTalk and AOL brands.

Both businesses are supported by our nationwide, state-of-the-art all IP-network which delivers voice and data traffic in a highly cost-effective manner.

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.

% of Group Revenue





Brands

Glossary

ARPU
Average revenue per user: applies to both mobile and fixed line customers. Usually quoted as a monthly figure.

CPS
Carrier Pre Selection: the platform on which TalkTalk has grown to date, whereby calls are switched from BT onto an alternate service provider's network at the local exchange level.

DSLAM
DSL Access Multiplexor: First generation unbundling infrastructure, handing off voice and data over DSL between the customer and the unbundler's backhaul and core network, installed into BT exchanges.

IP Network
Internet Protocol Network: packet switched technology used on the internet. The method by which both voice and data will be switched over Next Generation Networks.

ISP
Internet Service Provider: company providing internet access.

LLU
Local Loop Unbundling: process that allows other operators access to BT's local loop, by installing equipment in BT's exchanges and physically moving over a customer's line.

Local loop
The copper wire that connects houses to the BT local exchange network.

Migration
The process of moving a customer from BT's wholesale products onto our own unbundled lines.

MPF or full unbundling
Providing both broadband and telephony services to customers from our own exchange infrastructure.

MSAN
Multi Service Access Node: Second generation exchange equipment used to connect copper loop. Differs from a DSLAM in that it converts normal circuit-switched voice calls into IP for transmission, whereas a DSLAM can only handle IP voice.

MVNO
Mobile Virtual Network Operator: a mobile service provider with no network infrastructure of its own, that "piggybacks" off a network operator at a commercially-negotiated wholesale rate.

OFCOM
The UK regulatory body for the telecoms and media industries.

Openreach
The access services division of BT, responsible for delivering equivalence of service on a range of access products. The result of the regulatory settlement between BT and OFCOM.

SMPF or partial unbundling
Providing broadband services to customers from our own exchange infrastructure.

> "We have successfully identified and exploited new areas of growth in mobile data, which have offset a slower handset market"
>
> **John Gildersleeve,** Chairman

Overall, the Group has made further substantial progress this year. In our Distribution business, we have not only continued to grow our European footprint, but have successfully identified and exploited new areas of growth in mobile data, which have offset a slower handset market. Our Fixed Line business has delivered on its promises, achieving a remarkable uplift in margin through the migration of customers onto our own network.

Improving customer service

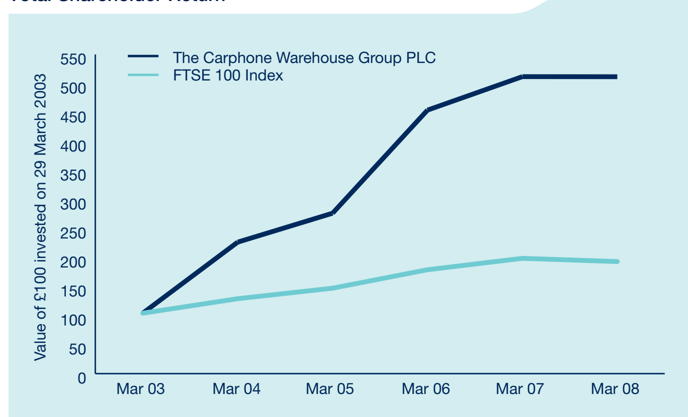
Importantly, we have also made significant investments in, and improvements to, our broadband customer service, which let our customers down last year. We still have much work to do to meet our aspiration of differentiating ourselves positively through the service we offer, but we are now firmly on the right track, as recent surveys have begun to indicate. While people often think of customer service as the speed and accuracy of response in our call centres, which has improved markedly, the customer experience should also encompass the simplicity of the product, the ease of set-up, and the quality of the connection in terms of both speed and reliability. All of these elements continue to have our full attention.

Financial performance

Financial performance this year has been strong. Group revenue for the period was £4,474m, a rise of 12% on last year's figure of £3,992m. Headline pre-tax profit was up 75% to £216m, reflecting the reversal of last year's steep losses incurred as we launched Free Broadband. The divisions' financial performance reflected a reversal of last year's trends. Distribution EBIT was broadly flat at £175m, as good top line growth was offset by rising costs as we evolved the business, a disappointing performance from our non-store channels and the losses incurred in exiting our Swiss retail business. UK Fixed Line EBITDA was up from £69m to £226m. EBIT also grew strongly from £20m to £126m, as we moved a significant proportion of our broadband customer base onto our own network and enjoyed much lower running costs as a result.

Headline earnings per share rose 70% to 20.1p (2007: 11.8p). Statutory profit before tax, after the amortisation of acquisition intangibles and reorganisation costs relating to the AOL acquisition, was £124m (2007: £68m), while statutory earnings per share rose 73% from 7.5p to 13.0p. Cash generated from operations was up 83% to £468m (2007: £256m) with year-end net debt of £843m (2007: £617m) affected by the strengthening of the Euro and Swiss Franc in the latter part of the year. The Board is proposing a final dividend of 3.00p, taking the total for the year to 4.25p (2007: 3.25p). This represents a year-on-year increase of 31% and underlines the Board's confidence in the Group's continued growth.

Total Shareholder Return



Source: Thomson Financial

This graph shows the value, by 29 March 2008, of £100 invested in The Carphone Warehouse Group PLC on 29 March 2003 compared with the value of £100 invested in the FTSE 100 Index. Values are calculated on a rolling 3-month average basis. The other points plotted are the values at intervening financial year ends.

Joint ventures

In May 2008 we announced that we had reached agreement with Best Buy, our US partner, to form a new company to pursue growth opportunities across Europe. As part of the agreement, we are contributing our retail and related businesses into the new company. Best Buy will pay Carphone Warehouse £1.1 billion for a 50% stake in the venture. We believe that the combination of the two companies' skills will allow us to accelerate the development of our own retail proposition, as described above, and to introduce Best Buy's large format consumer electronics stores into Europe. Both of these opportunities are significant and we are confident that they will deliver material value to shareholders over the longer term. The proposed transaction remains subject to shareholder approval and is expected to complete by the end of June 2008.

A key reason for our enthusiasm for working with Best Buy in Europe is the great early success we have enjoyed with them in the US, where we have a share in the profits of its new mobile retail format, Best Buy Mobile. We are in the middle of a very rapid roll-out across all of Best Buy's US stores, which is expected to be complete during calendar year 2008 – a year ahead of our previous plans. Store conversions have been achieving an extraordinary uplift in sales, and customers are responding enthusiastically to our proposition.

UK Fixed Line business

In our Fixed Line business, we expect to complete the integration of AOL over the next six months. This will deliver additional cost efficiencies and allow us to offer a fuller product suite to AOL customers on our network. In addition, we have accelerated our Network Unification Project, which allows us to scale up capacity into all our exchanges to address our customers' growing demand for bandwidth. The project will deliver significant additional capacity with little impact on fixed operating costs and gives us excellent visibility of our network economics for the foreseeable future.

Outlook

A year ago I wrote here about our great disappointment over our failure to deliver an adequate service to our broadband customers, and our determination to get it right. We are only halfway there – but we would never have got this far if it were not for the dedication, passion and aptitude of our employees, whether in stores, contact centres, IT or management. These are the same qualities that will enable us to be famous again for good service, and re-invent our retail model with the changing times. On behalf of the Board I extend my warmest thanks to all of our employees.

John Gildersleeve,
Chairman

> "As always, we place the potential for long-term value creation above the shorter-term vagaries of stock market fashions"
>
> **Charles Dunstone,** Chief Executive Officer

This has been a very successful year for The Carphone Warehouse. Financially we have performed very well, with 12% growth in revenues and 75% growth in headline pre-tax profit. Perhaps more importantly, our operational performance has improved significantly. The additional investment in our telecoms customer service we highlighted last year has started to pay off, and our network investment is delivering better speeds and reliability to an ever increasing proportion of the population. Ultimately all of this has a direct financial payback: it improves the worth of the brand in the marketplace, making customer recruitment easier; and it drives down customer churn, increasing customer lifetime value.

We have grown strongly but we have also invested heavily: in our telecoms network, our IT infrastructure, our stores and customer recruitment. We are confident that this is all money well spent and will generate a good return for shareholders over time. Weighing capital structure considerations against opportunities to invest and grow is always a difficult balance to strike. However, as always we place the potential for long-term value creation above the shorter-term vagaries of stock market fashions.

As a result net debt has increased substantially this year, affected also by the weakness of sterling. But we will continue to invest in areas which deliver competitive advantage: store growth, network capacity and resilience and broadband market share, where we see good future returns. We believe that our shareholders will continue to support us in this strategy for as long as we explain our investment strategy coherently and demonstrate value creation.

Headline Financials

	2008 £m	2007 £m
Revenue	**4,474.4**	3,991.5
Distribution	3,116.2	2,917.8
UK Fixed Line	1,399.6	1,084.3
Eliminations	(41.4)	(10.6)
EBIT	**258.3**	149.5
Distribution	175.0	176.9
UK Fixed Line	125.6	19.7
PLC costs	(36.2)	(37.2)
JVs	(6.1)	(9.9)

After the year end, we announced one of the most important developments in the Group's history: the formation of a new company with Best Buy, one of the world's leading consumer electronics retailers and our partner in the US market. Under the terms of the deal, we are to receive £1.1 billion in cash, and Best Buy will become 50% owners of our retail chain and related assets. The newly formed company will not only accelerate the evolution of our existing store proposition, as described below, but also look to seize the significant opportunity presented by the European consumer electronics market.

I make no apology for the short-term negative impact on our earnings that this transaction creates. It should be seen in the context of the long-term growth opportunities it presents, both for our core business and new areas of retail where we have no current expertise but where Best Buy are global leaders. I believe we have entered a new and very exciting growth phase for the business.

Strategic context

Our strategic approach is built on three primary objectives. The first and third of these objectives have been consistent for a number of years; the second objective has changed over time to reflect the proposed evolution of the retail business:

- To continue to grow mobile handset market share in all our geographical markets, by investing in new store openings, achieving increased productivity from our existing estate, and developing additional distribution channels;
- To develop our retail proposition to meet the changing needs of customers and suppliers, so that we offer the widest range of mobile and fixed line broadband services and associated hardware alongside the core mobile phone offer; and
- To become the leading alternative provider of fixed line telecommunications services in the UK.

Through organic growth and acquisition, we have built up a unique set of assets: a network of stores that act as the focal point of our interaction with customers, both mobile and fixed line; a comprehensive fixed line telecoms network covering the whole of the UK, delivering a mass market all-IP platform that no-one else in the UK has yet replicated on the same scale; and significant customer bases, creating valuable annuity revenue streams to improve the quality of our earnings. Our strategic objectives aim to leverage these assets to deliver long-term growth and value creation to shareholders.

Growing our retail presence

Our core business of helping customers with their choice of mobile handset, network and tariff remains one with attractive financial returns and ongoing growth opportunities. Although Western European markets are quite saturated, we believe that our constantly evolving proposition can allow us to continue to grow market share, and establish ourselves as the leading independent distributor in all of our geographical markets. We see no structural barrier to reaching a similar share in our other European markets as we see in the UK over time.

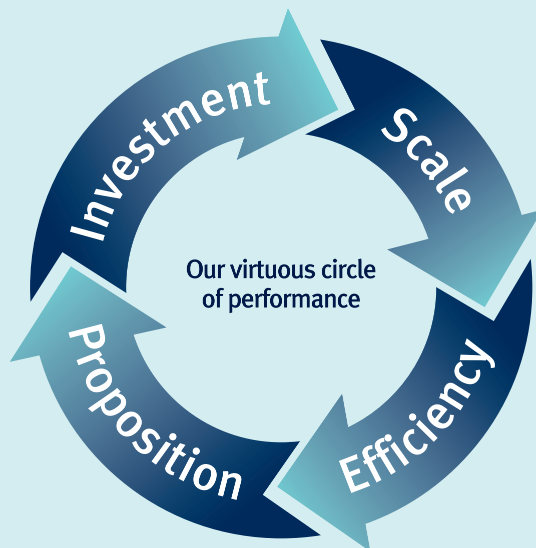
Why is market share important? Firstly, it makes us the independent distributor of choice for network operators and handset vendors. Our scale can influence their share of the market, and our trading terms reflect this. Furthermore, our focus on handset range and availability is supported by a regular supply of exclusive and first-to-market models which differentiates us from our competitors.

Secondly, our growing market share allows us to reinvest the benefits of scale into our customer proposition: improved terms from networks and

> "We see considerable scope for further expansion in Europe and the US"

Charles Dunstone, Chief Executive Officer

Our Strategy in Focus



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.

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.

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 and an improved customer experience.

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.

better handset availability from vendors translates into the best value and choice for our customers. It is a virtuous circle, with this reinvestment in turn generating further market share gains.

This year our store base grew by 267 net new stores. We opened 390, closed or relocated 138, acquired a chain of 77 stores in Portugal at the start of the year and sold our 62 Swiss stores just before the year end. This shows how active we are in managing our portfolio – both with respect to individual stores and also in relation to whole geographical markets. Our store base has almost doubled in the last four years.

After five years of sustained growth in the European handset market, as further penetration growth was supported by an accelerating replacement cycle, many of our territories saw flat or negative market unit growth. It is a testimony to the strength of our customer proposition that we recorded mobile connections growth of 15% in this market environment. In fact our retail chain did even better than these numbers suggest, with total connections growth of 16% adjusting for a very weak year-on-year performance from our "off-the-page" channel in the UK.

The key drivers of growth were the explosion in mobile broadband modems, and a growing consumer interest in the "smartphone" category of handsets that combine traditional calls and text messaging services with email and other data functionality. This was a trend that we identified early, and we added significant value to our network operator partners by recruiting material volumes of high value data customers on their behalf. These trends are set to continue in the coming year.

Best Buy Mobile, our US retail venture in partnership with Best Buy, has comfortably exceeded our expectations. We have accelerated our roll-out plans twice over the last 12 months and now intend to have a presence in every Best Buy store in the US by the end of the current calendar year. The customer response has been very positive and this has translated into material sales uplifts. We are confident that, over time, this business can become a meaningful "third leg" to the Group.

Looking forward, the next 12 months offer an exciting combination of new growth opportunities and management challenges. We have chosen to slow our rate of physical expansion temporarily, diverting more of our resources towards the evolution of our retail proposition described in the next section. Once we are satisfied that we have developed the right formula of store format, product range and employee training to address our changing marketplace, we will revert to the more aggressive space growth demonstrated over the last four years. This year we plan to open a net 120 new stores, but also invest in a large number of major relocations and refits to maintain and improve the quality and relevance of the estate.

There is no doubt that the consumer environment has been tougher of late in a number of our markets, and we expect these conditions to continue over the coming months. However, mobile phones have long since passed from being a luxury item to an absolute necessity in the eyes of most users; and the subsidised business model lessens or removes the upfront cash cost. In addition, the new growth areas in mobile data should lend support to our performance over the next year.

Developing our retail proposition

Last year I highlighted how the needs of our customers were changing. Historically, The Carphone Warehouse and The Phone House have been the places to go to find someone to guide you through the complexities of the mobile phone market: to identify the right combination of handset, network and tariff to suit your needs. We have never considered ourselves to be retailers of hardware; our DNA is much more about helping customers understand technology.

Today, most customers who come into our stores have owned several mobile phones before; they understand the market much better and come to us because we offer choice and impartiality. However, there are new areas of technology and services which are just beginning to reach critical mass, but where consumer knowledge and awareness remains relatively low. The strong growth we have seen in mobile broadband and smartphones over the last 12 months is the first tangible evidence of this; but at the same time, homes are increasingly host to wireless broadband networks with a multiplying array of devices and services that connect to them. We think this is a potentially huge new market that we should own.

In the short term, this means evolving the retail business in two clear and practical ways. Firstly, we are going to stock a range of laptop computers alongside mobile phones. The logic is simple: if we had only ever been a retailer of SIM cards rather than mobile phones, we would never have created a business of the scale of The Carphone Warehouse; we believe the same will be true of mobile broadband. By bundling a subsidised device (a laptop rather than a mobile phone) with a mobile broadband subscription, we are giving customers an all-in-one solution and significantly increasing the scale of the potential market. The cost of laptops has fallen so dramatically that the overall economics for us and the network operators are not materially different from the traditional subsidised handset model.

Secondly, we are going to establish the same proposition in fixed line broadband (cable and DSL) as we have had for many years in mobile. Last year we began to offer a range of fixed broadband providers' services in our stores across Europe. This year we are making a much greater commitment to it and also bringing the hardware model into it – so that laptops will be available on either fixed or mobile broadband.

For the next 12 months we will focus the bulk of our attention on developing the UK retail business towards this model, with the rest of Europe to follow in the medium term. This is a major undertaking, which will involve not only a comprehensive programme of refits, but also a big investment in employee training and raising awareness with our customers of the changing nature of our proposition. Importantly, we have also announced plans to create greater operational autonomy for the two divisions, with lower shared resource and central overhead. This delivers not only a more efficient group structure, but also allows the Distribution business to provide a more clearly impartial broadband offer to its customers. The planned formation of a new company with Best Buy is going to be a key part of this strategy and we will give a detailed update on progress in next year's annual report.

In the medium term, we foresee further radical developments. As new products and services proliferate, we will trial new formats that allow customers to experience and test a range of in-home and on-the-move devices that will enable them to seamlessly capture, store, share and interact with content across multiple platforms – mobile phone, TV, computer – wherever they are and whenever they like.

Becoming the leading alternative fixed line provider in the UK

Nearly six years ago, when we acquired Opal Telecom in November 2002, we set ourselves the ambitious goal of becoming the number one alternative residential telecoms provider in the UK. We believed that the combination of high consumer prices, a high incumbent market share, meaningful regulatory change and our own unique distribution network was a powerful one; the network infrastructure and telco know-how we acquired with Opal completed the jigsaw.

Today, this unique formula has proved to be a winning one. We are now the clear number three in the market for both telephony and broadband access services, and we have built a next generation telecoms network that delivers a level of operating efficiency and technical superiority that none of our competitors has managed to emulate.

Our journey has not been without its challenges, and this time last year we were still struggling under the burden of acute customer service problems caused by the massive success of our free broadband launch and the uneven reliability of the network migration process. This undoubtedly damaged the TalkTalk brand, lost us many thousands of customers, and put off thousands more from signing up to us despite the demonstrable value of our proposition.

Thus I am delighted and relieved to say that the past year has been a period of great success for our UK Fixed Line division. Customer service has improved steadily throughout the year; we can still do much better, and our ambition is to be famous for good service, but the trend is positive. From an operational and financial perspective, we have delivered everything we promised when we embarked on our local loop unbundling project two years ago. We now have nearly 70% of our customers on our own network, creating significant operating efficiencies; and only a small handful of customers are still losing us money each month. As a result, our operating margin has increased from barely 2% to around 9%, with further good progress expected in the coming year.

At the same time, we have continued to grow our broadband base successfully, with nearly 450,000 customers added during the year. This puts us firmly on target to hit our goal of 3.5m customers by March 2010. Churn is falling as customer service improves and our network becomes more stable; and the improvement in brand perception and TalkTalk's positioning at the value end of the market should support customer growth in the medium term.

It has also been an important year for the AOL Broadband base we acquired in December 2006. The integration process will be completed in the coming months, delivering significant cost savings and a common operating platform with TalkTalk. We have also used the brand to innovate, and launched a very successful free laptop offer on AOL during the year. We expect further developments in the coming months, although the final integration processes do present some execution risk.

The Carphone Warehouse Networks, the telecoms platform over which we deliver our services to customers, has made further outstanding progress. We now have the widest coverage of any unbundler in the UK, with over 1,600 exchanges covering around 80% of the population. Crucially, the Next Generation Network we have developed allows us to deliver voice and data over a single technology platform, making us highly efficient and allowing us to lead the market on price while still making

> "We are continuing to develop our retail proposition in response to the needs of our customers. We have never considered ourselves to be retailers of hardware; our DNA is much more about helping customers understand technology"

Charles Dunstone, Chief Executive Officer

excellent returns. We believe this advantage is set to continue into the medium term.

Looking forward, we see a year of further investment and growth. On the network side, we are putting in place the infrastructure to protect our margins as customer usage rises, and again our engineers are leading the industry in this regard. We are also investing in continued customer recruitment and the introduction of new and innovative bundles, as we seek to maximise the advantage that our efficient network gives us. At the same time, we are committed to delivering further significant improvements in customer service, both through the speed and quality of the broadband connection and through our ability to fix customers' problems in our contact centres.

Outlook

We remain cautious in our outlook for the year ahead, given the poor economic climate and inflationary pressures on European customers. In our Distribution business, we believe that new areas of growth in the market, and our own focus on evolving our retail proposition, will help us offset some of the risks to consumption presented by the tougher economic environment. Our track record speaks for itself: while countless other independent mobile phone retailers have fallen by the wayside over the years, we have continued to grow and flourish – because we have successfully identified changes in the marketplace and adapted our model to take advantage of them. Our new venture with Best Buy will enable us to adapt our business to our customers' changing needs better and more quickly than we could on our own, as well as giving us a whole new avenue of potential growth in the wider consumer electronics market place.

We are targeting mobile connections growth of 8-10% in the coming year, with an even balance between subscription and pre-pay growth. The current runrate of sales in new areas such as mobile broadband and smartphones comfortably supports this goal, and we are also optimistic that the pipeline of new mobile handsets over the coming months could see renewed growth in the mobile voice market. The growth trajectory is, as usual, supported by further physical expansion, with 120 net new stores planned over the coming year. This is a lower rate than in the past, but we are focusing on larger stores and a number of relocations, so average space growth will still be close to 10% and we have not changed our view on the longer-term growth prospects.

Elsewhere within Distribution, we expect our high value ancillary revenue streams of Insurance and Ongoing to continue their very consistent performance of recent years, with revenue growth driven by subscription connections. A change in our business model in Germany, which will make connections more profitable at the point of sale but reduce the service provision customer base over time, will see Mobile revenues decline year-on-year. This change is neutral to profitability but positive for cash flow as we will subsidise fewer of our connections ourselves.

Altogether, we anticipate revenue growth in Distribution of 9-10%, with EBIT likely to be relatively flat year-on-year. However, this reflects the absorption of approximately £15m of costs previously accounted for within our central PLC overhead; so the underlying performance is expected to reflect solid progress despite the tough retail environment and the substantial investment in evolving the retail business model.

In our UK Fixed Line division, we expect top line growth of 4-5%, driven by a combination of further broadband customer growth and an improvement in blended ARPU. This will be offset by a continuing decline in our voice-only and dial-up customer bases. We expect to add approximately 400,000 broadband customers during the year, with a weighting to the second half.

EBITDA margins in UK Fixed Line are expected to increase to 22-23%, primarily as a result of the migration of customers onto our own unbundled network. The investment in capex and customer recruitment costs over the last two years will translate into a significant year-on-year increase in depreciation and amortisation charges. Nevertheless, we expect EBIT margins to grow to 12-12.5%, representing an improvement of over three percentage points over this year.

