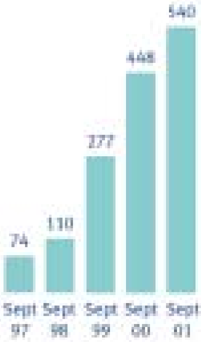
The Carphone Warehouse
COMMUNICATION CENTRES

Interim Report 2001

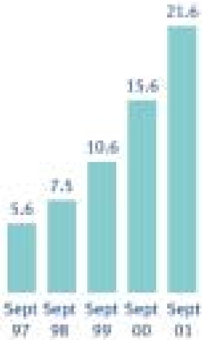
impressive performance

- Significant increase in market share
- 30% growth in subscription connections
- 20% growth in turnover
- 38% growth in EBITDA
- Growth in high quality, recurring revenue streams from £32m to £69m
- Strong performance in telecoms services
- Extensive growth opportunity

Turnover (£m)



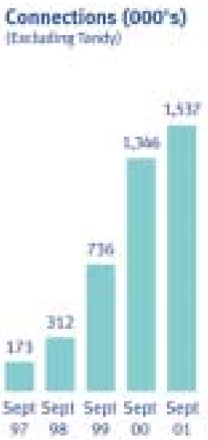
EBITDA (£m)
(Earnings before interest,taxation, depreciation, amortisation and exceptional items)

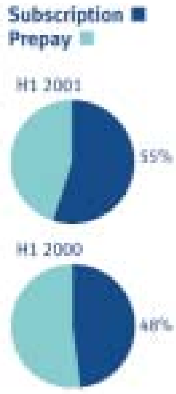


Contents

Financial highlights	26 weeks ended 29 September 2001 £m	26 weeks ended 23 September 2000 £m
Turnover	**539.6**	447.9
Gross profit	**140.1**	115.3
EBITDA	**21.6**	15.6
Distribution and telecoms services	**24.0**	17.1
MViva	**(2.4)**	(1.5)
Profit before tax	**9.6**	8.0
Headline earnings per share	**0.89p**	0.69p

Stated before exceptional items and amortisation of goodwill





delivering results

Chairman's statement

The period has shown strong growth in turnover and earnings for the 26 week period ending 29 September 2001. This performance has been driven by a significant increase in market share and considerable growth in high quality recurring revenue. This has been achieved amid tremendous change in the mobile telecoms sector.

We have seen the network operators shift their focus away from pure customer acquisition regardless of profile and potential spend, towards attracting and retaining more valuable customers. In addition, due to increased mobile phone penetration, the industry is now focused on handset replacement rather than first time buyers. These factors play directly to our strengths.

Our proven track record in providing specialist, independent advice and a unique and innovative portfolio of services and products ideally positions us to take advantage of this new environment.

growth in store

Significant increase in market share, considerable growth in high quality recurring revenue

Our performance over the last six months demonstrates our ability to attract higher spending customers. Our mix profile continues to significantly outperform the market and increase in favour of more valuable subscription customers. These customers generate substantially greater revenue for both the network operators and ourselves.

In both the UK and mainland Europe we have grown our market share considerably. This has been achieved through the continued rollout of our core retail proposition, an increase in brand awareness and further development of our close relationships with local network operators. The importance of these factors is even more apparent in the current mobile telecoms market.

In mainland Europe, of particular note is our strong performance in France and our success in turning round our business in Spain during the period. In Germany, where we only established our business twelve months ago, we are developing our core brand proposition. We have made considerable progress in Germany in the last six months and believe we will see positive returns in the next financial year.

During the period, we have also made very good progress on our strategy to build the proportion of our revenues that recur annually through the provision of after sales customer billing and services in our facilities management business. In the UK, we already provide these services for all customers our stores connect to BTCellnet and in October 2001 we contracted to do the same with Vodafone. In France, CMC,

talking the same language

which we acquired in May, is performing well. We now provide continuing billing and customer service to almost one million customers in the UK and France and intend building this business actively.

This business strengthens the alignment of our interests still more closely with those of the network operators. It also adds to our growth potential and materially improves the quality of our earnings, further differentiating our business model from others in the retail sector.

In the period we have restructured our data services division, aligning it more closely with our distribution business. The MViva brand now encompasses mobile services and products such as targeted SMS alerts, audio-texting, ringtones, icons and our mobile internet portal. This has enabled the division to generate additional revenue and consequently to have a significant impact on its performance.

