



25 YEARS OF
CONNECTING
ADAPTING
EVOLVING

... **CARPHONE WAREHOUSE**
... **GROUP PLC**

Annual Report 2014

AT THE TOP OF AN EVER-CHANGING INDUSTRY

**We exist to make more lives better
through connected technology.**

By putting connectivity at the heart of our business we are committed to helping people experience and buy the best range of hardware, accessories, connections and services to suit their individual needs.



Where this annual report contains forward-looking statements, they are made by the directors in good faith based on the information available to them at the time of the approval of this annual report. These statements should be treated with caution due to the inherent risks and uncertainties underlying any such forward-looking information. The Group cautions users of this document that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statements. Such factors include, but are not limited to, those discussed under the risk management sections on pages 19 and 24.

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Highlights of the year

CARPHONE WAREHOUSE

- + Pro forma Headline EBIT of £151m (2013: £132m)
- + Full year like-for-like revenue growth of 5.3% (2013: 4.6%)
- + Launched award-winning tablet-based sales tool Pin Point, driving customer satisfaction and conversion
- + Record-high customer recommendation levels year-on-year

European Partnerships

- + Store-in-store partnerships with Media-Markt Saturn in the Netherlands and Harvey Norman in Ireland

Connected World Services

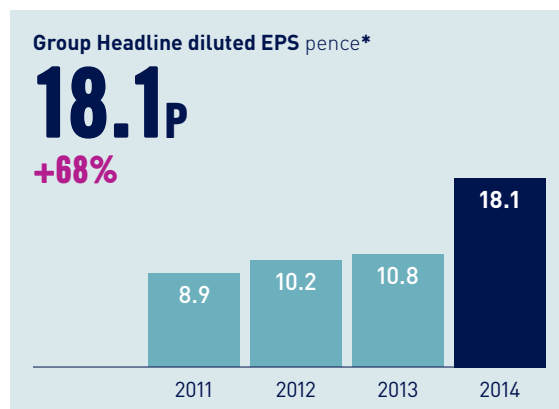
- + Preferred-partner agreement to run Samsung Experience Stores across Europe
- + Developed honeyBee platform with Accenture

VIRGIN MOBILE FRANCE

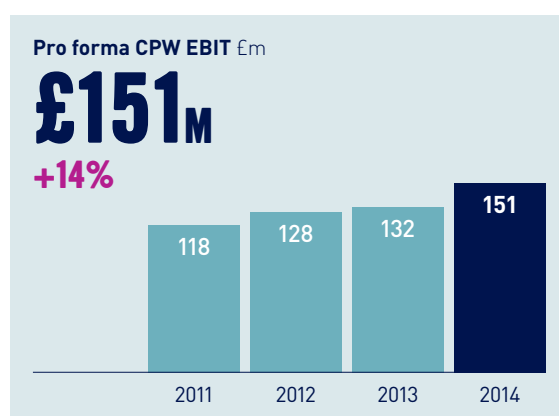
- + Creditable performance in tough trading environment
- + Exclusivity agreement reached in May 2014 for the sale of Virgin Mobile France to Numericable Group

GROUP EPS

- + Headline EPS of 18.4p (2013: 11.6p)
- + Statutory EPS of 8.6p (2013: 0.9p)



* From continuing operations.



+ **PERFORMANCE REVIEW**
PAGES 20-24

Business overview

CARPHONE WAREHOUSE GROUP

Founded by Sir Charles Dunstone in 1989, today Carphone Warehouse ("CPW") is the largest independent multi-channel telecommunications retailer in Europe.

CPW specialises in mobile handsets, tablets and other connected devices, combining hardware with connections to create subsidised propositions. In recent years it has started to offer a range of managed services to third parties.

OWN CHANNELS

CPW has a range of store formats across Europe, together with well-developed online propositions, offering specialist and independent advice in areas of product and service complexity.