I am very proud of what we have achieved over the last 12 months. In broadband, we got ourselves into a hole and we have managed to dig ourselves out very successfully. However, we cannot afford to be complacent. In the Distribution business, we identified the emerging growth trends of the year, and we began the important evolution of the business that we are now accelerating. We have a great team at The Carphone Warehouse and everyone has worked exceptionally hard over the last two years – often through very testing times – to deliver a strong operational performance. We are no less determined to do the same in the coming year.

Charles Dunstone,
Chief Executive Officer

Operating Review

The KPIs listed below are the main non-financial drivers of our business and form the building blocks of revenue and margin.

Key Performance Indicators

Distribution	Definition	2008	2007
Subscription	A customer committing to a contract (typically for 12-24 months) with a network operator, and paying a fixed monthly fee to the network with any additional use of minutes and texts added to the monthly bill. In return, the customer is able to buy a subsidised handset.	4.5m up 10.8%	4.0m
Pre-pay	A customer buying a subsidised handset and network connection with no contractual obligation.	6.5m up 18.9%	5.4m
Insurance	The base of customers to whom we provide insurance for the loss, theft or damage of their mobile phone, or illegal usage.	2.4m up 5.4%	2.2m
Mobile	The base of customers to whom we provide mobile services through the re-sale of mobile network capacity, in the UK and Germany.	2.2m up 12.6%	2.0m

UK Fixed Line			
UK Broadband	The base of customers to whom we provide broadband services in the UK.	2.7m up 19.4%	2.3m
Of which unbundled	The base of customers to whom we provide service over our own network.	1.8m up 158.3%	0.7m
UK Voice	The total number of customers who take residential voice services from us, a significant proportion of whom also take broadband services.	2.7m up 0.6%	2.7m

Our Performance Update

Business Divisions	What we said we'd do in 2007-08	How we've performed	Our objectives in 2008-09
Retail (including Online)	• Open a further 250 new stores • Develop new format wireless solutions stores • Continue to expand our presence in the US market through Best Buy Mobile • Roll out Geek Squad across the UK	✔ 267 new stores opened / acquired ✔ Subscription connections up 10.8% ✔ Total telecoms subscription connections growth of 12.9% ✔ Best Buy proposition showing excellent progress	• Open a further 120 new stores • Accelerate conversion of stores into new format and relocation of stores to bigger and better locations • Accelerate conversion of Best Buy Mobile stores within a store in the US • Continue to market the Geek Squad brand across the UK and Spain
Insurance	• Revenue growth of 15%	✔ Revenue growth of 24.0% ✔ Customer base up 5.4%	• Revenue growth of 10%
Ongoing	• Revenue growth of 15%	✔ Revenue growth of 23.4%	• Revenue growth of 10%
Mobile	• Continued steady growth in revenue, profitability and customers • Continue to build the Virgin Mobile France brand and customer base • Launch contract MVNO in the UK and invest in building non-UK MVNO operations	✔ TPHT customer base grew 22.6% to 1.84m ✔ 800,000 Virgin Mobile customers ✔ Launch of Talkmobile, an MVNO in the UK	• Evolution of German business away from service provision towards "Retail Plus" model

UK Fixed Line			
Business (B2B)	• Build out exchange network to 1,650 TalkTalk and 900 AOL exchanges • Begin 3 year project to unify network infrastructure to a single technological platform	✔ 1,619 fully unbundled TalkTalk exchanges ✔ 1,011 partially unbundled AOL exchanges ✔ Network unification project started successfully and accelerated	• Revenue growth of 2-3% • Complete network unification project
Residential	• Complete integration of AOL • Invest in improved customer service • 70% of base migrated to LLU by March 2008	✔ AOL integration well advanced and due to complete in 2008 ✔ Improvement in customer service ✔ 67% of base on LLU	• Broadband customer growth of 400,000 • Revenue growth of 5% • 80% of base on LLU

Distribution:
Growing our market share

It has been a tougher year for Distribution, but we have made good progress in adapting our model to customers' changing needs.

Headline Financials

	2008 £m	2007 £m
Revenue	**3,116.2**	2,917.8
Retail (inc Online)	2,121.6	1,922.1
Insurance	169.9	137.0
Ongoing	88.6	71.7
Mobile	518.2	504.8
Non-UK Fixed Line	98.4	111.6
Dealer	180.6	209.7
Eliminations	(61.1)	(39.1)
EBITDA	**276.8**	262.5
Depreciation and amortisation	**(101.8)**	(85.6)
EBIT	**175.0**	176.9
EBIT %	**5.6%**	6.1%

The Distribution division comprises our Retail operations, mobile airtime reselling businesses and all directly related business streams. The key operating assets of the division are our 2,411 stores across 9 European countries, and our Retail and Online brands. Equally important are our supplier and partner relationships.

Distribution revenues were up 6.8% year-on-year to £3,116.2m (2007: £2,917.8m), and the division generated Headline EBIT of £175.0m (2007: £176.9m), a fall of 1.1%. Growth was relatively consistent across core revenue streams, with only our non-core operations of Non-UK Fixed Line and Dealer showing a significantly weaker trend.

Retail (including Online)

The Division's main key performance indicator is connections. A connection is defined as the sale and activation of a mobile phone SIM card to an end customer, usually combined with the sale of a subsidised handset; it also includes sales of mobile phones without a network connection ("SIM-free").

Connections are either subscription (for which the customer commits to a contracted term with a network operator, typically of 12-24 months) or pre-pay (for which a customer just pays for usage but has no ongoing obligation). Subscription connections are the key driver of the Distribution division, since they contribute a much higher revenue and gross profit at the point of sale than pre-pay, and offer a greater lifetime value opportunity to the Group through ARPU-sharing and the cross-sale of insurance and fixed line telecoms services.

During the year, we achieved total connections of 11.5m, a rise of 14.8% on last year's figure of 10.0m. Subscription connections were up 10.8% to 4.5m. After several years of sustained growth in the European handset market, we estimate that over the last 12 months the market has been flat or marginally down year-on-year. We have therefore grown our market share through the continued strength of our proposition, based on the widest range of handsets coupled with impartial advice. The key drivers of the market continue to be fashion and new technology.

Growth was predominantly driven by new mobile services – notably by "smartphones", offering internet access and email capability; and mobile broadband modems, allowing customers to access broadband speeds for their laptop computers over the mobile network infrastructure. These are likely to be key areas of growth over the next 12 months for which we are well positioned. Our partnerships with key handset vendors give us a competitive advantage in the market place.

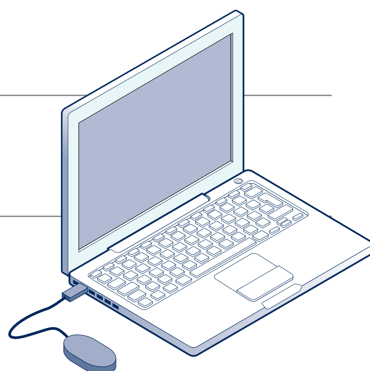
While the stores traded well in a flatter environment, some of our other distribution channels fared less well. Our "off-the-page" business, promoting mobile subscription services via newspaper advertisements and websites, had a tough year after several years of strong growth. This reflected a change in distribution strategies by the network operators, and negative publicity over "cashback" offers from some providers in the market. Excluding the negative impact of off-the-page sales, total subscription connections were up 14.6%.

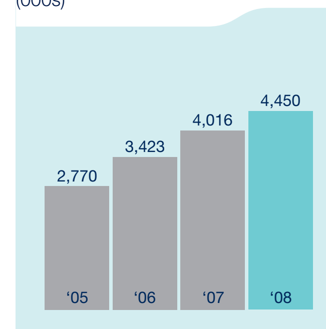
Pre-pay connections were up 18.9% to 6.5m. Year-on-year growth held up well in the first half but then began to slow in the second half, reflecting the very strong and sustained growth in prior periods. While pre-pay sales represent attractive and profitable business for the Group, they do not carry the same weight as subscription business, with growth tending to be more volatile. We would expect pre-pay sales to be more susceptible to any changes in consumer demand driven by a tougher macroeconomic environment.

Our existing business

13%

growth in total telecoms subscriptions





Connections	2008 000s	2007 000s
Subscription	**4,450**	4,016
Pre-pay	**6,456**	5,428
SIM-free	**588**	571
Total	**11,494**	10,015

We opened 467 stores during the year, including the acquisition of a chain of 77 stores in Portugal. We closed or relocated 138 stores, and just before the year end entered into an agreement to sell our 62 Swiss stores. As a result the total store base increased from 2,144 to 2,411 during the year. The total includes 236 franchise stores (2007: 194).

Total average selling space excluding franchises was up 17.1% to 113,438 sqm (2007: 96,865 sqm), and sales per square metre decreased by 3.3% to £16,653 (2007: 17,219). Including franchises, total average selling space was up 17.7% to 122,976 sqm (2007: 104,452 sqm).

Total Retail revenues were up 10.4% to £2,121.6m. On a like-for-like basis, stripping out the impact of new space, revenue growth was 2.8% and gross profit growth was 4.7%. Connections growth was the main driver of the increase in revenues, with average revenue per connection falling 2.3% as a result of an increasing proportion of pre-pay sales within the mix.

In the UK, our store portfolio increased from 769 stores to 808 stores, as we continued to deepen our presence in key urban and suburban areas. In addition, we made further progress with our programme of relocating stores in key locations to larger sites to maximise the business opportunities. At the same time, we carried out trials in a number of locations which focused the stores on a broader connectivity proposition, providing not only mobile voice services, but a full range of mobile data and fixed line broadband choices as well. In the coming year, we intend to roll out a fuller connectivity offer across all of our UK estate, including a range of laptops available in all our stores. Total UK connections were up 15.4%, with subscription connections up 15.9% excluding off-the-page business.

Our Spanish retail business continued its good performance of recent years. After a period of very rapid physical expansion, we have entered a more measured phase of growth in Spain, with the focus now primarily on moving to larger sites where our stores are too small. We opened 12 net new stores in Spain, taking the total in that market to 420. Total connections were up 6.4% to 1.5m, reflecting a good performance in a slower local market. Including our fixed line business Xtra, total revenues in Spain were up 18.4% to £367.8m, and EBIT was up 21.4% to £27.7m.

In France we had a tougher year. Revenues fell 6.6% to £223.0m, but after adjusting for the sale of a majority stake in The Phone House Services, our French facilities management operation, revenues were up 5.0%. EBIT was down 56.6% to £7.0m. We opened 41 net new stores, and now have 311 stores in total, but total connections were up just 0.6% at 0.9m. The market was weaker, after a particularly strong prior year, and our own performance suffered as the faster store opening programme diluted the levels of expertise in some of our stores. However, our market position remains strong and we are confident that the business will return to growth in the coming year.

Combined Distribution revenue from our other continuing operations, comprising Belgium, Ireland, Netherlands, Portugal and Sweden, was up 19.4% to £406.0m. EBIT was down 8.4% to £19.0m. The financial performance of the Dutch business was weak year-on-year, although it remains profitable, and significant operational improvements were made during the year which gives us confidence in its future. We saw good performances from our businesses in Sweden, Portugal and Ireland.

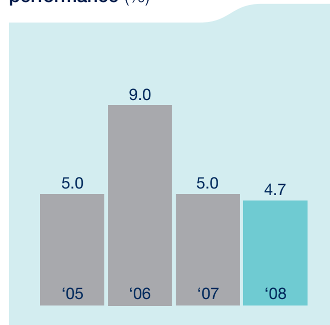
The Swiss Distribution business performed poorly, recording losses for the year of £4.5m or revenue of £60.7m. Excluding the profits from Ntel, our Swiss fixed line business, losses were £9.3m. Just before the year end, we reached agreement with Swisscom, one of the mobile network operators in Switzerland, for the sale of our retail business. After several years of attempting to build a business that could deliver sustainable profits, we could no longer justify the ongoing level of losses and the absorption of management time in what is ultimately a relatively small market. We have retained our profitable insurance base and fixed line telecoms business in Switzerland.

Insurance

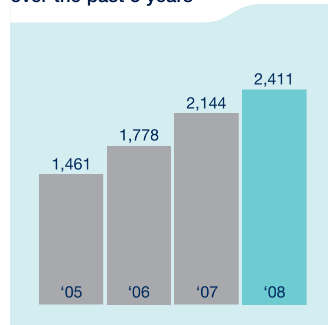
The Group offers a range of insurance products to its retail customers, providing protection for the replacement cost of a lost, stolen or damaged handset, as well as cover for any outstanding contractual liability and the cost of any calls made if a mobile phone falls into the wrong hands. Insurance is a core element of the Group's customer proposition. The main drivers of the Insurance business are customer numbers, average premiums, claims costs and operational efficiency.

The customer base rose by 5.4% over the year to 2.4m. We continued to see an improvement in mix, with growth in "high tier" customers who pay higher premiums for more extensive cover exceeding overall growth in the base. In addition, our development of risk-based pricing has allowed us to adjust premiums more flexibly based on the level of cover required and the risk profile of the customer. This has led to a positive trend in average premium per customer, which has risen 7.1% year-on-year. Insurance revenues rose 24.0% to £169.9m (2007: £137.0m).

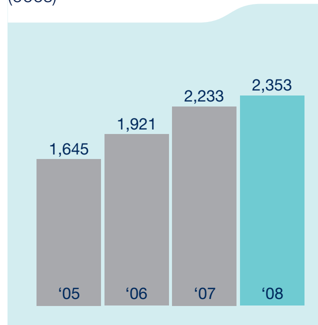
Continued strong LFL gross profit performance (%)



Nearly 1,000 stores opened over the past 3 years



Insurance customer base up 5.4% (000s)



The prospects for our Insurance business remain attractive. Our move into new areas of growth in the retail business, with increasing sales of laptops, high-end mobile phones and other connected devices, will present us with a greater number of opportunities to provide insurance services and other after-sales propositions to our customers.

Ongoing

Ongoing revenue represents the share of average revenue per user ("ARPU") we receive as a result of connecting subscription customers to certain networks. We are typically entitled to a 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 operators, and aligns our interests more closely. Again, the key underlying driver for Ongoing is our subscription connection sales.

Ongoing revenues were up 23.6% year-on-year to £88.6m (2007: £71.7m). This reflects the sustained performance in subscriptions growth, combined with a continuing trend towards ARPU-sharing agreements.

Mobile

Mobile operations comprise our German service provision business, The Phone House Telecom ("TPHT"), and our wholly-owned MVNO and Facilities Management ("FM") businesses. The main drivers are the number of customers we manage, and their ARPU.

Total Mobile revenues were up 2.7% to £518.2m (2007: £504.8m). TPHT, which represents an increasing proportion of Mobile revenues, continued to perform well. Its overall customer base grew 22.6% to 1.8m, including 0.9m subscription customers on two year contracts. Customer ARPUs, which have been falling consistently for three years in Germany while we expand our target customer base, have stabilised, with subscription ARPU down just 2.1% year-on-year. Total revenues in Germany, including results reported under the Retail, Insurance and Dealer revenue lines, were up 12.5% to £516.5m (2007: £459.2m), with EBIT up 30.0% to £25.1m (2007: £19.3m).

This business has paid us back handsomely since we acquired it five years ago, and continues to deliver steady growth and good visibility. TPHT has recently begun to evolve its operating model, by changing its relationship with its main network partner from service provision to a more standard retail model consistent with how we operate elsewhere in Europe. While this is not expected to impact overall profitability, it should translate into improved cash flows as we will no longer incur subscriber acquisition costs on these customers.

Our MVNO operations across Europe are beginning to attain more meaningful scale. In the UK, we launched a new proposition this year, Talk Mobile, after agreeing a new wholesale airtime deal with Vodafone. Mobile World, our MVNO offering cheap international rates, continues to make good progress.

Our FM businesses are now a relatively small element of our overall Mobile operations. The base we manage on behalf of a network in the UK, providing billing and customer care services, is now being progressively migrated back to the direct control of the network. Near the start of the year, we sold a majority stake in our French FM business, with our share of net income now being reported under Joint Ventures and Associates.

EBITDA

The Distribution division generated EBITDA of £276.8m (2007: £262.5m), representing year-on-year growth of 5.4%. The EBITDA margin fell by 10 basis points to 8.9% (2007: 9.0%). The main driver of this reduction in EBITDA margin was the continuing increase in retail costs, and the weak performance in our off-the-page business, which is highly operationally geared.

EBIT

EBIT for the division was £175.0m, compared to £176.9m in 2007. The EBIT margin fell by 50 basis points to 5.6%, reflecting the fall in the EBITDA margin and increases in depreciation and amortisation. These charges rose 18.9% year-on-year to £101.8m, driven by continued investment in new stores, our IT platform and customer recruitment at TPHT.

UK Fixed Line:
Delivering on its promises

During the year we significantly improved customer service, built out our network and invested in growing the customer base.

Headline Financials

	2008 £m	2007 £m
Revenue	**1,399.6**	1,084.3
Residential	1,087.6	764.4
Business	312.0	319.9
EBITDA	**225.6**	68.7
Residential	186.6	37.5
Business	39.0	31.2
Depreciation and amortisation	**(100.0)**	(49.0)
EBIT	**125.6**	19.7
EBIT %	**9.0%**	1.8%

The UK Fixed Line division comprises our residential and business-to-business fixed line telecoms businesses in the UK, trading under the TalkTalk, AOL and Opal brands; and our telecoms network operation, The Carphone Warehouse Networks. The main assets of the division are our network infrastructure, one of the largest and most advanced telecoms networks in the UK, and our base of over 2.7m residential broadband customers.

Divisional revenues were up 29.1% year-on-year to £1,399.6m (2007: £1,084.3m), reflecting underlying growth in the residential business and the full year impact of the acquisition of AOL's internet business in the UK at the end of 2006. EBIT rose to £125.6m (2007: £19.7m) with EBIT margins expanding from 1.8% to 9.0%, with the increase driven by the significant margin uplift achieved by migrating broadband customers onto our own network. The EBIT margin in the second half of the year was 12.3%, giving us good visibility of our target of 12-12.5% EBIT margin in the coming year.

Residential

Residential revenues were up 42.3% year-on-year to £1,087.6m (2007: £764.4m). Excluding the acquisition of AOL's UK business in the prior year, revenues were up 7.1%. During the period we increased our broadband customer base by 442,000, or 19.4%, to more than 2.7m, representing an approximately 17% share of the UK market. Our base of voice-only and internet dial-up customers declined by 29.2% to 1.7m, as we focused on migrating customers to bundled broadband contract products. Overall we are the number three player in the UK residential telecoms market, and have the largest unbundled telecoms network.

Blended broadband ARPU was £21.9, a little ahead of our expectations at the beginning of the year. This positive move reflects the increasing proportion of TalkTalk broadband customers, who take a package of calls, line rental and broadband services, within the total base. At the same time, we stabilised the falling ARPU trend within AOL by developing innovative new products, such as the free laptop offer we pioneered, and by selling voice services into the AOL customer base. At the end of the period, 52.8% of the broadband customer base also took a voice service from us.

Even though many TalkTalk customers came out of contract during the second half of the year, churn rates edged down during the year as our customer service improved and network quality became more robust. Given our value proposition and the continued improvements to service we are making, we are confident that churn will continue to fall in the coming year.

EBITDA for the residential business was up almost four fold to £186.6m (2007: £37.5m), with the EBITDA margin increasing from 4.9% to 17.2%. The significant progress was down to three factors: the full year effect of the AOL acquisition; the unwinding of last year's start-up losses stemming from the launch of free broadband; and the migration of a significant number of customers onto our own unbundled network.

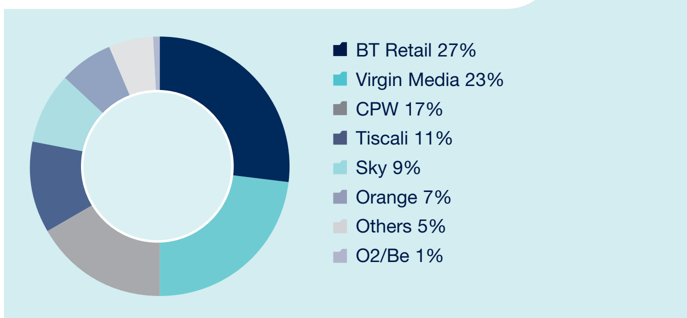
At the start of the financial year, we were providing service to only 30.9% of our broadband customer base from our own network infrastructure, via local loop unbundling. By March 2008, this figure had grown to 66.9%. It is significantly more cost effective to deliver service to customers over our own network rather than via BT, and this is reflected in the margin improvement. After another year of major capital investment, we now have our own fully unbundled equipment (allowing us to provide broadband, exchange line rental and call services off the lowest possible cost base) in more than 1,600 exchanges, and partially unbundled equipment (from which we can provide efficient broadband-only services) in just over 1,000 exchanges. This makes us comfortably the biggest unbundler in the UK, in terms of both our geographic coverage and the number of customers on our network.

Our goal for the coming year is to continue to grow the residential customer base, and to further extend our network coverage to maximise the opportunity. We expect to have almost 80% of our customers on our own network by March 2009.

Business

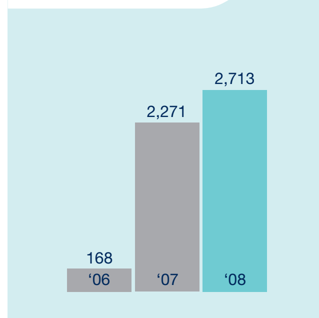
Our UK business-to-business operations, under the Opal brand, enjoyed a good year. While revenues were down 2.5% to £312.0m (2007: £319.9m) within the revenue mix there was a significant shift towards higher margin

UK Broadband market share



Source: CPW research using non-financial data published by competitors

Broadband customer base now over 2.7m (000s)



business streams, delivering an overall improvement to the quality of the business. Excluding revenues from very low margin premium rate phone services, which fell 50.5% year-on-year, business-to-business revenues were up 5.0%.

EBITDA rose 25.0% to £39.0m (2007: £31.2m), reflecting the improvement in gross margin stemming from the higher quality revenue mix, and continuing cost control.

Looking forward, Opal continues to have attractive opportunities in its target small company segment, particularly since a number of major telecoms players have withdrawn from this part of the market. An ongoing challenge for the business is to seize the opportunity provided by The Carphone Warehouse Networks' industry-leading telecoms network to supply a wider range of telecoms and data services into its target customer base.

EBIT

UK Fixed Line EBIT rose to £125.6m (2007: £19.7m). The EBIT margin improved from 1.8% to 9.0%, driven by the expansion of the EBITDA margin described above, but partially offset by significant increases in depreciation and amortisation. Depreciation rose 49.3% to £33.9m, as a result of the continued investment in network infrastructure as we broaden our footprint and increase capacity. Amortisation, primarily relating to subscriber acquisition costs ("SAC"), rose 151.3% year-on-year to £66.1m, reflecting a total SAC investment in fixed line of £105.8m (2007: £37.0m).