Ability to attract and retain higher spending customers aligns our interests closely with European network operators

Group performance

Turnover for the period ending 29 September 2001 increased 20% to £539.6m and EBITDA before exceptionals increased 38% to £21.6m. Headline EPS in the period increased from 0.7p to 0.9p.

Distribution

The distribution division generated total revenues of £496.4m (2000 £436.0m) and contribution of £35.2m (2000 £32.1m) reflecting an increase of 10%.

Our mix profile across the Group improved considerably from 48% to 55% in favour of subscription connections. This trend has been even more marked in the UK, where it has changed from 48% to 58%. The number of subscription connections increased by 30% compared to the same period last year.

The retail business connected over 1.4m customers reflecting an increase of 14% (ex Tandy).

Our store portfolio increased from 1,009 at September 2000 to 1,085 representing good organic growth and, as anticipated at our full year results, we have successfully completed our reorganisation in non-key markets.

The gross margin value of both subscription and prepay connections has been maintained at the high levels achieved last year. This, combined with the change in mix to subscription connections, has provided substantial growth in our overall distribution performance.

Our online sales enjoyed strong growth and the insurance business continues to perform well, with growth in our policyholder base of 36% to over 888,000 (2000 655,000).

Whilst the growth rate of our wholesale activities is lower than that enjoyed last year, this

In telecoms services we now manage nearly one million customers on behalf of a number of leading European network operators

connecting with customers

business still produced revenue of over £175m (2000 £127m) and has made a valuable contribution.

Telecoms services

In telecoms services we achieved a 268% increase in revenue to £42.3m (2000 £11.5m) and a contribution of £16.1m (2000 £7.0m).

This reflects a strong increase both in our continuing share of customer spend and even more significantly in the number of customers we manage.

In telecoms services we now manage over 915,000 customers for a variety of European network operators reflecting strong organic growth coupled with the acquisition of CMC.

Data services

Data services revenue has increased to £0.9m (2000 £0.4m). Towards the end of the period, the performance of this division has substantially improved as a result of delivering new products and services. We have taken steps to ensure that this progress is continued for the remainder of this financial year and beyond.

Exceptionals

As anticipated at the full year we have incurred further costs of £1.9m in completing the closure of non-key retail stores in mainland Europe in addition to the £2.9m provided last year. In addition we have incurred £1.2m on the reorganisation of our data services division. Last year exceptional income of £16.5m arose as a result of the investment in *MViva* by AOL.

Cash flow

Significant cash movements in the period reflect the cash outflow of over £41m for the acquisition of CMC in France and capex of £21.5m. This level of capex is significantly less than that incurred last year and is reflective of the anticipated run rate for the future.

The future

The changing market gives the Group good opportunities for continued growth and success in the future. Central to this opportunity is our long-term strategy to further develop our proven customer proposition, build our brand presence and attract and retain a high spending, valuable customer base. This strategy will perfectly position us to sustain and grow our leading market position across Europe.

As we reinforce this proposition through our retail distribution business, we will be continuing to establish a full range of telecoms and data services operations across our core European markets. This will allow us to generate valuable recurring revenue streams and will align our interests even further with European network operators.

In addition, our employees across Europe have contributed hugely to our growth and their considerable efforts are vital to our future success. Our thanks go to each and every one of them.

In summary we are very well placed to take advantage of the new opportunities in the new mobile telecoms environment. We will continue to improve and build our position as Europe's leading distributor of mobile communications products and services.