OWN STORES

- Our own stores typically vary in size from 500 sq ft to 1,500 sq ft
- Larger stores offer a broader range of products and services

FRANCHISE

- Franchise stores operate in Mainland Europe under the Phone House brand
- Lease held by franchisee
- Allows CPW to build scale with little or no upfront investment

ONLINE

- Transactional websites in all CPW's retail territories
- Supports the retail business, allowing customers to research products and find stores online
- A range of online brands alongside Carphone Warehouse and Phone House, including e2save and mobiles.co.uk in the UK and Typhone in the Netherlands and Germany

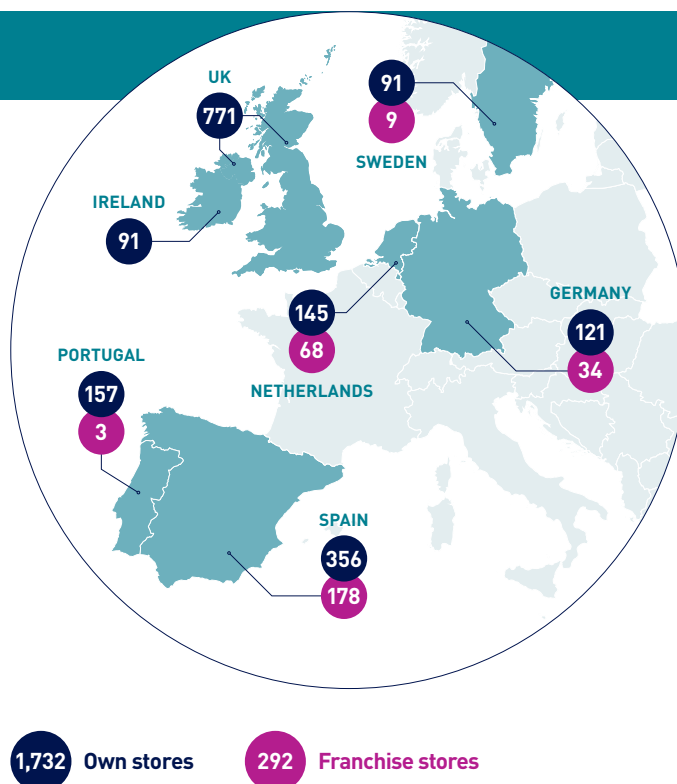
DEALER

- Sale of mobile handsets to, and management of MNO connections on behalf of, smaller or non-specialist retailers and distributors
- Our largest operation is in Germany, through our Mobile World Distribution business

GEEK SQUAD

CPW also offers a range of services through the Geek Squad including:

- technology support: device set-up; data back-up and transfer services; remote technical support from our highly trained Geek Squad agents;
- insurance: providing protection from loss, theft or damage to customers' devices; and
- repairs: largest in-house mobile phone repair facility in the UK and well-developed processes across Europe.





The business operates under the Carphone Warehouse brand in the UK and Ireland and under the Phone House brand in the rest of Europe.

Pro forma revenue

£3.3BN

Pro forma Headline EBIT

£151M

Connections

9.0M

Stores

2,024

Employees

Over 11,500

STORE-IN-STORE PARTNERSHIPS

Within its own store portfolio at 29 March 2014, CPW had 35 stores-in-stores ("SIS"), providing a specialist connected products and services proposition on behalf of retailers with larger store formats, who enjoy significant footfall but who lack expertise in the mobile field. This concept proved to be particularly successful in the US with Best Buy Mobile. CPW aims to replicate the success of such arrangements with other established retailers in Europe, providing further growth opportunities for the business.



MANAGED SERVICES

In addition to the SIS model, CPW has taken the opportunity to leverage its retail expertise to provide retail services to a number of MNOs, other service providers and, more recently, manufacturers. The business manages stores on behalf of a number of European networks and in February 2014, CPW announced a preferred-partner agreement to operate Samsung Experience Stores across Europe. At 29 March 2014, CPW's own stores included 83 stores being managed on behalf of third parties.



+ EXPANSION THROUGH PARTNERSHIPS
PAGE 11

CONNECTED WORLD SERVICES

CPW has 25 years of experience in the mobile industry. During this time, the business has developed sophisticated IT systems and operating processes to help customers navigate through the extensive range of network package plans and other options, and to facilitate rapid transactions. It has also evolved bespoke customer relationship management tools which enable services such as upgrade reminders, data storage and tariff checks.

With the advancement of mobile and cloud technology and increasing connectivity between people and devices, the business has identified greater opportunities for its services. As such, CPW has started to package its core systems, expertise and relationships into a range of services. This business unit is called Connected World Services.

Within its own channels, CPW is already offering managed services to a number of businesses in Europe. However, the development of this growing range of services offers potential new business opportunities outside of CPW's existing territories.