Other Financial Information

Joint ventures and associates

The share of results of joint ventures and associates in the income statement comprises our share of post-tax profits or losses from our joint venture and associate operations. During the year, these were composed of four separate interests: Virgin Mobile, our French MVNO; The Phone House Services, our French facilities management operation; Best Buy Mobile, our mobile retail profit-sharing arrangement in the US with Best Buy; and The Geek Squad, our UK home technology support business. In the year to March 2008, net losses from joint ventures amounted to £6.1m (2007: £9.9m).

Virgin Mobile had a second successful year of customer growth, and finished the period with more than 800,000 active customers, split evenly between subscription and pre-pay. It continued to invest significantly in brand-building and customer recruitment, and is looking to broaden its distribution channels heading into its third year of operation, as it heads towards the necessary scale for long-term profitability. The Group's share of post-tax losses in the year was £5.9m. While it will record further losses in 2008-09 as it continues to invest in growth, we expect it to reach break-even in the year to March 2010.

During the year we disposed of a majority stake in The Phone House Services. For the ten and a half months during which we accounted for it as an associate business, our share of net profits was £0.9m.

The US mobile retail venture Best Buy Mobile, made excellent progress during the year. Stores converted to the new format achieved significant sales uplifts and our market share grew strongly through the course of the year. We aim to have the whole of Best Buy's US store portfolio converted by the end of the calendar year 2008 and we are well on course to achieve this goal.

We formalised the terms of our commercial agreement with Best Buy for the development of our US mobile retail venture, Best Buy Mobile, during the year. Under the agreement, Best Buy will fund the operation, with the venture paying a finance charge to Best Buy for the cost of funds. The Group will receive a share of incremental profits above the historical profitability of Best Buy's mobile retail operations, based on a sliding scale. The venture has not had a material impact on financial performance in the current year, but has the potential to provide significant profitability in the future.

Our joint venture with Best Buy to bring The Geek Squad to Europe continued to run a trial home visit service in certain regions of the UK, with nationwide call centre coverage, providing customers with user support for home technology problems. In January we launched services in Spain, and we expect The Geek Squad to be a key part of the future of the Distribution business.

Amortisation of acquisition intangibles and goodwill expense

The amortisation charge in respect of acquisition intangibles amounted to £75.2m (2007: £54.3m), reflecting the full year impact of the AOL acquisition. A goodwill expense of £1.0m (2007: £0.5m) has been recognised in respect of historical acquisitions. These figures are excluded from Headline profit before taxation and earnings per share figures.

Exceptional reorganisation costs

The Group acquired AOL's UK internet access business in December 2006. The Group has commenced the reorganisation of the business, initially through a programme to transfer network operations, hosting, billing and customer management away from a transitional platform provided by AOL Time Warner onto the Group's own systems and infrastructure. Reorganisation costs of £15.2m have been incurred in the year and have been separately disclosed given their size and one-off nature. The transition is expected to be completed in the year to March 2009.

Interest and taxation

Net interest of £42.8m was payable during the year (2007: £26.3m). Further significant investment in capital expenditure, and deferred consideration relating to the AOL acquisition, were funded out of operating cash flow and debt facilities.

The effective tax rate on a Headline basis was 15.5% (2007: 14.3%). The tax rate benefited from the recognition of tax losses incurred in previous years and profits arising in low tax rate jurisdictions.

Earnings per share ("EPS")

Headline EPS was 20.1p, a rise of 70.3% year-on-year (2007: 11.8p). Statutory EPS was 13.0p (2007: 7.5p).

Cashflow and dividend

Summary Cash Flows	2008 £m	2007 £m
Operating cash flow	**468.1**	256.3
Tax and interest	**(55.0)**	(32.9)
Net operating cash flow	**413.1**	223.4
Property, plant and equipment (net)	**(169.7)**	(147.8)
Intangibles	**(228.8)**	(148.1)
Acquisitions/JVs	**(74.2)**	(266.7)
Total investment	**(472.7)**	(562.6)
Dividends	**(31.4)**	(24.2)
Shares	**14.0**	9.1
Net dividends and shares	**(17.4)**	(15.1)
Net cash outflow	**(77.0)**	(354.3)
Opening net debt	**(616.9)**	(273.4)
Foreign exchange and non-cash movements	**(148.8)**	10.8
Closing net debt	**(842.7)**	(616.9)

At 29 March 2008, the Group had net debt of £842.7m (2007: £616.9m). During the year the Group generated cash from operations of £468.1m (2007: £256.3m).

Cash generation remains a prime objective of the Group and we expect to generate significant levels of free cash flow in the future, allowing us to re-invest in the growth of the business and pursue a progressive dividend policy. We are proposing a final dividend of 3.00p per share, taking the total dividend for the financial year to 4.25p and representing growth of 30.8% over last year's 3.25p total dividend. This level of distribution results in a dividend cover of 3.05 (2007: 2.33). The ex-dividend date is Wednesday 9 July 2008, with a record date of Friday 11 July 2008 and an intended payment date of Friday 8 August 2008.

Total investment decreased from £562.6m to £472.7m. There was a reduction in net outflows on acquisitions and joint ventures from £266.7m to £74.2m, with the largest outflow in the year being deferred consideration of £61.5m on AOL's UK customer base, which was acquired in December 2006.

This reduction was partly offset by a significant increase in year-on-year subscriber acquisition costs, from £71.8m to £146.8m, in part reflecting our introduction of subsidised laptops into the UK broadband market, as well as substantial growth across the UK Fixed Line and German service provider bases.

There was also continued significant investment in the Group's IT systems and network infrastructure, to support the development of the UK Fixed Line business, as well as ongoing investment in the Group's retail estate.

Balance sheet

The investment described above, together with an increase in the value of non-Sterling assets, resulted in an increase in non-current assets from £1,555.3m to £1,774.3m year-on-year.

Stock increased from £161.5m to £211.6m over the year, reflecting our strategy of improving handset availability and stocks of laptops.

Trade and other receivables rose from £743.8m to £812.5m, while trade and other payables increased from £919.9m to £1,086.9m year-on-year, both reflecting organic growth across the business. Provisions decreased from £109.9m to £90.7m, largely as a result of lower "cashback" activity.

Foreign exchange

A large proportion of the Group's borrowings are held in Euros and Swiss Francs, as a hedge against non-Sterling assets. The significant weakening of Sterling against these currencies from December 2007 onwards resulted in an increase of £156.6m in the value of non-Sterling borrowings. At the end of March 2008 we had Euro denominated borrowings of £432.9m and Swiss Franc denominated borrowings of £446.8m.

The offset of the strengthening of the Euro and Swiss Franc is principally seen in the values of the net assets denominated in those currencies, which have increased in value by the same amount. To the extent that non-Sterling borrowings do not match non-Sterling net assets on consolidation, the offset is seen in the Translation reserve, which saw a negative movement of £63.6m in the year, mainly due to Swiss Franc appreciation against Sterling.

Financing and treasury

The Group's operations are financed by committed bank facilities, retained profits and equity. During the period, the Group arranged a new £200m 364-day facility with a one-year term-out option to provide additional working capital headroom whilst we arranged a Sterling bond issue; this bond issue was subsequently aborted due to the deterioration of the bond market during summer 2007 and the facility remains available to fund working capital until June 2009. The facility was provided by HSBC Bank plc, Barclays PLC and The Royal Bank of Scotland Group PLC, which were the three arrangers of the bond transaction.

In March 2008, the Group signed a new five-year £550m revolving credit facility that replaced a similar facility maturing in September 2009.

"Cash generation remains a prime objective of the Group and we expect to generate significant levels of free cash flow in the future, allowing us to re-invest in the growth of the business and pursue a progressive dividend policy"

Roger Taylor, Chief Financial Officer

This was arranged by HSBC Bank plc, ING Bank NV, London Branch, Barclays PLC and The Royal Bank of Scotland Group PLC and was syndicated amongst the Group's core bank group. The terms of both new facilities are similar and the covenant packages are identical. The Group was in compliance with the covenant conditions of all facilities at the period end.

In addition to committed credit facilities, which are set out in full in note 20 to the financial statements, 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. Within cash and cash equivalents, £65.7m (2007: £79.5m) is held by the Group's insurance business, of which £55.0m (2007: £46.0m) is required to cover regulatory reserve requirements. As such, these funds are not available to offset other Group borrowings.

Funding of our subsidiaries, both in the United Kingdom and elsewhere, is arranged centrally with an emphasis on tight cash control and efficient cash management. 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 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. More generally, the Group treasury function seeks to follow treasury best practice as recommended by the Association of Corporate Treasurers and adheres at all times to their Ethical Code. The Group does not trade or speculate in any financial instruments.

Return on capital employed

Total shareholders' funds at March 2008 were £735.0m, compared to £689.6m at March 2007. 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 14.9% (2007: 12.1%).

Assuming a weighted average cost of capital for the period of 6.6% (2007: 6.8%), this represents an economic value added of £121.0m (2007: £56.6m) or 8.3% (2007: 5.4%).

Roger Taylor,
Chief Financial Officer

Principal Risks and Uncertainties

Operational Risks	Potential Impact	Mitigation
Competitive environment	Loss of market share and erosion in margins from increased competition.	We have always focused on reinvesting the benefits of our increasing scale into our customer proposition to keep barriers to entry high and to maximise value for our customers. Our pricing in both mobile retail and broadband reflects this strategy.
Brand perception	Reduction in customer loyalty and higher churn in our fixed line operations as a result of poor customer service.	We have made significant improvements to customer service, and external surveys indicate that brand perception is improving.
Capacity and functionality of our IT and telecoms infrastructure	Failure to provide adequate service levels to customers or to manage back office processes.	Our investment in IT continues to grow in line with the increasing scale and complexity of our business. Telecoms investment has peaked with the completion of our network roll-out, with further investment in future years addressing the increasing bandwidth demands of customers.
Retention of key management	Lack of necessary expertise or continuity to execute strategy.	We have successfully attracted and retained high quality executive management through attractive incentive packages and wide-ranging career opportunities.

Financial Risks	Potential Impact	Mitigation
Revenue assurance	Profits and cash flow reduced through high levels of non-paying customers.	We have dedicated credit control functions to manage both residential and corporate debt, and credit checking processes that are continuously developed to minimise the risk of non-payment. Our network operator debtors are highly cash generative, well capitalised businesses.
Stock management	Financial results impacted by obsolete retail stock.	We have a very high turnover of stock and the subsidised business model stimulates end demand.
Exchange rates	Reported profits distorted by exchange rate movements; value of assets and liabilities similarly affected.	Exchange rate exposures are primarily to the Euro and Swiss Franc. Exposures to exchange rate movements are continuously monitored and transactional exposures to exchange rate movements are hedged, where material, to avoid volatility in the income statement.

To find out more about our risk management processes and internal controls, please refer to page 30.

Working to limit our environmental impact

Our business is about connecting people. We can play an important role in educating customers about the responsibilities and risks that come with an increasingly connected world.

The Group has a strong track record as a responsible employer, consumer and distributor. As a supporter of its local and wider communities, and in its charitable activities, The Carphone Warehouse continues to be a pioneer.

While our overall environmental impact is relatively low compared to companies in other industries, our efforts in this area have historically lagged our community and charitable activities. However, we have now started to work on ways of reducing our carbon emissions and our consumption of other raw materials. We are doing this through a combination of updating our infrastructure, and encouraging our employees and customers to adapt their behaviour to mitigate their environmental impact.

However, it is in the sphere of social responsibility that we believe we can make the greatest impact. As a communications business, we provide the tools that enable customers to connect with one another, and with an infinite range of content, across a number of platforms. It is therefore our responsibility to educate our customers about the risks that come with this freedom and to protect them from illegal or anti-social activity. This year we will start a programme which aims to do just that.

Money raised at Get Connected charity auction

£208,000

Light energy consumption savings, at flagship warehouse project

64%

Increase in handsets recycled or re-used

400%

Charity, community and employee activities

Our two operating divisions each have their own partner charity. The Distribution business supports Get Connected, and the UK Fixed Line division supports TreeHouse. We choose to back small charities that both relate to communication, so we can help them not only with fund-raising, but also with the more practical and technical support that is often harder for charities to come by.

Get Connected

Over the past year The Carphone Warehouse has continued to support its charity partner, Get Connected. Get Connected provides young people in distressing situations with the emotional support and information they need to decide what they want to happen next, whether they need a listening ear or a bed for the night. Their dedicated helpline volunteers talk through any problems, and can connect callers with a free call to any other useful service in the UK.

In addition to raising funds for Get Connected, The Carphone Warehouse also covers all overheads for the charity including providing accommodation, equipment and IT support, covering utility bills, covering the cost of phone lines, printing, mailings and internet connection and offering marketing support and training free of charge. We also offer our employees the chance to earn additional holiday if they become a helpline volunteer for Get Connected.

In February 2008, The Carphone Warehouse held its fourth annual charity auction for Get Connected at Frankie's in Knightsbridge, London. Comedian Phil Jupitus was compere for the night and with the support of suppliers and partners we raised a record £208,000.

Money raised for Get Connected in the past year has enabled it to expand its team of volunteers to over 100 and increase its webchat service opening hours to run every day (in 2006 this service only ran for three evenings a week). In addition to this Get Connected now receives as many requests for webchat per month as it did in the whole of 2006 and has managed to help 20% more users in 2007 than in the previous year. Going forward we plan to help Get Connected to expand an online self help directory that they have recently launched as well as support them with a national awareness campaign.

TreeHouse

Our fixed line business, TalkTalk, has also continued to support TreeHouse, the national charity for autism education, which aims to improve the lives of children with autism across the UK. Autism is a serious, life-long, neurological condition affecting one in 100 children. At its most profound, children with autism may never acquire spoken language, require constant 24-hour care and may be perceived to be

The Carphone Warehouse Charity Partners

living in a world of their own. Their lives, and those of others who care for them, can be extremely stressful and families can be driven to desperation.

TalkTalk has pledged £500,000 to TreeHouse over the next five years and will be working closely with the charity on a joint project to launch an online service to guide and connect families affected by autism through the maze of practical and emotional information. TalkTalk also continues to donate 1p for every call made to our directory service 118111 to TreeHouse.

Innovation in the Community

In addition to this, TalkTalk has continued its commitment to make broadband internet access a right not a privilege, and this year launched the TalkTalk Innovation in the Community Awards to do just that. We believe that internet access can change lives for the better but there are still a lot of people who have never used a computer and do not have access to modern technology.

Non-profit making organisations and charities in need of funding for an internet-related project were invited to put forward requests for cash for technology products and services. Thirty organisations were chosen to win £2,000 each to help fund their particular project, as well as receiving TalkTalk free broadband.

The 2007 winners represented a cross section of the UK, from Dundee Women's Aid, a charity that plans to create podcasts for survivors of abuse to encourage other women to seek help, through to Northern Seams, a charity that wishes to use the internet to inspire textile artists with learning difficulties.

The Carphone Warehouse Foundation

The Carphone Warehouse Foundation was set up over four years ago to support employees with their own fundraising initiatives for causes that are close to their hearts. Small grants are awarded to charities nominated by employees, or where there is a large demand for the same charity (for example Children in Need), a larger grant will be made on behalf of the whole company.

The Carphone Warehouse supports its charity partners and The Foundation in a number of ways including:

- Awarding extra days holiday for employees who commit to taking part in fundraising activities organised by the company;
- Setting up sponsored events which in the past have included skydiving, overseas challenges, runs and football tournaments;
- Holding raffles and donating profits from sales of items in-store;
- Raising money via handset recycling;
- Donating money saved by sending out Christmas e-cards instead of paper cards;
- In-store collecting tins;
- Holding a monthly collection in support centres;
- Offering employees the opportunity to sign up for Give as you Earn (GAYE) which has raised over £26,000 for charity since the service was launched in 2006; and
- Acting as a call centre for Comic Relief. Over 100 volunteers manned the phones in 2007 taking over £140,000 in pledges for the charity.

South Africa trek and project

In May 2007, 43 intrepid employees spent five days trekking through the Cedarberg Mountains of South Africa and five days working on a project in one of Cape Town's townships, Khayelitsha, which involved building an eight foot perimeter wall around an orphanage and spending time educating the children who lived and went to school there. Each participant raised a minimum of £2,250 to take part and in total over £30,000 was raised for our charity partners Get Connected and TreeHouse.

Employees

Our Human Resources teams continue to review and improve processes to ensure that the work environment, recruitment, training processes and employee satisfaction are of the highest standard. In February 2008 The Carphone Warehouse launched The Pulse survey in place of our previous employee engagement survey, Backchat. We wanted a survey that linked employee opinion with business performance and that would enable change to take place on a more local level than before.

An encouraging 72% of employees took part in the survey. On the positive side, eight out of ten employees are proud to work for The Carphone Warehouse, nine out of ten said that they know what's expected of them at work and eight out of ten believe that their colleagues are committed to quality. As a result of some other feedback we are now looking at the way in which we recognise our employees' contribution to the business, how we encourage personal development and how we communicate the bigger picture across the whole of the business.

All employees were also invited to take part in team workshops and feedback sessions so that they could come up with solutions to more localised issues together and work on improving their working environment.

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

Regulatory and social issues

We are committed to championing the causes that affect the safety and wellbeing of our customers in relation to mobile phone and internet use. As well as providing information in all of our stores on health, crime, first phones for children and driving legislation, we are active campaigners on key issues and work regularly with officials and government to make a difference.

Driving

"70% of people say the update to the law on holding a mobile phone whilst driving has had no impact on their driving habits". CPW research, May 2007.

This year we have worked very closely with the Department for Transport and police forces across the country to educate customers about the change in penalty for driving whilst holding a mobile phone. We trained all our sales consultants on the law change and provided clear guidance at point of sale, in our buyers' guide (which has a monthly circulation of two million) and on carphonewarehouse.com. It is also now company policy that any employee caught using a mobile phone whilst driving will be subject to disciplinary action.

Phonewise

Mobile Life 2007 research found that the number of children bullied beyond the school gates as a result of "cyber bullying" – intimidation via mobile phones, email and instant messaging continues to grow. In September we joined forces with our charity partner Get Connected to build on our campaign against this vicious form of bullying. Working with Get Connected we compiled a Phonewise guide that among other important issues included advice for parents and children to combat cyber bullying. The guide is available on carphonewarehouse.com/safety and in Direct Marketing Magazine Good Call. We aim to broaden this campaign next year to reach even more children and young people.

Crime

"9% of all mobile phone owners say that they have had their phone stolen." Mobile Life, 2006.

We are absolutely committed to combating spiralling mobile phone crime and personal theft. Andrew Harrison, UK Chief Executive, has appealed to all network and manufacturer CEOs to join MICAF (Mobile Industry Crime Action Forum). The Carphone Warehouse is the only mobile phone retailer to automatically register all its customers with Immobilise, the UK national mobile phone register.

Mobile phones and health

In 2007, the UK Mobile Telecommunications and Health Research (MTHR) Programme published a detailed report to provide an update on the research work it has been undertaking since its inception in 2001. The work has been funded jointly by government and industry, and is run by an independent programme management committee to ensure that none of the contributors can influence the outcome of the programme. The Carphone Warehouse has been a significant contributor to research in this area.

None of the research supported by the programme and published so far demonstrates that biological or adverse health effects are produced by radiofrequency exposure from mobile phones. Specifically, no association was found between short-term mobile phone use (less than ten years) and cancers of the brain and nervous system. Similarly, studies on electrical hypersensitivity have not supported the theory that symptoms experienced by sufferers result from exposure to signals from mobile phones and base stations.

The report proposes a further programme of work to address areas of outstanding concern, which it will report on in due course. These include whether longer-term mobile phone usage increases the risk of developing cancers of the brain and nervous system, and whether any effects of exposure to mobile phone signals are greater in children.

The Carphone Warehouse continues to take a lead in communicating health issues to its customers. We list the specific absorption rates for every handset in our buyers' guide and on our website, and will this year be updating our independent and extensive health factsheet to reflect the latest findings of MTHR and other studies.

Carbon reductions

Our ambition at CPW is to cut our carbon emissions in a way that does not compromise our customers' experience or our employees' working environment. Our energy efficiency and carbon management programme introduced this year will deliver environmental benefits to the wider community and financial benefits to our stakeholders. To facilitate this we have partnered with the Government's Carbon Trust and introduced measures such as:

- Lift share: a scheme in which employees are encouraged to share their vehicles and are given a guaranteed parking space. Please see www.cpwjourneyshare.com;
- Conducting an ongoing energy and carbon awareness campaign and promoting good practices to enable all employees, service partners and contractors to make a contribution to energy efficiency;
- Providing awareness workshops for employees, service partners and contractors;

Increasing awareness

70%

of people say the update to the law on holding a mobile phone whilst driving has had no impact on their driving habits

CPW research, May 2007

- Implementing energy and carbon monitoring from which challenging but realistic reduction targets can be set and monitored; and
- Introducing a closed door policy for our retail chain.

Our main distribution warehouse in Wednesbury, Birmingham, has been chosen as the centre of excellence for trialling many carbon reducing initiatives, and as such has already received a complete new energy efficient daylight-varying lighting system to the online picking area (Branch 100). A direct saving of 64% on lighting energy consumption has been made since installation in October 2007. Other areas of the business have since been refitted with the new lighting.

Our E2Save offices in Loughborough have been the on-site test facility for air conditioning passive controls SavaWatt. These passive electronic controls electronically reduce the electricity flow to the compressor thus supplying the minimum amount of electricity needed as opposed to the actual amount demanded by the systems. Changes to lighting and air conditioning fittings will be rolled out across the retail and non-retail portfolio over the next three years and will be the initial main sources of carbon savings.

Handset Recycling

As part of our commitment to recycling and re-use we are offering a service for customers to dispose of their old handsets and raise valuable funds for our charity partner Get Connected and The Carphone Warehouse Foundation at the same time.

For every handset recycled we currently donate £10 to be split equally between the two charitable organisations mentioned above. In the past 12 months we have raised over £112,000 in this way. In December 2007 we also started sending out a recycle bag with every purchase made via our direct channels. This has seen an increase of over 400% in handsets being returned for recycling or re-use.

WEEE

The Waste Electrical and Electronic Equipment ("WEEE") Regulations came into force on 2 January 2007 and the various obligations took effect at different stages throughout 2007. These regulations transpose the EU WEEE Directive, which aims to minimise the impact of electrical and electronic goods on the environment, by increasing re-use and recycling and reducing the amount of WEEE going to landfill. It seeks to achieve this by making producers responsible for financing the collection, treatment, and recovery of waste electrical equipment, and by obliging distributors to allow consumers to return their waste equipment free of charge ("Take-back").

The Carphone Warehouse Limited and TalkTalk Telecom Limited are subject to the regulations both as producers and distributors. To comply with the WEEE Regulations The Carphone Warehouse Limited and TalkTalk Telecom Limited have joined a compliance scheme operated by Recycle Telecom Limited, which manages a Take-back on behalf of the two companies and reports regularly to the Environment Agency on their behalf. Information on the correct disposal of WEEE is provided to customers with relevant products and in stores.

Board of Directors and Group Advisors

Charles Dunstone

Chief Executive Officer
Age 43. 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 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. He was a Non-Executive Director of HBOS PLC from February 2000 until April 2008.