Charles Dunstone
Chairman and Chief Executive

technology in the palm of your hand

Well placed to take advantage of new technologies and growth opportunities ahead

Consolidated profit and loss account

For the 26 weeks ended 29 September 2001

	Notes	Before exceptional items and amortisation **26 weeks ended 29 September 2001 £'000**	Exceptional items and amortisation 26 weeks ended 29 September 2001 £'000	After exceptional items and amortisation **26 weeks ended 29 September 2001 £'000**	Restated 26 weeks ended 23 September 2000* £'000	Restated 53 weeks ended 31 March 2001* £'000
Turnover	2	**539,590**		**539,590**	447,910	1,110,678
Cost of sales		**(399,527)**		**(399,527)**	(332,630)	(830,126)
Gross profit		**140,063**		**140,063**	115,280	280,552
Operating expenses (excluding depreciation and amortisation)	3	**(118,506)**	(1,190)	**(119,696)**	(99,656)	(214,536)
EBITDA pre-MViva		**23,955**	(1,190)	**22,765**	17,133	70,787
MViva losses		**(2,398)**		**(2,398)**	(1,509)	(4,771)
EBITDA	2	**21,557**		**20,367**	15,624	66,016
Depreciation		**(12,719)**		**(12,719)**	(8,808)	(18,788)
Amortisation		**—**	(6,570)	**(6,570)**	(3,597)	(8,771)
Operating profit		**8,838**		**1,078**	3,219	38,457
Exceptional items	3	**—**	(1,898)	**(1,898)**	13,014	6,555
Net interest receivable		**720**		**720**	1,191	2,385
Profit (loss) on ordinary activities before taxation		**9,558**		**(100)**	17,424	47,397
Tax on profit on ordinary activities	4	**(2,392)**	728	**(1,664)**	(2,027)	(11,998)
Profit (loss) on ordinary activities after taxation		**7,166**		**(1,764)**	15,397	35,399
Minority interests		**273**	134	**407**	(1,130)	(563)
Retained profit (loss) for the period		**7,439**		**(1,357)**	14,267	34,836
Earnings per share						
Basic	5	**—**		**(0.16p)**	1.74p	4.57p
Headline	5	**0.89p**		**—**	0.69p	5.00p

* Prior period earnings have been restated to reflect the impact of FRS 19 on the taxation charge for the period.

All material gains and losses are included in the Consolidated profit and loss account.

Consolidated balance sheet

As at 29 September 2001

	Notes	29 September 2001 £'000	Restated 23 September 2000* £'000	Restated 31 March 2001* £'000
Fixed assets				
Intangible assets		**271,953**	233,309	231,471
Tangible assets		**131,497**	90,383	120,278
Other investments		**44,851**	39,671	44,426
		448,301	363,363	396,175
Current assets				
Stock		**63,939**	59,371	52,437
Debtors		**144,609**	113,181	149,200
Investments		**47,907**	35,240	46,374
Cash at bank and in hand		**41,504**	78,203	67,517
		297,959	285,995	315,528
Creditors: Amounts falling due within one year		**(260, 054)**	(184,734)	(222,348)
Net current assets		**37,905**	101,261	93,180
Total assets less current liabilities		**486,206**	464,624	489,355
Creditors: Amounts falling due after more than one year		**(9,190)**	(14,890)	(14,107)
Provisions for liabilities and charges		**(40,890)**	(35,081)	(36,803)
Net assets		**436,126**	414,653	438,445
Capital and reserves				
Called-up share capital		**833**	819	833
Share premium		**356,290**	353,070	356,235
Capital redemption reserve		**30**	30	30
Profit and loss account		**77,693**	58,479	79,660
Equity shareholders' funds	9	**434,846**	412,398	436,758
Minority interests		**1,280**	2,255	1,687
Total capital employed		**436,126**	414,653	438,445

* Prior period balance sheets have been restated to reflect the impact of FRS 19 on the taxation charge for prior periods.

Approved by the Board of The Carphone Warehouse Group PLC

7 November 2001

Consolidated cash flow statement

For the 26 weeks ended 29 September 2001

	Notes	**26 weeks ended 29 September 2001 £'000**	26 weeks ended 23 September 2000 £'000	53 weeks ended 31 March 2001 £'000
Net cash inflow from operating activities		**2,013**	1,380	43,663
Net cash inflow from returns on investments and servicing of finance		**720**	1,191	2,385
Net cash outflow from taxation		**(3,989)**	(1,777)	(6,991)
Net cash outflow from capital expenditure and financial investment		**(21,534)**	(87,684)	(141,687)
Net cash outflow from acquisitions and disposals		**(41,005)**	(23,575)	(18,818)
Net cash outflow before management of liquid resources and financing		**(63,795)**	(110,465)	(121,448)
Net cash inflow from management of liquid resources		**—**	196	196
Net cash inflow from financing		**39,914**	170,844	168,608
(Decrease) increase in cash in the period	8	**(23,881)**	60,575	47,356

Reconciliation of net cash inflow from operating activities to operating profit

	26 weeks ended 29 September 2001 £'000	26 weeks ended 23 September 2000 £'000	53 weeks ended 31 March 2001 £'000
Operating profit before exceptional items and amortisation	**8,838**	6,816	47,228
Depreciation of tangible fixed assets	**12,719**	8,808	18,788
EBITDA	**21,557**	15,624	66,016
Loss on disposal of tangible fixed assets	**72**	—	31
Decrease in provisions	**(2,012)**	(4,521)	(11,256)
(Increase) decrease in stock	**(11,376)**	(2,578)	5,187
Decrease (increase) in debtors	**19,544**	(10,648)	(54,248)
(Decrease) increase in creditors	**(25,772)**	3,503	37,933
Net cash inflow from operating activities	**2,013**	1,380	43,663

Notes to the accounts

For the 26 weeks ended 29 September 2001

1 Basis of preparation and accounting policies

The interim financial information has been prepared on a basis consistent with the basis of preparation and accounting policies set out on pages 30 to 31 of The Carphone Warehouse Group PLC annual report for the 53 weeks ended 31 March 2001, with the exception of the policy on deferred tax.