Roger Taylor ACA

Chief Financial Officer
Age 43. 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. Following completion of the proposed transaction between the Company and Best Buy Co., Inc. he will combine these duties with the role of Chief Executive Officer of the Retail & Distribution business.

David Goldie

Chief Executive Officer, UK Fixed Line
Age 44. 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 Executive Officer of the UK Fixed Line division, responsible for planning and executing the Group's fixed line telecoms and broadband strategy. He is a Non-Executive Director of The Cheshire Building Society.

Andrew Harrison

Chief Executive Officer, UK Retail & Distribution Business
Age 37. 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 to his current role in July 2001.

John Gildersleeve

Non-Executive Chairman
Age 63. 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 was Chairman of Gallaher Group PLC until April 2007 and Chairman of EMI Group PLC until September 2007. Prior to this he was a Non-Executive Director of Vodafone Group PLC from 1998 to 2000.

David Ross ACA

Non-Executive Deputy Chairman
Age 42. He was appointed Deputy Chairman in July 2005. Prior to this, he was Chief Operating Officer between 1990 and 2003 with responsibility for the strategic development of the Group's activities in mainland Europe. He is Chairman of National Express Group PLC and Cosalt PLC, a Non-Executive Director of Big Yellow Group PLC, a Board Member of the Olympic Lottery Distributor and a Trustee of the National Portrait Gallery. He was a Non-Executive Director of Trinity Mirror PLC until May 2007.

Sir Brian Pitman

Non-Executive Director
Age 76. Joined the Board in January 2001 and is the Senior Independent Director. A senior advisor to Morgan Stanley, he is also a Non-Executive Director of ITV PLC, Singapore Airlines Limited and Virgin Atlantic Airways Limited. He retired in 2001 from Lloyds TSB Group PLC, where he was Chief Executive for 13 years and Chairman for four years. He was also Chairman of NEXT PLC from 1998 to 2002 and a Non-Executive Director of Tomkins PLC from June 2000 to June 2007.

Adrian Martin ACA

Non-Executive Director
Age 58. Joined the Board in November 2000. He is a Non-Executive Director of M & C Saatchi PLC and an Independent Director and Treasurer of The Disasters Emergency Committee. Previously he was Chief Executive of Reynolds Porter Chamberlain LLP until June 2008. Prior to this he was UK Managing Partner of BDO Stoy Hayward and Chairman of BDO's International Policy Board.

David Mansfield

Non-Executive Director

Age 54. Joined the Board in September 2005. He is an Executive Director of Ingenious Media PLC, a specialist media and entertainment investment and advisory group; and an advisor to Edleman, a global public relations company. He is Chairman of Raja Limited, the radio research company currently owned by the BBC and Commercial Radio, and of the 1700 Group PLC, a recruitment company specialising in media. He was previously Chief Executive of Capital Radio PLC and latterly GCap Media PLC, the UK's largest commercial radio company. He is a fellow of the Radio Academy, and a member of the London Business School London 100 Group.

Steven Esom

Non-Executive Director

Age 47. Joined the Board in September 2005. He is Director of Food at Marks & Spencers and previously he was Managing Director of Waitrose, the supermarket division of the John Lewis Partnership, from 2002 to April 2007. Prior to joining Waitrose, he spent the major part of his career in various buying roles with J Sainsbury PLC and also worked for the Ladbroke Group and Hilton International.

Baroness Morgan of Huyton

Non-Executive Director

Age 48. Joined the Board in November 2005. From November 2001 until May 2005, she was Director of Government Relations at 10 Downing Street. Prior to this she was Political Secretary to the Prime Minister from 1997 to 2001, and was appointed Minister for Women and Equalities in 2001. In 2006 she was appointed a Board Member of the Olympic Delivery Authority and was also appointed as a Non-Executive Director of Southern Cross Healthcare Group PLC. She is Advisor to the Board of the children's charity ARK and a member of the Lloyds Pharmacy Advisory Panel.

David Grigson ACA

Non-Executive Director

Age 53. Joined the Board in April 2007. He was Chief Financial Officer of Reuters Group PLC until May 2008. Prior to joining Reuters in 2000, he was Group Finance Director of Emap PLC and Chairman of Emap Digital.

Company Secretary
Tim Morris

Board Committees

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

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

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

Advisors

Principal Bankers
Barclays PLC
Deutsche Bank AG
HSBC Bank plc
ING Bank NV
Royal Bank of Scotland Group PLC

Legal Advisors
Ashurst Morris Crisp
Clyde & Co
DLA
Linklaters
Osborne Clarke

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

UBS
1 Finsbury Avenue
London EC2M 2PP

Registrars
Equiniti Limited
Aspect House
Spencer Road, Lancing
West Sussex BN99 6GU

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 32 to 38 explain that the Company has complied during the period with the principles contained in Section 1 of the 2006 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 41.

Board of Directors

Composition of the Board

There are currently four Executive Directors and eight 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 pages 26 and 27.

The following changes to the Board have taken place since last year's Annual Report:

The appointment of David Grigson as a Non-Executive Director was approved at the Annual General Meeting held on 26 July 2007. On 5 June 2007 Jim Dale also stepped down as a Director.

Between the period of 1 April 2007 and 24 April 2007, the Board comprised five Executive Directors and seven Non-Executive Directors (including the Non-Executive Chairman and Non-Executive Deputy Chairman). Following the appointment of David Grigson on 24 April 2007 the number of Non-Executive Directors increased to eight. Following Jim Dale standing down on 5 June 2007, the number of Executive Directors reduced to four.

Between the period of 1 April 2007 and 24 April 2007, five of the Non-Executive Directors (excluding the Non-Executive Chairman and the Non-Executive Deputy Chairman) were considered to be Independent Non-Executive Directors. They were Sir Brian Pitman, Baroness Morgan, David Mansfield, Steven Esom and Adrian Martin.

Following the appointment of David Grigson, six of the Non-Executive Directors (excluding the Non-Executive Chairman and the Non-Executive Deputy Chairman) are considered to be Independent Non-Executive Directors. They are Sir Brian Pitman, Baroness Morgan, David Mansfield, Steven Esom, Adrian Martin and David Grigson.

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.

Following his appointment, David Grigson 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 12 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 32 to 38.

Board meetings

The Board meets formally at least six times a year, with additional meetings as required. All Board papers are sent out on a timely basis with sufficient information for the Directors to be able to discharge their duties. The Board met formally six times during the period (including a strategy day). All Directors formally attended these meetings with the exception of Steven Esom who was absent from the meeting held on 27 September 2007 and Sir Brian Pitman and David Grigson who were both absent from the meeting held on 31 January 2008. These absences were due to prior engagements that could not be changed with the exception of David Grigson who had to attend an emergency meeting in respect of Reuters Group PLC. 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 controls allow for the key issues and risks facing 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 for and analysed by the Chairman, the Senior Independent Director, the Chief Executive Officer and the Board as a whole. The areas covered included the roles of the Executive and Non-Executive Directors, the Board, the Board Committees, the Chairman of the Company, 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 intends that these exercises or similar ones continue to 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 Annual General Meeting 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 Board is of the opinion that 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 32 to 38.

Board Committees

There are six key Board Committees: Audit, Remuneration, Nomination, Insurance Compliance, Consumer Regulation Compliance (formally Telecoms Regulatory Compliance) and Group Finance. The Committees are provided with sufficient resources via the Company Secretary and, where necessary, have direct access to independent professional advisors to undertake their duties.

Audit Committee

The Committee currently comprises the following Independent Non-Executive Directors: David Grigson (Chairman), Sir Brian Pitman, Adrian Martin, David Mansfield, Steven Esom and Baroness Morgan. Adrian Martin served as Chairman throughout the period, subsequent to which he stood down, and David Grigson was appointed as Chairman. All of the Committee members have extensive commercial experience. The Committee met formally three times during the period. All members attended each meeting, with the exception of Sir Brian Pitman who was absent from the meetings on 30 October 2007 and 31 January 2008 and David Grigson who was also absent from the meeting on 31 January 2008. These absences were due to prior engagements that could not be changed with the exception of David Grigson who had to attend an emergency meeting in respect of Reuters Group PLC.

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 other senior executives from Finance, Tax, Treasury, Legal and Risk and Assurance 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;
- 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 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:

	2008 £m	2007 £m
Audit services:		
– statutory audit	1.6	1.4
Tax services	0.3	0.1
Other services	0.3	0.1
Total	2.2	1.6

Certain non-audit services are pre-approved by the Committee depending upon the nature and size of the service. Tax services principally comprise 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 and Business Assurance 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

The Committee currently comprises the following independent Non-Executive Directors: Sir Brian Pitman (Chairman), Adrian Martin, David Mansfield, Steven Esom, Baroness Morgan and David Grigson.

The Committee met formally four times during the period and each member attended every meeting. Other Directors, the Company Secretary, the Group Director of Human Resources, and advisors 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 32 to 38. Its terms of reference comply with the Code, are available on request from the Company Secretary and are published on the Company's website. The Chairman of the Committee updates the Board following each Committee meeting.

Nomination Committee

During the period the Committee comprised the following Non-Executive Directors: Sir Brian Pitman (Chairman), John Gildersleeve, David Ross, Adrian Martin and Baroness Morgan. The Committee meets as and when required to discuss succession planning and consideration of appropriate appointments to the Board. As reported in last year's Annual Report, the Committee met prior to the appointment of David Grigson, when such appointment was considered and recommended by the Committee. No formal meetings were required during the period because it was decided that the previously approved succession planning was satisfied for the period and no new appointments were proposed during the period.

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.

Insurance Compliance Committee

The Committee is chaired by Baroness Morgan and is attended by Adrian Martin, Andrew Harrison and other senior executives. The role of the Committee is to review the Group's compliance with regulatory matters concerning the sale of insurance products to customers and to provide the Non-Executive Directors, through Baroness Morgan and Adrian Martin, with visibility of compliance issues. The Committee met formally three times during the period. The Chairman of the Committee also updates the Board following each Committee meeting.

Consumer Regulation Compliance Committee (formally Telecoms Regulatory Committee)

The Committee is chaired by David Mansfield and is attended by David Goldie, the Company Secretary and other senior executives. The role of the Committee is to review the Group's compliance with fixed line regulatory matters, consumer regulation across the fixed and mobile businesses including Trading Standards, Data Protection and Advertising Standards, and to provide the Non-Executive Directors, through David Mansfield, with visibility of these compliance issues. The Committee met formally three times during the period. The Chairman of the Committee also updates the Board following each Committee meeting.

Group Finance Committee

The Committee is chaired by David Grigson and is attended by Adrian Martin, Roger Taylor, the Company Secretary and other senior executives. The role of the Committee is to review and monitor the Group's key accounting, tax, treasury and legal matters and to provide the Non-Executive Directors, through David Grigson and Adrian Martin, with visibility of these issues. The Committee's remit supplements the work carried out by the Audit Committee. The Committee met formally once during the period. The Chairman of the Committee also updates the Board following each Committee meeting.

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. This function was further enhanced during the period by the creation of a Group Risk and Business Assurance Committee that brings together senior executives with operational responsibility to identify and manage any key risks to the Group. 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 Business Assurance function. To ensure that all parts of the Group have a good understanding of risk, members of this team have conducted risk workshops and reviews within each of the main operating divisions in the past year, culminating in an assessment of key business risks by the Executive Directors and senior management. These risk assessments have been wide-ranging, covering risks arising from the regulatory environment, strategy, counter-parties and organisational change associated both with major projects and with acquisitions. The risk management process operates throughout the Group, being applied equally to the main business divisions and corporate functions.

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

The Directors have overall responsibility for the Group's systems of internal control and for reviewing their effectiveness. The Board delegates to executive management the responsibility for designing, operating and monitoring these systems. The systems are based on a process of identifying, evaluating and managing key risks and include the risk management processes set out above.

The systems of internal control were in place throughout the period and up to the date of approval of the Annual Report and financial statements. The effectiveness of these systems is periodically reviewed by the Audit Committee in accordance with the revised 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 and this was approved by the Audit Committee and the Board.

This is supported by an ongoing process for identifying, evaluating and managing the risks faced by the Group, by the Group Risk and Business Assurance function.

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.

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.

Further financial and business information is available on the Company's website, www.cpwplc.com.

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 to be held on 31 July 2008 ("AGM").

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 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), Steven Esom, David Mansfield, Baroness Morgan, Adrian Martin and David Grigson, 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. The members of the Committee met four times during the period to consider matters relating to the remuneration of Executive Directors as well as the terms and conditions of their service with the Company.

Mercer Ltd ("Mercer") act as lead advisors to the Committee. Advice has been sought from Mercer on matters surrounding remuneration policy design and benchmarking for individual Executive Directors and members of senior management and the design of remuneration packages based on current market trends. Mercer has no other connection with the Group. Deloitte & Touche LLP ("Deloitte") provided advice to the Committee on employment tax and the administration of share option and Save-As-You-Earn ("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 28 to 31. 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 Committee seeks to ensure that remuneration and incentive schemes are in line with best practice, providing a strong link to individual and business performance and ensuring alignment between employees and shareholders.

Rewards are designed to attract and retain individuals of high quality who have the requisite skills and who are incentivised to achieve levels of performance which exceed that of competitor companies. This requires packages to be market-competitive and capable of rewarding exceptional performance. The approach is to set fixed remuneration at market median levels and to offer variable rewards, linked to the performance of the Group, which can provide significant overall levels of remuneration for exceptional performance and shareholder value creation.

Approximately 72% of Executive Directors' total remuneration earned in 2008 was performance related.

In view of his significant shareholding, Charles Dunstone does not receive long-term incentive share awards.

In setting remuneration levels, the Committee takes independent advice on market-level remuneration, based on comparisons with other companies ranked 15 places above and below the Company in the FTSE 100 index as ranked by market capitalisation. On the date of the market review the Company was ranked 82nd and the comparator group was made up of companies ranked 67th to 97th. This group was selected as it captures organisations of similar size and complexity.

In particular, the Committee has recognised that the size and complexity of the Group has increased significantly.

In 2008, the Committee made 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; and
- The development of new business streams and the added complexity to the business, e.g. joint ventures with Best Buy and Virgin.

In order to align closely the interests of Executive Directors and shareholders, the Company requires Executive Directors to build up and retain a shareholding in the Company of at least 200% of their annual salary (previously 100%). The Committee expects Executive Directors to meet their shareholding targets within five years of appointment.

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).

Salaries and benefits

Executive Directors' basic salaries are reviewed on 1 July 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 the remuneration comparator group. Basic salaries had not been increased since 1 July 2006 and the market data showed that the Executive Directors were below median against the peer group.

The Committee therefore decided to make increases to basic salaries to bring them closer to market median. Executive Director salaries from 1 July 2008 will therefore be: Charles Dunstone £600,000 (2007: £550,000), Roger Taylor £400,000 (2007: £350,000), David Goldie £325,000 (2007: £275,000) and Andrew Harrison £275,000 (2007: £225,000).

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 ended 29 March 2008 was based on improvements in Headline Earnings per share ("EPS") before tax (see notes 10 and 11 to the financial statements) and individual performance. Headline EPS before tax for the period increased by over 70%, which was recognised by the Remuneration Committee as being exceptional performance. Based on these measures, the Executive Directors will be paid the following bonuses as a percentage of annual salary: 100% to Charles Dunstone, 200% to Roger Taylor, 167% to David Goldie, and 160% to Andrew Harrison.

The bonus scheme for the period ending 4 April 2009 will again be based on improvements in Headline EPS before tax and individual performance, with a maximum payment of 200% of annual salary.

Annual Deferred Bonus Plan

In the period, Executive Directors and senior managers had 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 that would have been paid on the shares is added to the deferred share award each year. This scheme will be reviewed during the next year to ensure that its structure continues to be aligned with the delivery of business objectives in light of corporate governance guidance.

Share options

The Company has a 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 29 March 2008. A UK savings-related share option scheme is open to all eligible employees in the UK, including Executive Directors. Andrew Harrison participates in the SAYE scheme and will have the option to purchase 6,865 shares at a share price of £1.38 in July 2008.

Performance Share Plan

In July 2004, senior managers, including Executive Directors, received awards of Performance Shares (as defined in the Annual General Meeting on 28 July 2004).

Further awards were made to certain individuals in the period ended 1 April 2006. 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. In December 2006 the Remuneration Committee awarded a further grant under the Performance Share Plan. This award is subject to TSR performance targets measured against an initial performance period to 4 June 2010 and a subsequent performance period to 4 June 2011. The TSR calculation is independently calculated for the Remuneration Committee by Mercer. Details of grants to Executive Directors and performance targets are set out in the share tables later in the Report.

No awards were made to Executive Directors during the period ended 29 March 2008.

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	Payments to former Directors (iii) £000	2008 Total £000	2007 Total £000
Executive						
J H Dale	53	3	–	23	**79**	300
C W Dunstone	550	17	550	–	**1,117**	1,096
D Goldie	275	14	459	–	**748**	559
A Harrison	225	18	360	–	**603**	462
R W Taylor	350	14	700	–	**1,064**	703
Non-Executive						
S Esom	50	–	–	–	**50**	44
J Gildersleeve	317	–	–	–	**317**	200
D Mansfield	55	–	–	–	**55**	48
A H Martin	67	–	–	–	**67**	55
Baroness Morgan	56	–	–	–	**56**	48
Sir B Pitman	67	–	–	–	**67**	57
D P J Ross	150	9	–	–	**159**	155
D Grigson	46	–	–	–	**46**	–
Aggregate emoluments	2,261	75	2,069	23	**4,428**	3,727

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

(ii) Annual bonuses for the period ended 29 March 2008 were accrued at that date and will be paid in June 2008.

(iii) J H Dale retired from the Board on 5 June 2007. Payments to former Directors represent amounts paid for ongoing services provided to the Company.

(iv) J Gildersleeve's salary as Chairman increased to £400,000 per year as from 1 September 2007.

Pension contributions*

The schedule below sets out payments to defined contribution pension schemes on behalf of Executive Directors. Roger Taylor has a Self Invested Pension Plan; David Goldie and Andrew Harrison have a fixed amount of salary paid into defined contribution pension plans. Under both schemes, a fixed proportion of salary is paid by the Company together with a fixed proportion by the Executive Director and both amounts are invested on behalf of the Executive Director. Pension benefits are then funded by the total investment. Jim Dale had 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 during the period. Pension entitlements are based on basic salary only.

Director	2008 £000	2007 £000
J H Dale	**4**	7
D Goldie	**55**	54
A Harrison	**11**	11
R W Taylor	**18**	17
Total	**88**	89

Share options*

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

	At 1 April 2007	Exercised during the period	At 29 March 2008 or date of resignation	Exercise price per share £	Exercisable from	Expiry date
R W Taylor	350,000	–	350,000	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	06/06/2006	06/06/2013
	1,934,444	**–**	**1,934,444**			
J H Dale	200,000	–	200,000	2.00	19/05/2002	19/05/2010
	200,000	**–**	**200,000**			

Performance Shares*

Details of Executive Directors' conditional right to receive nil priced options in the Company are as follows:

	At 1 April 2007	Granted during the period	Exercised during the period	Lapsed during the period	At 29 March 2008 or date of resignation	Exercisable from	Expiry date
J H Dale	375,000	–	–	–	375,000	28/07/2007	28/07/2014
	375,000	–	–	–	375,000	28/07/2008	28/07/2015
	750,000	**–**	**–**	**–**	**750,000**		
A Harrison	562,500	–	–	(25,650)	536,850	28/07/2007	28/07/2014
	562,500	–	–	–	562,500	28/07/2008	28/07/2015
	310,202	–	–	–	310,202	04/06/2010	04/12/2016
	310,203	–	–	–	310,203	04/06/2011	04/12/2016
	1,745,405	**–**	**–**	**(25,650)**	**1,719,755**		
D Goldie	675,000	–	(624,375)(i)	–	50,625	28/07/2007	28/07/2014
	675,000	–	–	–	675,000	28/07/2008	28/07/2015
	200,000	–	(200,000)(i)	–	–	28/07/2007	28/07/2014
	200,000	–	–	–	200,000	28/07/2008	28/07/2015
	379,136	–	–	–	379,136	04/06/2010	04/12/2016
	379,136	–	–	–	379,136	04/06/2011	04/12/2016
	2,508,272	**–**	**(824,375)**	**–**	**1,683,897**		
R W Taylor	675,000	–	–	–	675,000	28/07/2007	28/07/2014
	675,000	–	–	–	675,000	28/07/2008	28/07/2015
	482,537	–	–	–	482,537	04/06/2010	04/12/2016
	482,538	–	–	–	482,538	04/06/2011	04/12/2016
	2,315,075	**–**	**–**	**–**	**2,315,075**		

(i) Exercised on 20 September 2007 when the market price was 367.73p, resulting in a gain of £3.0m before taxes, social security and transaction costs.

(ii) The market price per share was 286.98p as at 29 March 2008. The market price during the period ranged between 271.00p and 375.52p.

For awards made in July 2004 the performance conditions are:

Up to 50% of the shares vested in July 2007, based on the Group's Headline EPS growth and certain business unit targets, and TSR achievement compared to the FTSE 250 Index over a three and a half year performance period. A Super Stretch award was achieved for both Headline EPS and TSR targets for this period. The remaining 50% of shares will vest in July 2008, based on the Group and business unit performance against the same criteria over a four year performance period. The Remuneration Committee has agreed awards at Super Stretch for both Headline EPS and TSR targets for this performance period.

TSR and Headline EPS performance targets are summarised below:

	TSR	Headline EPS
Base Award	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 Award	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 Award	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

For awards made in June 2005 the performance conditions are:

As for awards made in July 2004 except in that shares vest in July 2008 only.

For awards made in December 2006 the performance conditions are:

The vesting criteria for 50% of the award is Group TSR performance relative to the constituents of the FTSE 100 index ("relative performance") measured at June 2010. The vesting criteria for the remaining 50% of the award is Group TSR performance compared to the position at December 2006 ("absolute performance") measured at June 2010 and June 2011.

Subject to these performance criteria, shares vest in two equal tranches in June 2010 and June 2011.

Specific targets for the awards are as follows:

	TSR relative performance	% of potential award vesting	TSR absolute performance increases by	% of potential award vesting
Base Award	Below Median	0%	Less than 10% per annum	0%
	Median or above	100%	10% per annum	100%
Stretch Award	Between Median and Upper Quartile	0% to 50% (pro rata)	Between 10% and 15% per annum	0% to 50% (pro rata)
	Upper Quartile or above	50%	15% per annum	50%
Super Stretch Award	Between Upper Quartile and Upper Decile	0% to 50% (pro rata)	Between 15% and 20% per annum	0% to 50% (pro rata)
	Upper Decile or above	50%	20% per annum	50%

Executive Directors' service contracts

All Executive Directors have service contracts which are terminable by the Company or the Executive Director with 12 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 that 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 sets out below 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 The Daily Mail and General Trust PLC and Independent Media Distribution PLC, for which the annual fees are £40,000 and £20,000 respectively. During the period he was a Non-Executive Director of HBOS PLC for which he received £85,313. He does not currently intend to take on any additional responsibilities. David Goldie is a Non-Executive Director of the Cheshire Building Society, for which he received £30,125.

Fees for Non-Executive Directors

The fees for each of the Non-Executive Directors are determined by the Board after considering external market research. Non-Executive Directors receive a basic fee of £43,000 plus additional fees of £15,000 for chairing the Audit Committee and £10,000 for chairing the Remuneration Committee. A fee of £4,000 is paid for membership of the Audit Committee, £4,000 for membership of the Remuneration Committee and £2,500 for membership of the Nomination Committee. The Senior Independent Director receives an additional fee of £7,500.

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 0.1p		
Director	**29 March 2008**	31 March 2007	Date of contract
J H Dale	**168,300**	168,300	30 March 2001
C W Dunstone	**297,577,535**	297,577,535	26 June 2000
S Esom	**3,500**	3,500	29 September 2005
J Gildersleeve	**384,026**	384,026	14 April 2005
D Goldie	**827,317**	823,495	1 July 2005
D Grigson	**–**	–	24 April 2007
A Harrison	**401,400**	401,400	3 April 2006
D Mansfield	**500**	500	29 September 2005
A H Martin	**12,461**	12,461	26 May 2005
Baroness Morgan	**1,982**	1,982	1 November 2005
Sir B Pitman	**22,882**	14,687	26 May 2005
D P J Ross	**193,840,759**	193,840,759	4 July 2002
R W Taylor	**867,766**	862,853	2 March 2000

There were no dealings by Directors between 29 March 2008 and the date of this report.

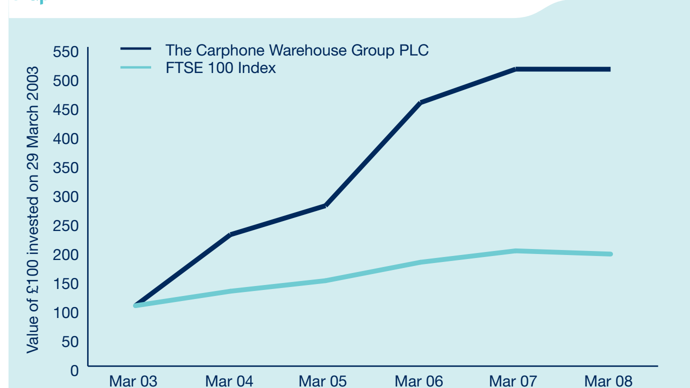
Performance graphs

Graph 1 shows the Group's performance compared to the TSR performance of the FTSE 100 Index over the last five financial years. A three month rolling average has been applied.

The FTSE 100 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 to Graph 1 but measured from 1 April 2004, with TSR measured on a daily basis against the FTSE 250. This graph is relevant as it reflects the TSR performance condition for the 2004 and 2005 awards of Performance Shares.

Graph 1



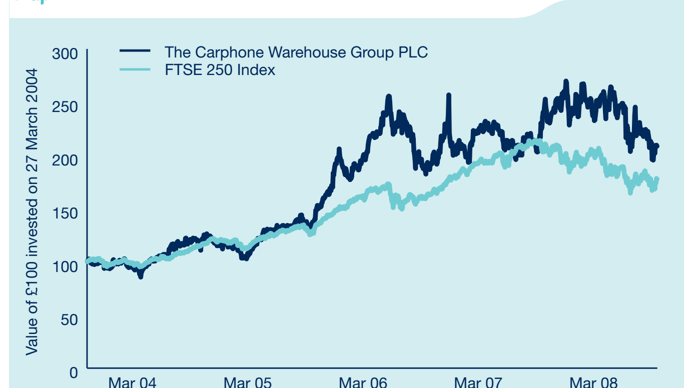
Source: Thomson Financial

This graph shows the value, by 29 March 2008, of £100 invested in The Carphone Warehouse Group PLC on 29 March 2003 compared with the value of £100 invested in the FTSE 100 Index. Values are calculated on a rolling 3-month average basis. The other points plotted are the values at intervening financial year-ends.

This report was approved by the Board on 11 June 2008.

Sir Brian Pitman
Chairman, Remuneration Committee

Graph 2



Source: Thomson Financial

This graph shows the value, by 29 March 2008, of £100 invested in The Carphone Warehouse Group PLC on 27 March 2004 compared with the value of £100 invested in the FTSE 250 Index. The graph shows daily movements in these values over the period.

Other Statutory Information

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 19 to the financial statements.

Donations
The Group made charitable donations of £220,000 during the period (2007 – £117,000). No political donations were made during either period.

Contracts with controlling shareholders
There are no material contracts with controlling shareholders, except as disclosed in the Remuneration Report on pages 32 to 38.

Share capital
Details of the movements in authorised and issued share capital during the period are provided in notes 23 and 24 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 £20.8m at 29 March 2008 (2007 – £31.4m). It is expected that any capital gains would either be covered by capital losses or carried forward for relief against capital expenditure.

Significant shareholdings
As at 11 June 2008, the Company had been notified, in accordance with chapter 5 of the Disclosure and Transparency Rules of the UK Financial Services Authority, of the following interests in the Company's shares:

Name	Number of shares	Percentage of share capital
Capital Group of Companies	46,940,000	5.13%

The total interests of the Directors are detailed in the Directors' Remuneration Report on pages 32 to 38.

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
11 June 2008

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial period. The Directors are required by the IAS Regulation to prepare the Group financial statements under International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985, the effective provisions of the Companies Act 2006 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985 and the effective provisions of the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the corporate website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 Group'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 Group'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.

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 52 weeks ended 29 March 2008 which comprise the Consolidated Income Statement, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, and the related notes 1 to 31. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' 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 for the 52 weeks ended 29 March 2008.

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

Our responsibility is to audit the Group financial statements in accordance with relevant 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, whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the Directors' Remuneration Report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements.

In addition we report to you if, in our opinion, 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 review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Directors' Report and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

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 Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group'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 Directors' Remuneration Report to be 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 Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 29 March 2008 and of its profit for the 52 week period then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the part of the Directors' Remuneration Report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Group financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

11 June 2008

Consolidated Income Statement

For the 52 weeks ended 29 March 2008

	Notes	Before amortisation of acquisition intangibles and reorganisation costs 52 weeks ended 29 March 2008 £m	Amortisation of acquisition intangibles and reorganisation costs* 52 weeks ended 29 March 2008 £m	After amortisation of acquisition intangibles and reorganisation costs 52 weeks ended 29 March 2008 £m	Before amortisation of acquisition intangibles 52 weeks ended 31 March 2007 £m	Amortisation of acquisition intangibles* 52 weeks ended 31 March 2007 £m	After amortisation of acquisition intangibles 52 weeks ended 31 March 2007 £m
Revenue	2	**4,474.4**	**–**	**4,474.4**	3,991.5	–	3,991.5
Cost of sales		**(2,860.1)**	**–**	**(2,860.1)**	(2,731.3)	–	(2,731.3)
Gross profit		**1,614.3**	**–**	**1,614.3**	1,260.2	–	1,260.2
Operating expenses excluding amortisation and depreciation	3,4	**(1,148.1)**	**(15.2)**	**(1,163.3)**	(966.2)	–	(966.2)
EBITDA	2	**466.2**	**(15.2)**	**451.0**	294.0	–	294.0
Depreciation	2,3	**(81.1)**	**–**	**(81.1)**	(65.9)	–	(65.9)
Amortisation and goodwill expense	2,3	**(120.7)**	**(76.2)**	**(196.9)**	(68.7)	(54.8)	(123.5)
Share of results of joint ventures and associates	15	**(6.1)**	**–**	**(6.1)**	(9.9)	–	(9.9)
Profit before interest and taxation	2,3	**258.3**	**(91.4)**	**166.9**	149.5	(54.8)	94.7
Interest payable	7	**(53.5)**	**–**	**(53.5)**	(32.4)	–	(32.4)
Interest receivable	7	**10.7**	**–**	**10.7**	6.1	–	6.1
Profit before taxation		**215.5**	**(91.4)**	**124.1**	123.2	(54.8)	68.4
Taxation	8	**(33.5)**	**27.0**	**(6.5)**	(17.7)	16.3	(1.4)
Net profit for the financial period		**182.0**	**(64.4)**	**117.6**	105.5	(38.5)	67.0

	Notes						
Earnings per share							
Basic	11	**20.1p**		**13.0p**	11.8p		7.5p
Diluted	11	**19.2p**		**12.4p**	11.2p		7.1p

*A reconciliation of the Headline information to Statutory information is provided in note 10 to the financial statements.

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 29 March 2008

	Notes	52 weeks ended 29 March 2008 £m	52 weeks ended 31 March 2007 £m
At the beginning of the period		**689.6**	619.0
Net profit for the financial period		**117.6**	67.0
Currency translation and cash flow hedges	24	**(63.6)**	(0.2)
Tax on items recognised directly in reserves	8,24	**6.7**	3.2
Net change in available-for-sale investments	24	**(7.5)**	3.6
Unrealised gain on disposal of subsidiary	24	**–**	1.7
Total recognised income and expense for the period		**53.2**	75.3
Issue of share capital	24	**49.2**	8.4
Net (purchase) sale of own shares	24	**(35.2)**	0.6
Net cost of share-based payments	6,24	**9.6**	10.4
Equity dividends	9,24	**(31.4)**	(24.1)
At the end of the period		**735.0**	689.6

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

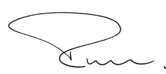
Consolidated Balance Sheet

As at 29 March 2008

	Notes	29 March 2008 £m	31 March 2007 £m
Non-current assets			
Goodwill	12	**677.5**	626.5
Other intangible assets	12	**569.2**	513.6
Property, plant and equipment	13	**448.3**	337.4
Non-current asset investments	14	**4.8**	14.5
Interests in joint ventures and associates	15	**13.6**	1.4
Deferred tax assets	8	**60.9**	61.9
		1,774.3	1,555.3
Current assets			
Stock	16	**211.6**	161.5
Trade and other receivables	17	**812.5**	743.8
Current asset investments	18	**2.2**	2.3
Cash and cash equivalents	20	**87.9**	111.1
		1,114.2	1,018.7
Total assets		**2,888.5**	2,574.0
Current liabilities			
Trade and other payables	19	**(1,086.9)**	(919.9)
Corporation tax liabilities		**(42.1)**	(52.7)
Loans and other borrowings	20	**(38.6)**	(22.7)
Provisions	22	**(90.7)**	(109.9)
		(1,258.3)	(1,105.2)
Non-current liabilities			
Trade and other payables	19	**(1.0)**	(71.6)
Loans and other borrowings	20	**(894.2)**	(707.6)
		(895.2)	(779.2)
Total liabilities		**(2,153.5)**	(1,884.4)
Net assets		**735.0**	689.6
Equity			
Share capital	23,24	**0.9**	0.9
Share premium reserve	24	**476.0**	426.8
Translation reserve	24	**(61.7)**	1.9
Accumulated profits	24	**319.8**	260.0
Funds attributable to equity shareholders		**735.0**	689.6

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

The financial statements on pages 42 to 72 were approved by the Board on 11 June 2008 and signed on its behalf by:



C W Dunstone
Chief Executive Officer

R W Taylor
Chief Financial Officer

Consolidated Cash Flow Statement

For the 52 weeks ended 29 March 2008

	Notes	**52 weeks ended 29 March 2008 £m**	52 weeks ended 31 March 2007 £m
Operating activities			
Profit before interest and taxation		**166.9**	94.7
Adjustments for non-cash items:			
Share-based payments	6	**9.6**	10.4
Non-cash movements on joint ventures and associates		**3.6**	8.0
Depreciation		**81.1**	65.9
Amortisation and goodwill expense		**196.9**	123.5
Operating cash flows before movements in working capital		**458.1**	302.5
Profit on disposal of property, plant and equipment, investments and intangible assets		**(5.2)**	(3.7)
Increase in trade and other receivables		**(94.8)**	(175.4)
Increase in stock		**(58.4)**	(26.4)
Increase in trade and other payables		**190.9**	180.4
Decrease in provisions		**(22.5)**	(21.1)
Cash generated from operations		**468.1**	256.3
Taxation paid		**(11.1)**	(6.5)
Net cash generated from operating activities		**457.0**	249.8
Investing activities			
Interest received		**9.4**	6.1
Proceeds from sale of property, plant and equipment, investments and intangible assets		**27.6**	13.5
Proceeds from disposal of subsidiary		**11.1**	–
Acquisition of subsidiaries, net of cash acquired	14	**(72.9)**	(258.3)
Acquisition of intangible assets		**(228.8)**	(148.1)
Acquisition of property, plant and equipment		**(197.3)**	(161.4)
Acquisition of non-current asset investments		**(0.3)**	–
Investment in joint ventures and associates		**(12.1)**	(8.3)
Cash flows from investing activities		**(463.3)**	(556.5)
Financing activities			
Proceeds from the issue of share capital		**49.2**	8.4
Net (purchase) sale of own shares		**(35.2)**	0.6
Proceeds from borrowings	25	**38.5**	374.1
Interest paid		**(53.3)**	(32.4)
Receipts from current asset investments		**7.9**	2.3
Dividends paid	9	**(31.4)**	(24.1)
Cash flows from financing activities		**(24.3)**	328.9
Net (decrease) increase in cash and cash equivalents		**(30.6)**	22.2
Cash and cash equivalents at the start of the period		**98.9**	77.0
Effect of exchange rate fluctuations		**(0.4)**	(0.3)
Cash and cash equivalents at the end of the period	25	**67.9**	98.9
Cash and cash equivalents for the purposes of this statement comprise:			
Cash and cash equivalents	20	**87.9**	111.1
Bank overdrafts	20	**(20.0)**	(12.2)
		67.9	98.9

1 Accounting policies

a) Basis of preparation

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

The consolidated financial statements of the Company and all of its subsidiaries ("the Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use in the European Union and as applied in accordance with the provisions of the Companies Act 1985 and the effective provisions of the Companies Act 2006. These financial statements therefore comply with Article 4 of the European Union International Accounting Standard regulation. The Company continues to apply United Kingdom GAAP in the preparation of its individual financial statements, which are contained on pages 76 to 80.

The following standards and interpretations have become effective during the period ended 29 March 2008:

- IFRS7 'Financial Instruments: Disclosures', and the related amendment to IAS1 'Presentation of Financial Statements' on capital disclosures. This introduces new disclosures relating to financial instruments but does not have any impact on their classification or valuation.
- IFRIC8 'Scope of IFRS2', provides guidance where the consideration received for equity instruments issued is less than their fair value so as to assess whether they fall within the scope of IFRS2. This standard has not impacted the Group's financial statements.
- IFRIC9 'Reassessment of Embedded Derivatives' provides further guidance on the assessment of embedded derivatives and is not relevant to the Group's operations.
- IFRIC10 'Interim Financial Reporting and Impairment' prohibits certain impairment losses recognised in an interim period to be reversed at a subsequent balance sheet date. This has not had any impact on the Group's financial statements.

At the date of authorisation of these financial statements, the following standards and interpretations had been adopted by the European Union but have not been applied by the Group:

- IFRS8 'Operating Segments', which the Group will adopt for the period ending 4 April 2009. This standard updates segmental reporting requirements but is expected to have little impact on the Group's future disclosures, results or financial position.
- IFRIC11 'Group and Treasury Share Transactions' states that when an entity buys its own instruments to settle a share-based payment obligation it should be accounted for as an equity-settled award. The Group will adopt IFRIC11 for the period ending 4 April 2009.

At the date of the authorisation of these financial statements the following standards and interpretations are still subject to endorsement by the European Union and as such cannot be adopted early by the Group.

- IFRIC12 'Service Concession Arrangements' prescribes how to account for service concession arrangements. This is not relevant to the Group's operations.
- IFRIC13 'Customer Loyalty Programmes' requires that where goods or services are sold with a customer loyalty incentive, the consideration receivable from the customer is allocated between the components of the arrangement using fair values, resulting in a portion of revenue being deferred on the balance sheet until the loyalty incentive has been satisfied or has expired.
- IFRIC14 'IAS19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' provides further guidance on accounting for defined benefit funds. This standard does not have any impact on the Group's financial statements.
- IAS1 (Amendment) 'Presentation of Financial Statements' impacts certain disclosures within the financial statements especially in relation to the income statement and statement of changes in equity but will have no effect on the financial results of the Group. This will be adopted for the period ending 3 April 2010.
- IAS23 (Amendment) 'Borrowing Costs' requires the Group to capitalise borrowing costs directly attributable to a qualifying asset as part of the cost of that asset. The Group will adopt this standard for the period ending 4 April 2009.
- IFRS2 (Amendment) 'Share-based Payment' clarifies the treatment of certain conditions when accounting for share-based payments. The Group will adopt the amendments for the period ending 3 April 2010.
- IFRS3 (Revised) 'Business Combinations' changes certain aspects of accounting for business combinations including requiring all transaction costs to be expensed. The Group will adopt these revisions for the period ending 3 April 2010.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and investments. 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 29 March 2008. 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, joint ventures and associates to bring accounting policies used into line with those used by the Group.

c) Foreign currency translation and financial instruments

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. Material 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 'Financial Instruments: Recognition and Measurement' has been applied by marking to market the relevant financial instruments at the balance sheet date and recognising the gain or loss in reserves in respect of cash flow hedges, and through the income statement in respect of fair value hedges.

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.

c) Foreign currency translation and financial instruments (continued)

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

	Average		Closing	
	52 weeks ended 29 March 2008	52 weeks ended 31 March 2007	29 March 2008	31 March 2007
Euro	**1.41**	1.47	**1.26**	1.47
South African Rand	**14.35**	13.37	**16.08**	14.22
Swedish Krona	**13.19**	13.60	**11.85**	13.76
Swiss Franc	**2.32**	2.34	**1.99**	2.39
United States Dollar	**2.01**	1.90	**1.99**	1.96

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.

d) Revenue

Revenue is stated net of VAT and other sales-related taxes.

The following accounting policies are applied to the Group's revenue streams:

- Revenue arising on the sale of mobile and other products and services is recognised when the relevant products or services are provided;
- Revenue generated from the provision of fixed and mobile network services is recognised as it is earned over the lives of the relevant customers;
- Commission receivable on sales, being commission which is contractually committed and for which there are no ongoing performance criteria, is recognised when the sales to which the commission relates are made, net of any provision for promotional offers and network operator performance penalties;
- Volume bonuses receivable from network operators are recognised when the conditions on which they are earned have been met;
- Volume bonuses received from suppliers of products are recognised as an offset to product cost when the conditions on which they are earned have been met, and are recognised within cost of sales when the products to which the volume bonuses relate have been sold;
- Ongoing revenue (share of customer airtime spend, and customer revenue and retention bonuses) is recognised as it is earned over the lives of the relevant customers;
- Insurance premiums are typically paid quarterly in advance. Administration fees paid by insurance customers, which cover sales and agency administration costs, are recognised as received. Insurance premium income is recognised over the lives of the relevant policies; and
- All other revenue is recognised when the relevant goods or services are provided.

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 schemes.

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.

Gains or losses from sale and leaseback transactions are deferred over the life of the new lease to the extent that the rentals are considered to be above or below market rentals. The remaining gain or loss is recognised within operating expenses in the period in which the sale is completed.

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, and 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 and goodwill expense. 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 comprise the direct third-party costs of recruiting and retaining new customers, net of incentives from network operators and provision for in-contract churn. They 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 licences:

Software and licences includes 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, the asset is expected to 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 licences are amortised on a straight-line basis over their estimated useful economic lives of up to eight 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 ten years or the lease term if less.

Acquisition intangibles:

Acquired intangible assets ("acquisition intangibles") such as customer bases, customer revenue share agreements, brands and other intangible assets acquired through a business combination are capitalised separately from goodwill and amortised over their expected useful lives of up to six 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, calculated as the present value of future cash flows after a deduction for contributory assets.

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
Network equipment and computer hardware	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 or depreciation 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 plus any transaction costs associated with the acquisition.

The Group's investments are categorised as available-for-sale and are then recorded at fair value. Changes in fair value, together with any related taxation, are taken directly to reserves, and recycled to the income statement when the investment is sold or determined to be impaired.

n) Interests in joint ventures and associates

Interests in joint ventures and associates are accounted for using the equity method. The consolidated income statement includes the Group's share of the pre-tax profits or losses and attributable taxation of the joint ventures and associates based on their financial statements for the financial period. In the consolidated balance sheet, the Group's interests in joint ventures and associates are shown as a non-current asset in the balance sheet, representing the Group's gross investment in the share capital of the joint ventures and associates, as well as any loans advanced where required, plus or minus the Group's share of profits or losses arising.

o) Stock

Stock is stated at the lower of cost and net realisable value. Cost, net of discounts and volume bonuses from product suppliers (see note 1d), 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 prior to disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

p) 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.

q) Loans and other borrowings

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

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

r) Provisions

Provisions are recognised when the Group has a legal or constructive obligation as a result of past events, 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. Any differences between original claims provisions and subsequent settlements are reflected in the income statement in the relevant period.

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, 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) Headline results

Headline results are stated before the amortisation of acquisition intangibles and goodwill expense. Headline results also exclude any one-off items that are considered to be so material that they require separate disclosure to avoid distortion of underlying performance.

t) Use of critical accounting estimates and assumptions

Estimates and assumptions used in the preparation of the financial statements are continually reviewed and revised as necessary. Whilst 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 in 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, related cash outflows and 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 the future economic benefits attributable to them. In the case of customer bases, such estimates involve assumptions in relation to future customer margins and average customer lives. Any estimates of future economic benefits made in relation to non-current assets 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:

	2008				2007			
	Distribution	UK Fixed Line	PLC costs and eliminations	Group	Distribution	UK Fixed Line	PLC costs and eliminations	Group
Revenue	**3,116.2**	**1,399.6**	**(41.4)**	**4,474.4**	2,917.8	1,084.3	(10.6)	3,991.5
Headline EBITDA	**276.8**	**225.6**	**(36.2)**	**466.2**	262.5	68.7	(37.2)	294.0
Depreciation	**(47.2)**	**(33.9)**	**–**	**(81.1)**	(43.2)	(22.7)	–	(65.9)
Amortisation of operating intangibles	**(54.6)**	**(66.1)**	**–**	**(120.7)**	(42.4)	(26.3)	–	(68.7)
Share of results of joint ventures and associates	**–**	**–**	**(6.1)**	**(6.1)**	–	–	(9.9)	(9.9)
Headline EBIT	**175.0**	**125.6**	**(42.3)**	**258.3**	176.9	19.7	(47.1)	149.5
Amortisation of acquisition intangibles	**–**	**(75.2)**	**–**	**(75.2)**	–	(54.3)	–	(54.3)
Goodwill expense	**(1.0)**	**–**	**–**	**(1.0)**	(0.5)	–	–	(0.5)
Reorganisation costs	**–**	**(15.2)**	**–**	**(15.2)**	–	–	–	–
Statutory EBIT (Segment results)	**174.0**	**35.2**	**(42.3)**	**166.9**	176.4	(34.6)	(47.1)	94.7

The Group previously presented primary segments of Distribution, Telecoms Services and Dealer. From the start of the current period, the Group moved to the divisional presentation above, for both internal and external reporting purposes. The comparative period has been restated to reflect the new divisional structure. A description of the business and geographic segments is included in the Business Review on pages 7 to 25. PLC costs represent central costs which are not attributable to either Distribution or UK Fixed Line.