Financial Reporting Standard (FRS) 19 'Deferred Tax' has been adopted with effect from 1 April 2001. FRS 19 requires that deferred tax be recognised in respect of all timing differences that have originated, but not reversed, by the balance sheet date. Prior to 1 April 2001 the Group's accounting policy was to provide for deferred tax only to the extent that a liability or asset was expected to crystalise in the foreseeable future. The prior year comparatives have been restated to comply with FRS 19, as detailed in note 4.

The information set out in this interim report for the 26 weeks ended 29 September 2001 does not comprise statutory accounts within the meaning of section 240 of the Companies Act 1985. The statutory accounts for the 53 weeks ended 31 March 2001, incorporating the unqualified auditors' report, have been filed with the Registrar of Companies.

2 Segmental analysis

Divisional contribution is analysed as follows:

	26 weeks ended 29 September 2001		26 weeks ended 23 September 2000		53 weeks ended 31 March 2001	
	Turnover £'000	**EBITDA £'000**	Turnover £'000	EBITDA £'000	Turnover £'000	EBITDA £'000
Distribution	**496,411**	**35,222**	435,953	32,149	1,079,143	101,160
Telecoms services	**42,272**	**16,114**	11,529	6,960	30,481	18,125
Data services	**907**	**(2,398)**	428	(1,678)	1,054	(5,265)
Common costs	**—**	**(27,381)**	—	(21,807)	—	(48,004)
	539,590	**21,557**	447,910	15,624	1,110,678	66,016

Net assets by division are analysed as follows:

	29 September 2001 £'000	Restated 23 September 2000 £'000	Restated 31 March 2001 £'000
Distribution	**355,570**	342,327	363,970
Telecoms services	**31,157**	15,652	21,802
Data services	**49,399**	56,674	52,673
	436,126	414,653	438,445

Acquisitions generated turnover of £22.5m (2000 £28.8m) and an operating profit of £1.4m (2000 £0.6m) in the period.

2 Segmental analysis (continued)

Contribution by geographical location is analysed by origin as follows:

	26 weeks ended 29 September 2001		26 weeks ended 23 September 2000		53 weeks ended 31 March 2001	
	Turnover £'000	**EBITDA £'000**	Turnover £'000	EBITDA £'000	Turnover £'000	EBITDA £'000
United Kingdom	**366,650**	**37,050**	288,748	30,154	749,160	91,118
Rest of Europe	**172,940**	**11,888**	159,162	7,277	361,518	22,902
Common costs	**—**	**(27,381)**	—	(21,807)	—	(48,004)
	539,590	**21,557**	447,910	15,624	1,110,678	66,016

There is not a material difference between turnover by destination and turnover by origin.

Net assets by geographical location are analysed as follows:

	29 September 2001 £'000	Restated 23 September 2000 £'000	Restated 31 March 2001 £'000
United Kingdom	**394,406**	384,796	391,220
Rest of Europe	**41,720**	29,857	47,225
	436,126	414,653	438,445

3 Exceptional items

		26 weeks ended 29 September 2001 £'000	26 weeks ended 23 September 2000 £'000	53 weeks ended 31 March 2001 £'000
Cost of fundamental reorganisation	(i)	**(1,150)**	(3,500)	(4,530)
Profit on disposal of subsidiary undertakings	(ii)	**—**	16,514	16,514
Loss on disposal of fixed assets	(iii)	**(748)**	—	(5,429)
Other closure costs	(iii)	**(1,190)**	—	—
Net (expense) income		**(3,088)**	13,014	6,555

(i) **Cost of fundamental reorganisation**

A charge of £1.2m has been made during the period in respect of the reorganisation of the Group's data services division following greater alignment with the distribution business and the delivery of new products and services.

Charges in the period ended 31 March 2001 relate to the integration of the head office and retail operations of Antika Retail Limited (trading as Tandy) into those of the other UK operations.