Transactions between divisions are on an arm's length basis.

Analysis of divisional revenue is as follows:

	2008 £m	2007 £m
Distribution		
Retail (including Online)	**2,121.6**	1,922.1
Insurance	**169.9**	137.0
Ongoing	**88.6**	71.7
Mobile	**518.2**	504.8
Non-UK Fixed Line	**98.4**	111.6
Dealer	**180.6**	209.7
Eliminations	**(61.1)**	(39.1)
	3,116.2	2,917.8
UK Fixed Line		
Residential	**1,087.6**	764.4
Business	**312.0**	319.9
	1,399.6	1,084.3

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

	2008				2007			
	Distribution	UK Fixed Line	Unallocated	Group	Distribution	UK Fixed Line	Unallocated	Group
Assets	**1,662.9**	**1,065.1**	**160.5**	**2,888.5**	1,459.5	963.1	151.4	2,574.0
Liabilities	**(749.3)**	**(455.2)**	**(949.0)**	**(2,153.5)**	(716.1)	(402.7)	(765.6)	(1,884.4)
Net assets	**913.6**	**609.9**	**(788.5)**	**735.0**	743.4	560.4	(614.2)	689.6
Capital expenditure*	**151.9**	**279.6**	**7.0**	**438.5**	147.8	154.1	14.9	316.8

*Includes expenditure on property, plant and equipment and operating intangible assets.

Unallocated assets and liabilities relate principally to deferred tax, current tax, investments, loans and other borrowings, and freehold properties.

2 Segmental reporting (continued)

Results by geographical location are analysed as follows:

	Revenue		Capital expenditure*		Total assets	
	2008 £m	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m
United Kingdom	**2,900.4**	2,582.6	**356.3**	218.8	**2,031.5**	1,813.8
France	**223.0**	238.8	**10.9**	15.0	**206.5**	206.2
Germany	**516.5**	459.2	**46.6**	48.2	**217.2**	188.0
Spain	**367.8**	310.7	**9.6**	15.5	**172.8**	146.4
Other	**466.7**	400.2	**15.1**	19.3	**260.5**	219.6
Total Group	**4,474.4**	3,991.5	**438.5**	316.8	**2,888.5**	2,574.0

* Includes expenditure on property, plant and equipment and operating intangible assets.

Revenue, assets and capital expenditure are allocated based on where the customers and assets are located.

3 Profit before interest and taxation

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

	2008 £m	2007 £m
Depreciation of property, plant and equipment (see note 13)	**81.1**	65.9
Amortisation of operating intangible fixed assets (see note 12)	**120.7**	68.7
Amortisation of acquisition intangibles (see note 12)	**75.2**	54.3
Goodwill expense (see note 12)	**1.0**	0.5
Amounts written off stock	**31.8**	15.9
Other stock cost of sales	**1,546.1**	1,479.9
Impairment of trade debtors	**77.9**	46.3
Net foreign exchange (gains) losses	**(0.8)**	0.4
Share-based payments (see note 6)	**9.6**	10.4
Other employee costs (see note 5)	**573.0**	504.6
Rentals under operating leases – property	**92.2**	83.6
Rentals under operating leases – non-property	**23.6**	19.7
Auditors' remuneration (see below)	**2.2**	1.6

b) Analysis of operating expenses:

	2008 £m	2007 £m
Operating expenses excluding amortisation, depreciation and goodwill expense	**1,163.3**	966.2
Depreciation	**81.1**	65.9
Amortisation and goodwill expense	**196.9**	123.5
Total operating expenses	**1,441.3**	1,155.6

c) Auditors' remuneration:

	2008 £m	2007 £m
Statutory services:		
– Audit of Company's accounts	**0.2**	0.2
– Audit of accounts of the Company's subsidiaries	**1.4**	1.2
	1.6	1.4
Tax services:		
– Compliance services	**0.1**	–
– Advisory services	**0.2**	0.1
	0.3	0.1
Other services:	**0.3**	0.1
Total fees	**2.2**	1.6

3 Profit before interest and taxation (continued)

Fees for the audit of the Company's accounts represent fees payable to Deloitte & Touche LLP in respect of the audit of the Company's individual financial statements prepared in accordance with UK GAAP and the Group's consolidated financial statements prepared in accordance with IFRS.

Tax advisory services relate mainly to assessing the tax implications of significant corporate transactions. Other services relate primarily to the provision of advice on accounting and employment matters.

4 Reorganisation costs

The Group acquired AOL's UK internet access business in December 2006. Since this time the Group has commenced the reorganisation of the business, initially through a programme to transfer network operations, hosting, billing and customer management away from a transitional platform provided by AOL Time Warner onto the Group's own systems and infrastructure. Reorganisation costs of £15.2m were incurred in the period and have been separately disclosed given their size and one-off nature, and comprise the following elements:

	£m
Changes to billing and customer services processes	3.2
Project co-ordination and management	4.0
IT systems changes and duplicated IT costs	4.8
Redundancy and other employee costs	0.6
Other	2.6
	15.2

Reorganisation costs are expected to attract tax relief at 30% and a tax credit of £4.6m has therefore been recognised in the period.

5 Employee costs

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

	2008 Number	2007 Number
Administration	**4,546**	3,839
Sales and customer management	**16,834**	15,971
	21,380	19,810

Their aggregate remuneration (including Executive Directors) recognised in the income statement comprised:

	2008 £m	2007 £m
Wages and salaries	**497.7**	439.2
Social security costs	**70.5**	62.0
Other pension costs	**4.8**	3.4
	573.0	504.6
Share-based payments (see note 6)	**9.6**	10.4
	582.6	515.0

In addition to the costs recognised in the income statement, employee costs of £29.8m (2007 – £32.0m) were capitalised in the period in relation to internally generated intangible assets and network equipment.

A further £8.8m of redundancy and other employee costs were incurred in the period ended 31 March 2007 and offset against the reorganisation provision arising from the acquisition of Onetel in December 2005.

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

	2008 £m	2007 £m
Salaries and fees	**4.4**	4.1
Performance bonuses	**3.1**	3.4
Benefits	**0.2**	0.2
Pension costs	**0.3**	0.2
Share-based payments	**2.8**	2.5
	10.8	10.4

Details of Directors' remuneration are provided in the Remuneration Report on pages 32 to 38.

At 29 March 2008 there were no loans (2007 – nil) outstanding from Group executives.

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 an additional award under the 2006 Performance Share Plan. This award is subject to the same Total Shareholder Return ("TSR") performance targets as the original awards made in December 2006. These performance targets are measured over an initial performance period to 4 June 2010 and a subsequent performance period to 4 June 2011. The awards made under this plan in previous periods are subject to a mixture of Headline earnings per share (see note 11) and TSR performance targets measured over a three or four year performance period. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest. Details of the performance targets are provided in the Remuneration Report on pages 32 to 38.

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

		2008		2007
	Number million	**WAEP £**	Number million	WAEP £
Outstanding at the beginning of the period	**52.1**	**–**	29.4	–
Granted during the period	**2.3**	**–**	24.5	–
Forfeited during the period	**(5.8)**	**–**	(1.8)	–
Exercised during the period	**(5.6)**	**–**	–	–
Outstanding at the end of the period	**43.0**	**–**	52.1	–
Exercisable at the end of the period	**5.5**	**–**	–	–

The options outstanding at 29 March 2008 had a weighted average remaining contractual life of 8.3 years (2007 – 9.0 years). The options exercised during the period were exercised at a weighted average market price of £3.51. No options were exercised in the prior period.

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 grant. 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. Options are forfeited if the employee leaves the Group before the options vest.

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

		2008		2007
	Number million	**WAEP £**	Number million	WAEP £
Outstanding at the beginning of the period	**21.4**	**1.11**	32.5	1.05
Forfeited during the period	**(0.3)**	**1.06**	(0.2)	0.94
Exercised during the period	**(12.2)**	**1.17**	(10.9)	0.93
Outstanding at the end of the period	**8.9**	**1.02**	21.4	1.11
Exercisable at the end of the period	**8.9**	**1.02**	21.4	1.11

The options outstanding at 29 March 2008 had a weighted average remaining contractual life of 3.6 years (2007 – 4.5 years). The options exercised during the period were exercised at a weighted average market price of £3.31 (2007 – £3.09).

The summary above includes 5.4m (2007 – 14.4m) 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.

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. Options are forfeited if the employee leaves the Group before the options vest.

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

		2008		2007
	Number million	**WAEP £**	Number million	WAEP £
Outstanding at the beginning of the period	**4.1**	**1.82**	6.8	1.67
Granted during the period	**3.3**	**3.56**	0.2	3.10
Forfeited during the period	**(0.2)**	**2.14**	(1.2)	1.66
Exercised during the period	**(1.5)**	**1.53**	(1.7)	1.45
Outstanding at the end of the period	**5.7**	**2.90**	4.1	1.82
Exercisable at the end of the period	**1.5**	**1.61**	1.6	1.44

6 Share-based payments (continued)

The options outstanding at 29 March 2008 had a weighted average remaining contractual life of 8.5 years (2007 – 7.7 years). The options exercised during the period were exercised at a weighted average market price of £3.07 (2007 – £3.14). Of the 5.7m options outstanding at 29 March 2008, there were 1.5m with an option price between £1.00 and £2.00; 0.7m between £2.01 and £3.00 and 3.5m above £3.01.

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 summarises the number and WAEP of share options for the scheme:

	2008		2007	
	Number million	**WAEP £**	Number million	WAEP £
Outstanding at the beginning of the period	**8.8**	**1.60**	8.9	1.09
Granted during the period	**3.1**	**2.59**	3.1	2.66
Forfeited during the period	**(1.7)**	**2.26**	(1.4)	1.76
Exercised during the period	**(2.3)**	**1.07**	(1.8)	0.78
Outstanding at the end of the period	**7.9**	**2.00**	8.8	1.60
Exercisable at the end of the period	**0.5**	**0.88**	0.7	0.87

The options outstanding at 29 March 2008 had a weighted average remaining contractual life of 2.1 years (2007 – 2.2 years). The options exercised during the period were exercised at a weighted average market price of £3.33 (2007 – £2.81).

The summary above includes 0.6m (2007 – 1.1m) options that were granted before 7 November 2002. In accordance with IFRS2, no cost has been recognised in respect of these options.

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:

	2008	2007
Expected volatility (%)	**29.2**	28.6
Risk free rate (%)	**5.8**	5.3
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 in relation to the timing of exercises are 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. The historical performance period reflects a volatility of 27.4%. 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 £9.6m (2007 – £10.4m) in respect of equity settled share-based payments.

7 Interest payable and receivable

Interest payable is analysed as follows:

	2008 £m	2007 £m
Interest on bank loans and overdrafts	**51.2**	30.2
Amortisation of facility fees and similar charges	**2.0**	0.7
Interest element of forward currency contracts	**–**	0.7
Other interest payable	**0.3**	0.8
	53.5	32.4

7 Interest payable and receivable (continued)

Interest receivable is analysed as follows:

	2008 £m	2007 £m
Interest on cash and cash equivalents	**7.1**	4.5
Profit on disposal of available-for-sale investments	**1.3**	1.4
Interest element of forward foreign exchange contracts	**1.3**	–
Other interest receivable	**1.0**	0.2
	10.7	6.1

8 Taxation

The tax charge comprises:

	2008 £m	2007 £m
Current tax:		
UK corporation tax	**9.1**	4.9
Overseas tax	**12.4**	15.2
	21.5	20.1
Adjustments in respect of prior periods:		
UK corporation tax	**(8.2)**	(2.4)
Overseas tax	**(6.5)**	0.9
	(14.7)	(1.5)
Total current tax	**6.8**	18.6
Deferred tax:		
Origination and reversal of timing differences	**5.2**	(12.9)
Adjustments in respect of prior periods	**(5.5)**	(4.3)
Total deferred tax	**(0.3)**	(17.2)
Total tax charge	**6.5**	1.4

The tax charge relating to Headline earnings (see note 10) in the period is £33.5m (2007 – £17.7m) representing an effective tax rate of 15.5% (2007 – 14.3%). The tax charge relating to Statutory earnings in the period is £6.5m (2007 – £1.4m) representing an effective tax rate of 5.3% (2007 – 2.0%).

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:

	2008 £m	2007 £m
Profit before taxation	**124.1**	68.4
Profit before taxation at 30%	**37.3**	20.5
Items attracting no tax relief or liability	**8.3**	4.4
Income taxed at lower rates	**(19.7)**	(12.8)
Benefit of tax losses brought forward	**(4.0)**	(4.5)
Adjustments in respect of prior periods	**(20.2)**	(5.8)
Other timing differences not recognised in deferred tax	**2.2**	(0.4)
Impact of change in UK tax rate (see below)	**2.6**	–
Total tax charge	**6.5**	1.4

Tax on items recognised directly in reserves is as follows:

	2008 £m	2007 £m
Current tax credit on share-based payments	**8.4**	7.8
Deferred tax debit on share-based payments	**(3.0)**	(3.5)
Deferred tax credit (debit) on available-for-sale investments	**1.3**	(1.1)
	6.7	3.2

8 Taxation (continued)

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

	Acquisition intangibles £m	Share-based payments £m	Timing differences on capitalised costs £m	Tax losses £m	Other timing differences £m	Total £m
At 1 April 2007 as previously stated	(1.2)	26.8	2.2	16.4	7.4	51.6
Adjustment to deferred tax on acquisition (see note 14)	–	–	–	–	10.3	10.3
At 1 April 2007 (restated)	(1.2)	26.8	2.2	16.4	17.7	61.9
Credit (charge) to income statement	1.2	0.2	(9.0)	29.5	(19.0)	2.9
Impact of change in UK tax rate	–	(0.7)	0.5	(2.2)	(0.2)	(2.6)
Credit (charge) to income statement	1.2	(0.5)	(8.5)	27.3	(19.2)	0.3
(Charge) credit to reserves	–	(3.0)	–	–	1.3	(1.7)
Exchange differences	–	–	–	0.5	–	0.5
Acquisition of subsidiaries	(0.1)	–	–	–	–	(0.1)
At 29 March 2008	**(0.1)**	**23.3**	**(6.3)**	**44.2**	**(0.2)**	**60.9**

No deferred tax assets and liabilities have been offset in either period, except where there is a legal right to do so in the relevant jurisdictions.

From 1 April 2008, the UK statutory rate of corporation tax reduces from 30% to 28%. The impact of this change on the value of deferred tax assets has been recognised at 29 March 2008.

At 29 March 2008, the Group had unused tax losses of £282.7m (2007 – £193.7m) available for offset against future taxable profits. A deferred tax asset of £44.2m (2007 – £16.4m) has been recognised in respect of £141.9m (2007 – £56.8m) of such losses, based on expectations of recovery in the foreseeable future.

No deferred tax asset has been recognised in respect of the remaining tax losses of £140.8m (2007 – £136.9m) as there is insufficient evidence that there will be suitable taxable profits against which these losses can be recovered. Included within the Group's unrecognised tax losses are amounts of £7.6m (2007 – £12.0m) that will expire between 2014 and 2018 and £7.9m (2007– £14.0m) that will expire between 2008 and 2013. All other losses may be carried forward indefinitely.

At 29 March 2008, the aggregate amount of temporary differences associated with the undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was £45.9m (2007 – £26.1m). 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.

As described in note 31, in May 2008 the Group announced that it proposes to sell 50% of the retail and distribution business to Best Buy Co., Inc. This transaction may have a material impact on the recoverability of certain tax assets, the financial impact of which is currently uncertain.

9 Equity dividends

	2008 £m	2007 £m
Final dividend for the period ended 1 April 2006 of 1.75p per ordinary share	**–**	15.3
Interim dividend for the period ended 31 March 2007 of 1.00p per ordinary share	**–**	8.8
Final dividend for the period ended 31 March 2007 of 2.25p per ordinary share	**20.1**	–
Interim dividend for the period ended 29 March 2008 of 1.25p per ordinary share	**11.3**	–
	31.4	24.1
Proposed final dividend for the period ended 29 March 2008 of 3.00p per ordinary share	**27.2**	

The proposed final dividend for the period ended 29 March 2008 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 29 March 2008 reflects the fact that the Group's Employee Share Ownership Trust has agreed to waive its rights to receive dividends (see note 24).

10 Reconciliation of Headline information to statutory information

	2008				2007			
	EBITDA £m	Profit before interest and taxation £m	Profit before taxation £m	Net profit for the financial period £m	EBITDA £m	Profit before interest and taxation £m	Profit before taxation £m	Net profit for the financial period £m
Headline	**466.2**	**258.3**	**215.5**	**182.0**	294.0	149.5	123.2	105.5
Reorganisation costs (see note 4)	**(15.2)**	**(15.2)**	**(15.2)**	**(15.2)**	–	–	–	–
	451.0	**243.1**	**200.3**	**166.8**	294.0	149.5	123.2	105.5
Amortisation of acquisition intangibles	**–**	**(75.2)**	**(75.2)**	**(75.2)**	–	(54.3)	(54.3)	(54.3)
Goodwill expense	**–**	**(1.0)**	**(1.0)**	**(1.0)**	–	(0.5)	(0.5)	(0.5)
	–	**(76.2)**	**(76.2)**	**(76.2)**	–	(54.8)	(54.8)	(54.8)
Taxation:								
On reorganisation costs (see note 4)	**–**	**–**	**–**	**4.6**	–	–	–	–
On amortisation of acquisition intangibles	**–**	**–**	**–**	**22.4**	–	–	–	16.3
	–	**–**	**–**	**27.0**	–	–	–	16.3
Statutory	**451.0**	**166.9**	**124.1**	**117.6**	294.0	94.7	68.4	67.0

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

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

11 Earnings per share

	2008 £m	2007 £m
Statutory earnings	**117.6**	67.0
Headline earnings (see note 10)	**182.0**	105.5

	2008 Number of shares million	2007 Number of shares million
Weighted average number of shares:		
For basic earnings per share	**906.0**	892.1
Dilutive effect of share options	**40.1**	49.1
For diluted earnings per share	**946.1**	941.2

The number of shares that could be issued but that are not considered to be dilutive at 29 March 2008 was 25.4m (2007 – 37.3m).

	Basic pence per share		Diluted pence per share	
	2008	2007	2008	2007
Earnings per share	**13.0**	7.5	**12.4**	7.1
Headline earnings per share	**20.1**	11.8	**19.2**	11.2

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

12 Goodwill and other intangible fixed assets

	2008 £m	Restated 2007 £m
Opening net book value	**626.5**	568.6
Acquisition of subsidiaries (see note 14)	**11.2**	78.5
Adjustments to contingent consideration	**4.0**	(8.9)
Adjustments to fair value	**–**	(2.4)
Disposals (see note 14)	**(14.1)**	–
Goodwill expense	**(1.0)**	(0.5)
Foreign exchange	**50.9**	(8.8)
Closing net book value	**677.5**	626.5

Closing		
Cost (gross carrying amount)	**681.8**	629.8
Accumulated goodwill expense	**(4.3)**	(3.3)
Net carrying amount	**677.5**	626.5

As explained in note 14, adjustments have been made during the period to the goodwill arising on the acquisition of AOL's UK internet access business in December 2006. In accordance with IFRS3 'Business Combinations', prior period balances have been restated to reflect this.

A goodwill expense of £1.0m (2007 – £0.5m) has been recognised in the period in relation to historical acquisitions.

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:

	2008 £m	2007 £m
UK Fixed Line	**299.1**	294.6
UK Distribution	**39.3**	34.0
France	**95.5**	88.6
Germany	**82.9**	71.1
Spain	**68.8**	45.6
Other	**91.9**	92.6
Total goodwill	**677.5**	626.5

12 Goodwill and other intangible fixed assets (continued)

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 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 15 years based on a country-specific growth rate ranging from 1.6% to 2.3%. This rate does not exceed the average long-term growth rate for the relevant markets. The average pre-tax rate used to discount the forecast cash flows is 10.0%.

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, all of which are based on historical patterns and expectations of future market developments. 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 Directors have not identified any CGUs where it is considered likely that key assumptions may change to such an extent that it would lead to a significant impairment loss.

Other intangible fixed assets are analysed as follows:

	Operating intangibles				
	Subscriber acquisition costs £m	**Software and licences £m**	**Key money £m**	**Acquisition intangibles £m**	**Total other intangibles £m**
At 1 April 2007	54.8	114.6	25.9	318.3	**513.6**
Acquisition of subsidiaries	–	–	–	2.0	**2.0**
Additions	146.8	85.4	8.0	–	**240.2**
Disposals	–	(0.6)	(0.2)	–	**(0.8)**
Amortisation	(89.3)	(28.3)	(3.1)	(75.2)	**(195.9)**
Foreign exchange	5.7	0.4	4.0	–	**10.1**
At 29 March 2008	**118.0**	**171.5**	**34.6**	**245.1**	**569.2**
At 29 March 2008					
Cost (gross carrying amount)	218.6	251.0	45.3	363.7	**878.6**
Accumulated amortisation	(100.6)	(79.5)	(10.7)	(118.6)	**(309.4)**
Net carrying amount	**118.0**	**171.5**	**34.6**	**245.1**	**569.2**

	Operating intangibles				
	Subscriber acquisition costs £m	Software and licences £m	Key money £m	Acquisition intangibles £m	Total other intangibles £m
At 2 April 2006	34.1	45.2	23.7	56.2	159.2
Acquisition of subsidiaries	–	10.3	–	334.4	344.7
Additions	71.8	74.6	5.7	–	152.1
Adjustments to contingent consideration	–	–	–	(18.0)	(18.0)
Amortisation	(50.4)	(15.5)	(2.8)	(54.3)	(123.0)
Foreign exchange	(0.7)	–	(0.7)	–	(1.4)
At 31 March 2007	54.8	114.6	25.9	318.3	513.6
At 31 March 2007					
Cost (gross carrying amount)	123.4	168.7	37.5	400.0	729.6
Accumulated amortisation	(68.6)	(54.1)	(11.6)	(81.7)	(216.0)
Net carrying amount	54.8	114.6	25.9	318.3	513.6

Software and licences includes assets with a cost of £60.0m (2007 – £30.3m) on which amortisation has not yet been charged as the assets have not yet been brought into use.

Subscriber acquisition costs are amortised over the minimum contract term and are removed from cost in the analysis above after a period of two years.

Acquisition intangibles are removed from cost in the analysis above once fully amortised.

12 Goodwill and other intangible fixed assets (continued)

Acquisition intangibles are analysed as follows:

	2008				2007			
	Customer bases £m	Customer revenue share agreements £m	Other £m	Total £m	Customer bases £m	Customer revenue share agreements £m	Other £m	Total £m
Opening balance	**273.8**	**32.8**	**11.7**	**318.3**	21.7	–	34.5	56.2
Acquisition of subsidiaries	**1.5**	**–**	**0.5**	**2.0**	286.1	34.7	13.6	334.4
Adjustments to contingent consideration	**–**	**–**	**–**	**–**	–	–	(18.0)	(18.0)
Amortisation	**(57.2)**	**(11.6)**	**(6.4)**	**(75.2)**	(34.0)	(1.9)	(18.4)	(54.3)
Closing balance	**218.1**	**21.2**	**5.8**	**245.1**	273.8	32.8	11.7	318.3
Cost (gross carrying amount)	**315.1**	**34.7**	**13.9**	**363.7**	332.7	34.7	32.6	400.0
Accumulated amortisation	**(97.0)**	**(13.5)**	**(8.1)**	**(118.6)**	(58.9)	(1.9)	(20.9)	(81.7)
Closing balance	**218.1**	**21.2**	**5.8**	**245.1**	273.8	32.8	11.7	318.3

Customer bases relate primarily to AOL's UK internet access business, which was acquired in December 2006. The valuation of customer bases is derived from the discounted future cash flows expected from them, after a deduction for contributory assets.

Customer revenue share agreements again arose on the acquisition of AOL's UK internet access business, and represent rights, subject to performance criteria, to a share of transactional revenues generated by AOL access and TalkTalk customers on AOL sites. The valuation of these rights was again derived from the discounted future cash flows expected from the agreement, after a deduction for contributory assets.

Other acquisition intangibles represent a licence to continue to use the AOL brand for a limited time period, valued using the relief from royalty method.

13 Property, plant and equipment

	Freehold land and buildings £m	Short leasehold costs £m	Network equipment and computer hardware £m	Fixtures and fittings £m	Motor vehicles £m	Total £m
Cost						
At 1 April 2007	71.2	78.3	272.6	162.1	3.6	**587.8**
Additions	8.2	26.5	131.1	31.8	0.7	**198.3**
Disposals	(11.6)	(2.0)	(9.1)	(12.3)	(1.3)	**(36.3)**
Acquisitions	0.1	0.6	0.4	0.1	–	**1.2**
Foreign exchange	0.1	4.5	5.1	14.2	–	**23.9**
At 29 March 2008	**68.0**	**107.9**	**400.1**	**195.9**	**3.0**	**774.9**
Depreciation						
At 1 April 2007	(3.5)	(29.8)	(123.9)	(91.2)	(2.0)	**(250.4)**
Charge for the period	(0.7)	(10.1)	(46.7)	(22.8)	(0.8)	**(81.1)**
Disposals	1.9	1.6	8.3	5.0	0.8	**17.6**
Foreign exchange	–	(1.3)	(3.0)	(8.4)	–	**(12.7)**
At 29 March 2008	**(2.3)**	**(39.6)**	**(165.3)**	**(117.4)**	**(2.0)**	**(326.6)**
Net book value						
At 29 March 2008	**65.7**	**68.3**	**234.8**	**78.5**	**1.0**	**448.3**
At 1 April 2007	67.7	48.5	148.7	70.9	1.6	337.4

13 Property, plant and equipment (continued)

	Freehold land and buildings £m	Short leasehold costs £m	Network equipment and computer hardware £m	Fixtures and fittings £m	Motor vehicles £m	Total £m
Cost						
At 2 April 2006	60.9	64.3	176.2	131.3	2.4	435.1
Additions	16.2	19.4	91.7	36.0	1.4	164.7
Disposals	(5.8)	(4.5)	(2.7)	(3.6)	(0.2)	(16.8)
Acquisitions	–	0.1	8.0	0.1	–	8.2
Foreign exchange	(0.1)	(1.0)	(0.6)	(1.7)	–	(3.4)
At 31 March 2007	71.2	78.3	272.6	162.1	3.6	587.8
Depreciation						
At 2 April 2006	(2.8)	(24.7)	(86.6)	(77.8)	(1.4)	(193.3)
Charge for the period	(1.2)	(6.5)	(39.6)	(17.9)	(0.7)	(65.9)
Disposals	0.5	1.1	1.9	3.5	0.1	7.1
Foreign exchange	–	0.3	0.4	1.0	–	1.7
At 31 March 2007	(3.5)	(29.8)	(123.9)	(91.2)	(2.0)	(250.4)
Net book value						
At 31 March 2007	67.7	48.5	148.7	70.9	1.6	337.4
At 1 April 2006	58.1	39.6	89.6	53.5	1.0	241.8

14 Non-current asset investments

	2008 £m	2007 £m
At 1 April 2007	**14.5**	10.3
Reclassification to current asset investments	**(7.8)**	–
Additions	**0.3**	–
Changes in fair value	**(2.2)**	4.2
At 29 March 2008	**4.8**	14.5

Non-current asset investments at 29 March 2008 principally comprise the Group's interest in Frontiers Capital II LP, an independently managed wireless investment fund.

During the period the Group transferred its shareholding in Spinvox Limited, a provider of mobile communication services, to current asset investments, and subsequently disposed of 72% of its investment.

The fair value of non-current asset investments has been determined using International Private Equity and Venture Capital Valuation Guidelines. Movements in fair value are recognised in reserves.

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
The Phone House SAS	France	Distribution
The Phone House Telecom GmbH	Germany	Distribution
Phone Warehouse SL	Spain	Distribution
CPW Broadband Services (UK) Limited*	England and Wales	Fixed Line
Onetel Telecommunications Limited*	England and Wales	Fixed Line
Opal Telecom Limited*	England and Wales	Fixed Line
TalkTalk Telecom Limited*	England and Wales	Fixed Line
TPH Services Sarl	Luxembourg	Fixed Line
The Phone House Holdings (UK) Limited*	England and Wales	Holding company
New Technology Insurance	Ireland	Insurance

*held directly by the Company.

14 Non-current asset investments (continued)

b) Acquisitions

The Group acquired a number of subsidiaries during the period for a net cash consideration of £6.8m, together with contingent deferred consideration of £4.7m. These acquisitions resulted in provisional goodwill of £11.2m.

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

	Gross cash consideration £m	Cash acquired £m	Net cash outflow £m
Current period acquisitions	8.3	(1.5)	6.8
Deferred consideration on AOL	61.5	–	61.5
Other deferred consideration	4.6	–	4.6
	74.4	**(1.5)**	**72.9**

During the period, fair value adjustments in relation to the acquisition of AOL's UK internet access business in December 2006 have been finalised. In accordance with IFRS3 'Business Combinations', changes arising from this finalisation process have been reflected in the balance sheet at 31 March 2007. The adjustments have resulted in a reduction of £12.5m in goodwill from £639.0m to £626.5m, an increase of £10.3m in deferred tax assets from £51.6m to £61.9m and a decrease of £2.2m in current trade and other payables from £922.1m to £919.9m as at 31 March 2007.

c) Disposals

On 14 May 2007, the Group disposed of 62% of one of its French subsidiaries, The Phone House Services Telecoms SAS, for an initial cash consideration of £11.1m, resulting in the disposal of £7.9m of goodwill. The remaining investment is now treated as an associate in the results of the Group (see note 15). The Group announced on 20 March 2008 the disposal of its Swiss retail business and assets for a gross cash consideration of £14.1m, resulting in the disposal of £6.2m of goodwill.

15 Interests in joint ventures and associates

	2008 £m	2007 £m
Opening balance	**1.4**	–
Additions	**17.0**	11.3
Share of results for the period	**(6.1)**	(9.9)
Foreign exchange	**1.3**	–
Closing balance	**13.6**	1.4

Additions in the period ended 29 March 2008 reflected cash contributions of £12.1m and a non-cash contribution of £4.9m relating to the sale of 62% of The Phone House Services Telecoms SAS (see note 14c).

Additions in the period ended 31 March 2007 reflected cash contributions of £8.3m and a non-cash contribution of £3.0m relating to the transfer of the trade and assets of Omer Telecom SAS, a former subsidiary of the Group, into the Virgin Mobile France joint venture.

Interests in joint ventures and associates are as follows:

Business	Principal activities	**2008 Interest**	2007 Interest
Best Buy Mobile US	Distribution	**–**	50.0%
Virgin Mobile France	MVNO	**48.5%**	48.5%
Geek Squad Europe	Home technology support	**50.0%**	50.0%
The Phone House Services Telecoms SAS	Facilities management	**38.0%**	100.0%

The nature of the Group's agreement with Best Buy Co., Inc. in relation to Best Buy Mobile US was modified during the period, with the joint venture arrangement being replaced by a right to receive a share of incremental profits based on certain milestones.

The Group's share of the results, assets and liabilities of its joint ventures and associates for the period are as follows:

	2008 £m	2007 £m
Share of revenue	**83.8**	22.5
Share of costs and expenses	**(93.3)**	(36.6)
Share of loss before taxation	**(9.5)**	(14.1)
Share of taxation	**3.4**	4.2
Share of loss after taxation	**(6.1)**	(9.9)

15 Interests in joint ventures and associates (continued)

	2008 £m	2007 £m
Share of assets		
Share of non-current assets	**7.0**	0.9
Share of current assets	**37.7**	26.2
	44.7	27.1
Share of liabilities		
Share of current liabilities	**(47.5)**	(29.0)
Share of non-current liabilities	**(14.1)**	(6.6)
	(61.6)	(35.6)
Share of net liabilities	**(16.9)**	(8.5)

There are no material contingent liabilities or commitments relating to these joint ventures and associates.

16 Stock

	2008 £m	2007 £m
Finished goods and goods for resale	**211.6**	161.5

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

17 Trade and other receivables

	2008 £m	2007 £m
Trade receivables – gross	**820.2**	727.7
Less provision for impairment	**(70.0)**	(50.3)
Trade receivables – net	**750.2**	677.4
Other receivables	**10.4**	19.1
Prepayments and accrued income	**51.9**	47.3
	812.5	743.8

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 61 days (2007 – 57 days).

Included within trade receivables are £20.5m (2007 – £15.0m) which fall due after more than one year.

Trade and other receivables are discounted where the time value of money is considered material.

The Group's trade and other receivables are denominated in the following currencies:

	2008 £m	2007 £m
Sterling	**605.4**	569.0
Euro	**196.5**	140.7
Other	**18.3**	18.0
	820.2	727.7

The ageing of gross trade receivables is as follows:

	2008 £m	2007 £m
Not yet due	**606.8**	527.4
0 to 2 months	**99.5**	107.2
2 to 4 months	**42.6**	40.9
Over 4 months	**71.3**	52.2
	820.2	727.7

17 Trade and other receivables (continued)

The ageing of Group provisions for impairment of trade receivables is as follows:

	2008 £m	2007 £m
Not yet due	**(4.4)**	(3.9)
0 to 2 months	**(8.1)**	(6.0)
2 to 4 months	**(15.9)**	(14.0)
Over 4 months	**(41.6)**	(26.4)
	(70.0)	(50.3)

Movements in Group provisions for impairment of trade receivables are as follows:

	2008 £m	2007 £m
Opening balance	**(50.3)**	(50.3)
Acquisition of a business	**(0.2)**	(2.0)
Charge to the income statement	**(77.9)**	(46.3)
Receivables written off as unrecoverable	**61.1**	47.7
Foreign exchange	**(2.7)**	0.6
Closing balance	**(70.0)**	(50.3)

At 29 March 2008, trade receivables of £147.8m (2007 – £153.9m) were past due but not impaired. These balances primarily relate to individual residential fixed line and mobile customers. The Group has made provision based on historic rates of recoverability and all unprovided amounts are considered to be recoverable. The ageing analysis of these trade receivables is as follows:

	2008 £m	2007 £m
0 to 2 months	**91.4**	101.2
2 to 4 months	**26.7**	26.9
Over 4 months	**29.7**	25.8
	147.8	153.9

18 Current asset investments

	2008 £m	2007 £m
Available-for-sale investments	**2.2**	2.3

There are no listed investments within current asset investments in either period.

19 Trade and other payables

Current:	2008 £m	Restated 2007 £m
Trade payables	**519.6**	439.4
Other taxes and social security costs	**117.3**	85.2
Other creditors	**111.4**	83.5
Accruals and deferred income	**334.9**	311.5
Forward currency contracts (see note 21)	**3.7**	0.3
	1,086.9	919.9
Non-current:		
Other creditors	**1.0**	71.6

As explained in note 14, accruals and deferred income at 31 March 2007 have been restated to reflect the finalisation of fair value adjustments in relation to AOL's UK internet access business.

19 Trade and other payables (continued)

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 48 days (2007 – 43 days).

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

20 Cash and cash equivalents, loans and other borrowings

Cash and cash equivalents comprise:

	2008 £m	2007 £m
Cash at bank and in hand	**60.3**	38.1
Short-term bank deposits and money market funds	**27.6**	73.0
	87.9	111.1

The effective interest rate on bank deposits and money market funds was 5.1% (2007 – 4.9%).

Within cash and cash equivalents, £65.7m (2007 – £79.5m) is held by the Group's insurance business, of which £55.0m (2007 – £46.0m) is required to cover regulatory reserve requirements. As such, these funds are not available to offset other Group borrowings.

Loans and other borrowings comprise:

Current	Maturity	2008 £m	2007 £m
Bank overdrafts	On demand	**20.0**	12.2
Other uncommitted bank loans	On demand	**18.6**	10.0
Loan notes	On demand	**–**	0.5
		38.6	22.7

Non-current			
Committed loan facilities:			
£200m 364-day facility with term-out option	2009	**–**	–
£450m revolving credit facility	2009	**–**	60.0
£50m term loan	2010	**50.0**	50.0
£225m term loan	2011	**228.4**	223.7
£375m term loan	2012	**380.8**	373.9
£550m revolving credit facility	2013	**235.0**	–
		894.2	707.6

Details of the current and non-current borrowing facilities of the Group are set out below.

Bank overdrafts and other uncommitted bank loans:
The Group has a variety of overdraft facilities in Sterling, Euro and other European currencies. These facilities are domiciled in various countries and interest is charged at the standard overdraft rates applicable 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. All of 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 2016. Loan notes were issued during the period totalling £0.5m (2007 – £nil) and £1.0m (2007 – £15.1m) were redeemed or cancelled.

£550m revolving credit facility (RCF):
A new revolving credit facility (£550m RCF) was signed in March 2008, replacing the £450m RCF that was originally agreed in September 2004. Over-subscription allowed the Group to increase the amount of the RCF, which is mainly used to fund working capital, from £450m to £550m. The facility is repayable in full in March 2013. 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. A non-utilisation fee is payable in respect of amounts available but undrawn under this facility. Covenants are included in this facility that limit the ratio of debt to EBITDA, interest cover, and fixed charges (interest and operating lease expenditure) cover. The Group was in compliance with these covenants at the period end.

20 Cash and cash equivalents, loans and other borrowings (continued)

£200m 364-day facility with term-out option:

A 364-day bridge facility was arranged in May 2007 as part of negotiations to issue a debut Sterling bond in June 2007. The bond issuance was subsequently postponed as a result of adverse market conditions and the 364-day facility was retained to provide additional working capital headroom. The facility agreement has a term-out option, exercisable at the Group's discretion, for an additional one year period and, as such, the final maturity date of the facility is June 2009. The facility was undrawn at 29 March 2008 and the term-out option had not been exercised at that date. The facility agreement is similar to that used for the £550m RCF and the covenant package is identical.

£50m term loan:

The five year bi-lateral £50m term loan, which was signed in December 2005, is fully drawn in Sterling and has a fixed margin. The loan is repayable in full in December 2010 and has a covenant package identical to that in the £550m RCF.

£225m term loan:

The £225m term loan, which was signed in February 2006, is fully drawn in Euro and the interest rate is calculated in a similar manner to the £550m RCF. The loan is repayable in full in February 2011 and has a covenant package identical to that in the £550m RCF.

£375m term loan:

In October 2006, the Group agreed a new term loan facility of £375m to assist with the acquisition of AOL's UK internet access business. The maximum term of this facility is seven years, comprising a five year initial term and two one-year extension options, which are exercisable at the discretion of the bank group. The first of these extension options has been successfully exercised and, if the second extension option is exercised, the final maturity date will be October 2013. The terms of the new facility are similar to the Group's other committed bank facilities, and the covenant package is identical to that in the £550m RCF. This facility was fully drawn in Swiss Francs at 29 March 2008.

The average maturity of all non-current borrowings is 4.0 years (2007 – 3.9 years) and the weighted average interest cost was 4.5% (2007 – 4.3%).

Borrowing facilities:

The Group had undrawn committed borrowing facilities at 29 March 2008, in respect of which all conditions precedent had been met, as follows:

	2008 £m	2007 £m
Maturing in 2009	**200.0**	390.0
Maturing in 2013	**315.0**	–
	515.0	390.0

The undrawn committed facilities shown above are the £200m 364-day facility with term-out option, maturing in 2009, and the undrawn portion of the £550m RCF, maturing in 2013.

Debt maturity profile:

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

	2008 £m	2007 £m
Less than 1 year	**38.6**	22.7
2 to 3 years	**278.4**	60.0
3 to 4 years	**380.8**	273.7
4 to 5 years	**235.0**	373.9
Total	**932.8**	730.3

Currency profile of borrowings:

The currency profile of the Group's borrowings is as follows:

	2008					2007				
By instrument	Sterling £m	Euro £m	Swiss Franc £m	Other £m	Total £m	Sterling £m	Euro £m	Swiss Franc £m	Other £m	Total £m
Bank loans and overdrafts	**321.2**	**229.5**	**381.2**	**0.9**	**932.8**	130.4	224.8	373.9	0.7	729.8
Loan notes	**–**	**–**	**–**	**–**	**–**	0.5	–	–	–	0.5
Total	**321.2**	**229.5**	**381.2**	**0.9**	**932.8**	130.9	224.8	373.9	0.7	730.3

Included in other bank loans and overdrafts are South African Rand, Swedish Krona and US Dollar borrowings.

20 Cash and cash equivalents, loans and other borrowings (continued)

Fair value of financial liabilities:

The book values and fair values of the Group's loans and other borrowings are as follows:

	2008 Book value £m	2008 Fair value £m	2007 Book value £m	2007 Fair value £m
Bank overdrafts	**20.0**	**20.0**	12.2	12.2
Other uncommitted bank loans	**18.6**	**18.6**	10.0	10.0
Loan notes	**–**	**–**	0.5	0.5
Committed bank loans	**894.2**	**894.2**	707.6	707.6
Total	**932.8**	**932.8**	730.3	730.3

Securities and guarantees:

None of the borrowings is secured over Group assets. Although some guarantees are given by Group companies, these are to cover commercial obligations and, as such, no additional credit risk is created.

Functional currency:

The functional currency of individual companies within the Group varies with the territory in which they operate and the five currencies in which subsidiary companies prepare their accounts are: Sterling, Euro, South African Rand, Swiss Franc and Swedish Krona. Only Sterling denominated companies have material financial liabilities in other currencies and these are disclosed in the currency borrowings table above.

21 Financial risk management and derivative financial instruments

The book values and fair values of the Group's financial assets, liabilities and derivative financial instruments, excluding the Group's loans and other borrowings shown above, are as follows:

	2008 Book value £m	2008 Fair value £m	2007 Book value £m	2007 Fair value £m
Cash and cash equivalents	**87.9**	**87.9**	111.1	111.1
Trade and other receivables	**812.5**	**812.5**	743.8	743.8
Non-current asset investments	**4.8**	**4.8**	14.5	14.5
Available-for-sale investments	**2.2**	**2.2**	2.3	2.3
Forward currency contracts – fair value hedges	**(3.1)**	**(3.1)**	(0.3)	(0.3)
Forward currency contracts – cash flow hedges	**(0.6)**	**(0.6)**	–	–
Trade and other payables	**(1,087.9)**	**(1,087.9)**	(991.5)	(991.5)

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.

Forward currency contracts – fair value hedges:

The Group 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.

Forward currency contracts – cash flow hedges:

The Group also uses forward currency contracts to hedge transactional exposures. These contracts are mainly denominated in Euro, South African Rand and US Dollar and primarily cover stock purchases and operating expenses.

At 29 March 2008, the total notional principal amount of outstanding currency contracts was £333.0m (2007 – £168.7m). Within this balance, £31.3m (2007 – £6.0m) is held in relation to cash flow hedges, for which the associated fair value gains and losses will be transferred to the income statement when the transactions occur over the next 12 months. The remainder of the outstanding currency contracts relates to investments in and loans to the Group's non-Sterling operations. The amount transferred to income in respect of forward currency contracts was an expense of £3.1m (2007 – income of £0.3m) which has been offset by the foreign exchange movements of the financial assets that they hedge. All cashflow hedges will reverse within the next two financial years.

Embedded derivatives:

No contracts with embedded derivatives have been identified and accordingly no such derivatives have been accounted for separately.

The Group's activities expose it to a variety of financial risks including market risk (such as currency risk and interest rate risk), credit risk and liquidity risk. The Group Treasury function, which operates under approved treasury policies, uses certain financial instruments to mitigate potentially adverse effects on the Group's financial performance from these risks. These financial instruments primarily consist of bank loans and deposits, spot and forward foreign exchange contracts, and foreign exchange swaps. Other products, such as interest rate swaps and currency options, can also be used depending on the risks to be covered. The Group does not trade or speculate in any financial instruments.

21 Financial risk management and derivative financial instruments (continued)

Foreign exchange risk:

The Group is exposed to limited cross-border foreign exchange commitments and, where significant, these are hedged at inception using forward foreign currency contracts. These exposures arise mainly through stock purchases. The Group's foreign exchange position is calculated daily and any positions are closed out immediately unless the exposure is trivial. In some circumstances, particularly for highly volatile currencies, the Group also hedges future currency commitments, which are accounted for as cash flow hedges. Group policy permits the use of long-term derivative treasury products (such as cross-currency swaps) for the management of currency risk, although none is currently held. The currencies in which the main Group exposures arise include Euro, US Dollar, Swiss Franc, Swedish Krona and South African Rand.

Translation foreign currency risk (for example, investments in overseas assets or the funding of subsidiaries) is hedged using foreign exchange swaps or currency borrowings, as appropriate, at all times. A significant proportion of Group borrowings is held in Euro and Swiss Franc for this purpose. However, in line with Group policy, balance sheet translation risk is not hedged against adverse movements in exchange rates and the results of any such movements are taken to reserves. Likewise, the translation risk on converting overseas currency profits or losses is not hedged and such profits or losses are converted into Sterling at average exchange rates throughout the period.

Currency loans and foreign exchange contracts are sensitive to movements in foreign exchange rates; this sensitivity can be analysed in comparison to period-end rates (assuming all other variables remain constant) as follows:

	2008		2007	
	Income statement movement £m	**Equity movement £m**	Income statement movement £m	Equity movement £m
10% movement in the Sterling/Euro exchange rate	**–**	**43.3**	–	34.4
10% movement in the Sterling/Swiss Franc exchange rate	**–**	**44.7**	–	38.4

Changes in the value of currency loans and foreign exchange contracts would not be expected to have an impact in the income statement, as they match currency assets, the value of which would rise or fall correspondingly, with fair value hedges assumed to remain fully effective.