(ii) **Profit on disposal of subsidiary undertakings**

In the period ended 23 September 2000, the Group entered into a strategic partnership agreement with AOL Europe S.A. to provide funding, functionality, content and services to the Group's subsidiary MViva Limited, whereby AOL Europe paid $25m for a 15% interest, resulting in a profit of £16.5m.

(iii) **Loss on disposal of fixed assets and other closure costs**

As anticipated in the full year results to 31 March 2001 the Group has incurred costs completing the closure of non-key stores across mainland Europe. As a result of these closures an additional loss on disposal of fixed assets of £0.75m has been incurred, above the £2.9m provided last year, together with other closure costs of £1.2m.

The charge in the period ended 31 March 2001 included the above £2.9m and a further £2.5m loss arising from the disposal of certain investments.

4 Tax on profit on ordinary activities

Taxation has been provided using the estimated effective rate of taxation for the year ended 30 March 2002 of 25% (year ended 31 March 2001 27%), amounting to a charge of £2.4m.

As explained in note 1, the Group has adopted FRS 19 with effect from 1 April 2001 and in accordance with the standard, has restated prior period figures to reflect this. The effects of the adjustments are to increase the tax charge by £0.8m in the period to 23 September 2000 (full year effect £3.3m). Net assets have correspondingly been increased by £3.3m at 25 March 2000 and by £2.5m at 23 September 2000; net assets at 31 March 2001 are not affected. Basic unadjusted earnings per share for the period ended 23 September 2000 have been restated from 1.9p to 1.7p (full year from 5.0p to 4.6p).

5 Earnings per share

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

	26 weeks ended 29 September 2001	Restated 26 weeks ended 23 September 2000*	Restated 53 weeks ended 31 March 2001
Weighted average number of shares (000's)	**832,646**	755,100	763,002
Basic earnings for the financial period (£'000)	**(1,357)**	13,146	34,836
Headline earnings for the financial period† (£'000)	**7,439**	5,234	38,179

Earnings per share - basic			
Unadjusted	**(0.16p)**	1.74p	4.57p
Headline†	**0.89p**	0.69p	5.00p

* Weighted average number of shares and minority interests have been adjusted for 113 million shares issued in exchange for certain minority shareholdings pre-flotation.

† Before amortisation of goodwill and exceptional items.

6 Dividends

No interim dividend is proposed.

7 Acquisitions

In May 2001, the Group acquired the entire issued share capital of Communication de Mobiles Cellulaires S.A., a French telecoms services business, for a net cash consideration of £41.0m.

8 Analysis of changes in net debt

	At 31 March 2001 £'000	Foreign exchange £'000	Cash flows £'000	**At 29 September 2001 £'000**
Cash at bank and in hand	67,517	(82)	(25,931)	**41,504**
Overdrafts	(10,423)	(4)	2,050	**(8,377)**
	57,094	(86)	(23,881)	**33,127**
Debt due within one year	(114)	8	(39,894)	**(40,000)**
Finance leases	(434)	—	35	**(399)**
Net funds (debt)	56,546	(78)	(63,740)	**(7,272)**

9 Shareholders' funds

The reconciliation of shareholders' funds is as follows:

	26 weeks ended 29 September 2001 £'000	Restated 26 weeks ended 23 September 2000 £'000	Restated 53 weeks ended 31 March 2001 £'000
(Loss) profit for the period as previously stated	**(1,357)**	15,104	38,159
Prior period adjustment	**—**	(837)	(3,323)
(Loss) profit for the period as restated	**(1,357)**	14,267	34,836
Foreign exchange movements	**(559)**	(769)	(383)
Other movements	**(51)**	(1,902)	(1,676)
Issue of new shares	**55**	353,289	356,468
Net movement in shareholders' funds	**(1,912)**	364,885	389,245
Opening shareholders' funds	**436,758**	47,513	47,513
Closing shareholders' funds	**434,846**	412,398	436,758

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unique symbols of success

The Carphone Warehouse's award winning success has been based on an unrivalled committment to customer service and exceeding customer expectations

Designed by Tor Pettersen & Partners. Printed in England by Litho-Tech.

Retail Week Awards 2001:
Retail Employer of the Year,
Customer Service Initiative of
the Year

Mobile News Awards 2001:
Customer Service, Large Retailer
of the Year (7th year running)

Sunday Times 50 Best Companies
To Work For 2001

Mobile Choice Consumer
Awards 2001:
High Street Retailer of the Year

a great reception

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