The impact on equity of revaluations would be partially offset on consolidation by the revaluation of any net assets that are hedged by these borrowings and derivatives.

There is limited net asset offset on consolidation, for Swiss Franc loans and foreign exchange contracts, and the Group's exposure in reserves to changes in the value of the Swiss Franc is therefore more marked than for other currencies.

The effect of foreign exchange derivatives on borrowings at the period end was as follows:

	2008					2007				
By instrument	**Sterling £m**	**Euro £m**	**Swiss Franc £m**	**Other £m**	**Total £m**	Sterling £m	Euro £m	Swiss Franc £m	Other £m	Total £m
Borrowings before derivatives	**321.1**	**229.4**	**381.1**	**1.2**	**932.8**	131.0	224.8	373.9	0.6	730.3
Derivatives	**(301.7)**	**203.5**	**65.7**	**32.5**	**–**	(162.7)	119.4	10.0	33.3	–
Total	**19.4**	**432.9**	**446.8**	**33.7**	**932.8**	(31.7)	344.2	383.9	33.9	730.3

Interest rate risk:

The Group's interest rate risk arises primarily from cash, cash equivalents and borrowings, all of which are at floating rates of interest and thus expose the Group to cash flow interest rate risk. These floating rates are linked to LIBOR and other interest rate bases as appropriate to the instrument and currency. Future cash flows arising from these financial instruments depend on interest periods agreed at the time of rollover. Group policy permits the use of long-term interest rate derivatives in managing the risks associated with movements in interest rates, although the Group holds none of these products at present.

Since all cash, cash equivalents and borrowings are at floating rates of interest, no further disclosure on the effect of interest rate derivative products has been provided.

Cash and borrowings, as well as some foreign exchange products, are sensitive to movements in interest rates and such movements have been analysed in the chart below by calculating the effect on the income statement and equity of 1% movements in the interest rates for the currencies in which most Group cash and borrowings are denominated. This analysis has been prepared on the assumption that the period-end positions prevail throughout the period, and therefore may not be representative of fluctuations in levels of borrowings.

21 Financial risk management and derivative financial instruments (continued)

	2008		2007	
	Income statement movement £m	**Equity movement £m**	Income statement movement £m	Equity movement £m
1% movement in the Sterling interest rate	**0.4**	**–**	1.4	–
1% movement in the Euro interest rate	**4.1**	**–**	3.4	–
1% movement in the Swiss Franc interest rate	**4.4**	**–**	3.8	–

Liquidity risk:

The Group manages its exposure to liquidity risk by regularly reviewing the long- and short-term cash flow projections for the business against facilities and other resources available to it. Regular reports are made to the Audit Committee assessing current facilities and debt and, in the shorter term, weekly reports are circulated showing variances against the Group's cash flow budget. Headroom is assessed based on historical experience as well as by assessing current business risks, including foreign exchange movements. Maturity dates of existing facilities are spread over five years and therefore some refinancing risk is also mitigated; it is the Group's policy to refinance debt maturities significantly ahead of maturity dates.

The table below analyses the Group's financial liabilities into relevant maturity groupings. The amounts disclosed in the table are the contractual undiscounted cash flows assuming that interest rates remain constant and that borrowings are paid in full in the year of maturity.

At 29 March 2008	**Less than 1 year £m**	**1 to 2 years £m**	**2 to 3 years £m**	**3 to 4 years £m**	**4 to 5 years £m**	**More than 5 years £m**	**Total £m**
Borrowings	(79.2)	(40.7)	(317.5)	(27.4)	(261.8)	(387.5)	**(1,114.1)**
Derivative financial instruments – payable	301.7	–	–	–	–	–	**301.7**
Derivative financial instruments – receivable	(301.7)	–	–	–	–	–	**(301.7)**
Trade and other payables	(1,086.9)	(1.0)	–	–	–	–	**(1,087.9)**

At 31 March 2007	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	More than 5 years £m	Total £m
Borrowings	(62.9)	(40.7)	(93.7)	(298.7)	(13.3)	(393.9)	(903.2)
Derivative financial instruments – payable	162.7	–	–	–	–	–	162.7
Derivative financial instruments – receivable	(162.7)	–	–	–	–	–	(162.7)
Trade and other payables	(922.1)	(71.6)	–	–	–	–	(993.7)

Credit risk:

The Group's exposure to credit risk is regularly monitored and the Group's policy updated as appropriate. Debt, investments, foreign exchange and derivative transactions are all spread amongst a number of banks all of which have short- or long-term credit ratings appropriate to the Group's policies and exposures. The investments made by the insurance companies, which hold the bulk of the Group's cash investments, are reviewed regularly by the appropriate boards and judged against existing investment policies and counterparty credit risk policies. Trade receivables primarily comprise balances due from individual fixed line and mobile customers and balances due from network operators. Network operators are generally major multi-national enterprises with whom the Group has well established relationships and are consequently not considered to add significantly to the Group's credit risk exposure. Provision is made for any receivables that are considered to be irrecoverable.

22 Provisions

	Insurance £m	Reorganisation £m	Sales £m	Other £m	Total £m
At 1 April 2007	10.2	9.2	68.2	22.3	**109.9**
Acquisitions	–	–	1.4	0.5	**1.9**
Charge to income statement	39.4	4.9	79.1	1.1	**124.5**
Released in the period	–	(0.2)	–	(1.5)	**(1.7)**
Utilised in the period	(41.6)	(2.2)	(93.6)	(8.9)	**(146.3)**
Foreign exchange	–	–	1.8	0.6	**2.4**
At 29 March 2008	**8.0**	**11.7**	**56.9**	**14.1**	**90.7**

	Insurance £m	Reorganisation £m	Sales £m	Other £m	Total £m
At 2 April 2006	9.4	22.3	67.4	24.4	123.5
Acquisitions	–	–	–	7.9	7.9
Charge to income statement	29.9	5.7	131.6	0.7	167.9
Released in the period	–	(5.7)	–	–	(5.7)
Utilised in the period	(29.1)	(13.1)	(130.6)	(10.5)	(183.3)
Foreign exchange	–	–	(0.2)	(0.2)	(0.4)
At 31 March 2007	10.2	9.2	68.2	22.3	109.9

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 reorganisation programme initiated in the period ended 1 April 2006 to integrate Onetel with the rest of the Group. The increase in the provision during the period ended 29 March 2008 relates to the disposal of the Group's Swiss retail business, which was announced on 20 March 2008. The provision is expected to be utilised over the next 12 months.

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, unresolved tax issues and legal disputes, and costs associated with onerous contracts.

23 Share capital

	2008 million	2007 million	2008 £m	2007 £m
Authorised				
Ordinary shares of 0.1p each	**1,500**	1,500	**1.5**	1.5
Allotted, called-up and fully paid				
Ordinary shares of 0.1p each	**914**	896	**0.9**	0.9

Movements in share capital in the period arose from the issue of shares to the Group's Employee Share Ownership Trust (see note 24) and the exercise of share options.

24 Reserves and accumulated profits

	Share capital £m	Share premium reserve £m	Translation reserve £m	Accumulated profits £m	Total £m
At 1 April 2007	0.9	426.8	1.9	260.0	**689.6**
Net profit for the financial period	–	–	–	117.6	**117.6**
Currency translation and cash flow hedges	–	–	(63.6)	–	**(63.6)**
Tax on items recognised directly in reserves (see note 8)	–	–	–	6.7	**6.7**
Net change in available-for-sale investments	–	–	–	(7.5)	**(7.5)**
Issue of share capital	–	49.2	–	–	**49.2**
Net purchase of own shares (see below)	–	–	–	(35.2)	**(35.2)**
Net cost of share-based payments (see note 6)	–	–	–	9.6	**9.6**
Equity dividends (see note 9)	–	–	–	(31.4)	**(31.4)**
At 29 March 2008	**0.9**	**476.0**	**(61.7)**	**319.8**	**735.0**

	Share capital £m	Share premium reserve £m	Translation reserve £m	Accumulated profits £m	Total £m
At 2 April 2006	0.9	418.4	2.1	197.6	619.0
Net profit for the financial period	–	–	–	67.0	67.0
Currency translation	–	–	(0.2)	–	(0.2)
Tax on items recognised directly in reserves (see note 8)	–	–	–	3.2	3.2
Net change in available-for-sale investments	–	–	–	3.6	3.6
Issue of share capital	–	8.4	–	–	8.4
Net sale of own shares (see below)	–	–	–	0.6	0.6
Unrealised gain on disposal of subsidiary (see below)	–	–	–	1.7	1.7
Net cost of share-based payments (see note 6)	–	–	–	10.4	10.4
Equity dividends (see note 9)	–	–	–	(24.1)	(24.1)
At 31 March 2007	0.9	426.8	1.9	260.0	689.6

Net purchase of own shares:

The Group has an Employee Share Ownership Trust ('ESOT') which holds 6.5m shares (2007 – 9.8m) in the Company for the benefit of the Group's employees.

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

At 29 March 2008 the shares had a carrying value of £22.1m and a market value of £18.5m (2007 – carrying value £16.2m, market value £27.1m).

25 Analysis of changes in net debt

	At 1 April 2007 £m	Cash flows £m	Exchange differences £m	Non-cash movements £m	At 29 March 2008 £m
Cash and cash equivalents	111.1	(22.8)	(0.4)	–	**87.9**
Bank overdrafts	(12.2)	(7.8)	–	–	**(20.0)**
	98.9	(30.6)	(0.4)	–	**67.9**
Current loans and other borrowings	(10.5)	(8.1)	–	–	**(18.6)**
Non-current loans and other borrowings	(707.6)	(30.4)	(156.2)	–	**(894.2)**
	(718.1)	(38.5)	(156.2)	–	**(912.8)**
Current asset investments	2.3	(7.9)	–	7.8	**2.2**
Total	**(616.9)**	**(77.0)**	**(156.6)**	**7.8**	**(842.7)**

25 Analysis of changes in net debt (continued)

	At 2 April 2006 £m	Cash flows £m	Exchange differences £m	Non-cash movements £m	At 31 March 2007 £m
Cash and cash equivalents	98.1	13.3	(0.3)	–	111.1
Bank overdrafts	(21.1)	8.9	–	–	(12.2)
	77.0	22.2	(0.3)	–	98.9
Current loans and other borrowings	(35.6)	25.1	–	–	(10.5)
Non-current loans and other borrowings	(320.1)	(399.2)	11.7	–	(707.6)
	(355.7)	(374.1)	11.7	–	(718.1)
Current asset investments	5.2	(2.3)	–	(0.6)	2.3
Total	(273.5)	(354.2)	11.4	(0.6)	(616.9)

26 Commitments under operating leases

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

The Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2008 £m	2007 £m
Within one year	**133.6**	105.7
In two to five years	**330.9**	301.0
After five years	**275.4**	251.3
	739.9	658.0

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.

27 Capital commitments

	2008 £m	2007 £m
Expenditure contracted, but not provided for in the financial statements	**17.6**	23.0

28 Pension arrangements

The Group provides various defined contribution pension schemes for the benefit of a significant number of its employees, the cost of which for the period was £4.8m (2007 – £3.4m).

29 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.

30 Related party transactions

During the reporting period, the Group had the following disclosable transactions with its joint ventures and associates (see note 15):

52 weeks ended 29 March 2008	Sale of stock £m	Interest income £m	Income for services provided £m	Expenses for services received £m	Net amounts owed to (receivable from) the Group £m
The Geek Squad UK	–	0.1	2.1	(1.3)	6.3
TPHS France	–	–	0.5	(3.2)	(0.4)
Virgin Mobile France	8.3	0.6	11.3	–	12.5
	8.3	**0.7**	**13.9**	**(4.5)**	**18.4**

30 Related party transactions (continued)

52 weeks ended 31 March 2007	Sale of stock £m	Interest income £m	Income for services received £m	Expenses for services provided £m	Net amounts owed to (receivable from) the Group £m
The Geek Squad UK	–	–	–	–	0.8
Best Buy Mobile US	–	–	–	–	1.4
Virgin Mobile France	23.8	0.2	6.1	–	6.6
	23.8	0.2	6.1	–	8.8

All products and services were provided at market rates.

During the period consortium relief of £3.1m was claimed on the losses of the Virgin Mobile France joint venture. In addition the Group has procured services from a company controlled by a relative of a member of the key management team totalling £0.5m during the period, with £0.1m owed to this company by the Group at 29 March 2008.

31 Post balance sheet events

On 8 May 2008, the Group announced that it had agreed to form a new venture with Best Buy Co., Inc., to accelerate growth by capitalising on the European consumer's evolving appetite for customer electronics. The assets of the newly-formed company will comprise The Carphone Warehouse's existing retail and distribution business and its existing relationships with Best Buy. Best Buy plans to acquire a 50% stake in the new company for a cash consideration of approximately £1.1 billion.

The transaction is due to complete on 30 June 2008, subject to shareholder approval at the Extraordinary General Meeting on that date.

Five Year Record (unaudited)

	IFRS 2008 £m	IFRS 2007 £m	IFRS 2006 £m	IFRS 2005 £m	UK GAAP 2004 £m
Headline results					
Revenue	**4,474.4**	3,991.5	3,046.4	2,355.1	1,849.0
EBITDA	**466.2**	294.0	242.5	173.3	122.8
PBT	**215.5**	123.2	136.1	100.4	76.3
Assets employed					
Non-current assets	**1,774.3**	1,555.3	1,014.8	730.2	604.6
Net current (liabilities) assets before provisions	**(53.4)**	23.4	54.4	(17.1)	25.1
Provisions	**(90.7)**	(109.9)	(123.5)	(57.8)	(40.2)
Non-current liabilities	**(895.2)**	(779.2)	(326.7)	(107.3)	(117.7)
Net assets	**735.0**	689.6	619.0	548.0	471.8
Financed by					
Shareholders' funds	**735.0**	689.6	619.0	548.0	471.8
Headline earnings per share					
Basic	**20.1p**	11.8p	12.4p	9.3p	6.8p
Diluted	**19.2p**	11.2p	11.7p	8.9p	6.7p

Statement of Directors' Responsibilities on the Company Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK 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 that disclose with reasonable accuracy at any time the financial position of the Company and 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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.

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

We have audited the individual Company financial statements of The Carphone Warehouse PLC for the 52 weeks ended 29 March 2008 which comprise the Balance Sheet and the related notes 1 to 13. These Company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of The Carphone Warehouse Group PLC for the 52 weeks ended 29 March 2008 and on the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the 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 Company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Company financial statements give a true and fair view and whether the Company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the Directors' Report is consistent with the Company financial statements.

In addition we 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 as described in the contents section and consider whether it is consistent with the audited Company financial statements. The other information comprises only the Directors' Report and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Company financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

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 Company financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the 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 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 Company financial statements.

Opinion

In our opinion:

- the 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 29 March 2008;
- the 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 Company financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

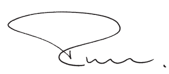
11 June 2008

Company Balance Sheet

	Notes	29 March 2008 £m	31 March 2007 £m
Non-current assets			
Investments	4	**913.0**	874.7
		913.0	874.7
Current assets			
Current asset investments	5	**2.2**	–
Cash and cash equivalents		**–**	17.3
Trade and other receivables	6	**1,673.2**	1,424.4
		1,675.4	1,441.7
Trade and other payables: amounts falling due within one year	7	**(967.8)**	(918.1)
Net current assets		**707.6**	523.6
Total assets less current liabilities		**1,620.6**	1,398.3
Trade and other payables: amounts falling due after more than one year	8	**(895.2)**	(709.1)
Net assets		**725.4**	689.2
Capital and reserves			
Called-up share capital	10	**0.9**	0.9
Share premium reserve	11	**476.0**	426.8
Profit and loss account	11	**248.5**	261.5
Total capital employed	12	**725.4**	689.2

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

The financial statements on pages 76 to 80 were approved by the Board on 11 June 2008 and signed on its behalf by:



C W Dunstone
Chief Executive Officer

R W Taylor
Chief Financial Officer

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'. The following principal accounting policies have been applied consistently throughout the current and preceding period.

The Carphone Warehouse Group PLC consolidated financial statements for the period ended 29 March 2008 contain a consolidated statement of cash flows. Consequently, the Company has applied the exemption in FRS1 'Cash Flow Statements' not to present its own cash flow statement.

Investments

Investments held in Group companies are recognised at cost, being the fair value of consideration, acquisition charges associated with the investment and capital contributions by way of share-based payments, less any provision for permanent diminution in value.

Investments held in non-Group companies are treated as available-for-sale and recorded at fair value. Changes in fair value, together with any related deferred taxation, 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 in the Group. 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.

Share-based payments issued by the Company to its subsidiary undertakings are treated as additions to investments based on the fair value of the grant, spread over the relevant vesting period, with a corresponding entry in reserves. Where the Company recharges the cost of share-based payments to its subsidiary undertakings the investment is reduced accordingly.

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 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. Material 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 FRS26 has been applied in the period.

Financial guarantees

The Company has guaranteed certain commitments given by subsidiary undertakings. The fair value of any such guarantees is amortised through the profit and loss account on a straight-line basis over the guarantee period.

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. The profit recognised for the period was £15.4m (2007 – £83.4m).

Audit fees for the audit of the Company financial statements are £0.01m (2007 – £0.01m).

3 Equity dividends

	2008 £m	2007 £m
Final dividend for the period ended 1 April 2006 of 1.75p per ordinary share	–	15.3
Interim dividend for the period ended 31 March 2007 of 1.00p per ordinary share	–	8.8
Final dividend for the period ended 31 March 2007 of 2.25p per ordinary share	**20.1**	–
Interim dividend for the period ended 29 March 2008 of 1.25p per ordinary share	**11.3**	–
	31.4	24.1

Proposed final dividend for the period ended 29 March 2008 of 3.00p per ordinary share	**27.2**	

The proposed final dividend for the period ended 29 March 2008 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 29 March 2008 reflects the fact that the Group's Employee Share Ownership Trust has agreed to waive its rights to receive dividends.

4 Non-current asset investments

	£m
At 1 April 2007	**874.7**
Additions	**16.5**
Impairments	**(9.5)**
Foreign exchange	**41.3**
Reclassification to current asset investments	**(7.8)**
Changes in fair value	**(2.2)**
At 29 March 2008	**913.0**

	£m
At 2 April 2006	735.2
Additions	158.9
Disposals	(16.8)
Foreign exchange	(6.8)
Changes in fair value	4.2
At 31 March 2007	874.7

Fixed asset investments at 29 March 2008 comprise £909.0m in relation to subsidiary undertakings and £4.0m in relation to non-Group investments. The non-Group investments relate to interests in Frontiers Capital II LP, an independently managed wireless investment fund. The fair value of the non-Group fixed asset investments has been determined using the International Private Equity and Venture Capital Valuation Guidelines. Movements in fair value are recognised in reserves.

During the period the Company transferred its shareholding in Spinvox Limited, a provider of mobile communication services, to current asset investments, and subsequently disposed of 72% of its investment.

Additions include £4.0m (2007 – £6.1m) of capital contributions to subsidiary undertakings by way of share-based payments in accordance with UITF44 'FRS20 – Group and Treasury Share Transactions'. The remaining additions relate to acquisitions of a number of subsidiaries during the period.

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

5 Current asset investments

	2008 £m	2007 £m
Available-for-sale investments	**2.2**	–

6 Trade and other receivables

	2008 £m	2007 £m
Amounts owed by Group undertakings	**1,654.1**	1,416.4
Other debtors	**15.6**	8.0
Prepayments and accrued income	**3.5**	–
	1,673.2	1,424.4

Amounts owed by Group undertakings are repayable within 12 months of the balance sheet date.

7 Trade and other payables: amounts falling due within one year

	2008 £m	2007 £m
Loans and overdrafts	**32.0**	9.7
Amounts owed to Group undertakings	**915.7**	894.8
Other creditors	**5.5**	0.8
Forward currency contracts	**3.1**	0.3
Accruals and deferred income	**11.5**	12.5
	967.8	918.1

8 Trade and other payables: amounts falling due after more than one year

	2008 £m	2007 £m
Loans	**894.2**	707.6
Other creditors	**1.0**	1.5
	895.2	709.1

9 Financial instruments

The Company has applied the exemption under FRS25 'Financial Instruments: Disclosure and Presentation' not to disclose details of financial instruments held by the Company. Full disclosure of the Group's financial instruments under FRS29 (IFRS 7) 'Financial Instruments: Disclosures' and IAS39 'Financial Instruments: Recognition and Measurement' is provided in note 21 to the Group financial statements.

10 Share capital

	2008 million	2007 million	2008 £m	2007 £m
Authorised				
Ordinary shares of 0.1p each	**1,500**	1,500	**1.5**	1.5
Allotted, called-up and fully paid				
Ordinary shares of 0.1p each	**914**	896	**0.9**	0.9

Movements in share capital in the period arose from the issue of shares to the Group's Employee Share Ownership Trust (see note 24 to the Group financial statements) and the exercise of share options.

11 Reserves

	Share capital £m	Share premium reserve £m	Profit and loss account £m	Total £m
At 1 April 2007	0.9	426.8	261.5	**689.2**
Retained loss for the financial period	–	–	(16.0)	**(16.0)**
Net change in available-for-sale investments	–	–	(6.6)	**(6.6)**
Issue of share capital	–	49.2	–	**49.2**
Net cost of share-based payments	–	–	9.6	**9.6**
At 29 March 2008	**0.9**	**476.0**	**248.5**	**725.4**

	Share capital £m	Share premium reserve £m	Profit and loss account £m	Total £m
At 2 April 2006	0.9	418.4	187.6	606.9
Retained profit for the financial period	–	–	59.3	59.3
Change in available-for-sale investments	–	–	4.2	4.2
Issue of share capital	–	8.4	–	8.4
Net cost of share-based payments	–	–	10.4	10.4
At 31 March 2007	0.9	426.8	261.5	689.2

Included in the profit for the period is a share-based payments charge of £5.5m (2007 – £4.5m) representing the cost of share-based payments granted to Group employees whose costs are borne by the Company.

The only direct employees of the Company are the Directors detailed on pages 26 and 27; details of their share options are shown in the Remuneration Report on pages 32 to 38.

12 Reconciliation of movements in shareholders' funds

	2008 £m	2007 £m
Profit for the financial period	**15.4**	83.4
Equity dividends	**(31.4)**	(24.1)
Retained (loss) profit for the financial period	**(16.0)**	59.3
Net change in available-for-sale investments	**(6.6)**	4.2
Issue of share capital	**49.2**	8.4
Net cost of share-based payments	**9.6**	10.4
Net movement in shareholders' funds	**36.2**	82.3
Opening shareholders' funds	**689.2**	606.9
Closing shareholders' funds	**725.4**	689.2

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 the Company financial statements are presented together with the consolidated Group financial statements.

Financial Calendar

	Key dates
Results announcement	12 June 2008
Ex-dividend date	9 July 2008
Record date	11 July 2008
Dividend payment date	8 August 2008
Interim results announcement	6 November 2008

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