THIS GROWING RANGE OF SERVICES CONSISTS OF FOUR MAIN CATEGORIES:



CONNECTED RETAILING



SERVICES AND SUPPORT



HONEYBEE PLATFORM



GLOBAL PARTNERSHIPS

+ CONNECTED WORLD SERVICES
PAGES 12-13

VIRGIN MOBILE FRANCE

Carphone Warehouse Group plc has a 46% interest in Virgin Mobile France ("VMF"). On 16 May 2014, the shareholders of VMF entered into an exclusivity agreement for the proposed sale of 100% of VMF to Numericable Group.

+ JOINT VENTURES
PAGE 18

Chairman's statement

IN SUMMARY

- + Proposed all-share merger with Dixons Retail plc
- + Strong set of results from CPW, despite challenging conditions in parts of Mainland Europe
- + Key strategic developments with Connected World Services
- + Entered exclusivity agreement for proposed sale of Virgin Mobile France
- + Recommended final dividend of 4.00p per share to be paid on 1 August 2014

2014 sees the 25th anniversary since Carphone Warehouse first opened for business in 1989. Companies have to constantly adapt and change, and our history over the last 25 years has been an incredible journey of identifying the challenges and opportunities in our fast-changing marketplace, navigating the former and taking advantage of the latter. I am immensely proud of our track record of doing this. It has kept our business moving forward, thriving and generating great returns for our employees, trading partners, customers and shareholders. All this is particularly relevant as we plan taking the next step in our journey with the proposed merger of equals with Dixons Retail plc.

Financially, Carphone Warehouse has had a strong year. We have delivered on our guidance, increasing pro forma Headline EBIT from £132m to £151m. Improved pro forma EBIT, together with the benefits of consolidating 100% of CPW Europe, have resulted in a 59% increase in our Headline EPS from 11.6p to 18.4p. Given our overall performance, financial strength and prospects, we are delighted to recommend a final dividend of 4.00p per share, up 23% on the final dividend for 2013. This is expected to be paid on 1 August 2014 to shareholders on the record as of 11 July 2014 and will bring the full year dividend to 6.00p per share, up 20% on 2013.

Strategically and operationally, we have also moved our business on. In our UK retail operations, we have significantly enhanced our customer service offering through introducing Pin Point, a tablet-based sales tool. This has helped drive customer satisfaction to record levels. We are also riding the dynamism of 4G. The speed, range of new devices, increased data usage and new 4G tariffs have all increased our appeal to customers, building on our long-standing reputation for impartial advice and value.

In the tough French marketplace, Virgin Mobile France has again proved resilient, retaining value for its shareholders by focusing on maintaining its contract customer base and migrating this

onto a Full MVNO platform. For some while, we have signalled that, potentially, Virgin Mobile France could be for sale and, in May this year, together with its other shareholders, we announced an exclusivity agreement for its proposed sale to Numericable Group.

We have made some key strategic developments in our Connected World Services business, including our preferred-partner agreement with Samsung to roll out and manage its stores across Europe. Connected World Services is our B2B business, in effect exporting our systems and expertise to other businesses wanting to build value centred around connected devices and services. We see considerable potential, over time, for Connected World Services to extend Carphone Warehouse into a global organisation, making low demands on capital expenditure and management. It is also at the heart of the rationale for our proposed merger with Dixons Retail plc.

While our marketplace and our business have seen incredible change over the past 25 years, at its core, Carphone Warehouse is still doing what it originally set out to do – to provide simple, independent, impartial advice over a bewildering variety of devices, networks and tariffs, and in the process, to simplify complex technology and deliver its potential to our customers. As I look ahead, this will continue to be the case with our proposed merger with Dixons Retail plc. We know the value that can be created by placing Carphone Warehouse stores within their outlets. And we are proposing the merger just at the time that we are seeing domestic devices and services of all kinds increasingly becoming connected. We have a deep respect for each other; we share a commitment to customer service; and we wish to create a new retailer for a new digital age. I hope to be able to report at our annual general meeting that you have separately approved the merger and I will feel privileged to be leading the new combined group.

Sir Charles Dunstone Chairman

**“ COMPANIES HAVE TO CONSTANTLY
ADAPT AND CHANGE
IN ORDER TO GROW ”**

Sir Charles Dunstone Chairman



Chief Executive Officer's statement

IN SUMMARY

- + Pro forma Headline EBIT of £151m (2013: £132m)
- + Like-for-like revenue growth of 5.3%; second consecutive year of growth
- + Significant gains in UK postpay market share, building on growth in 2012–13
- + Signed partnership agreements with Media-Markt Saturn in the Netherlands, and Harvey Norman in Ireland
- + Significant progress for Connected World Services, most notably through preferred-partner agreement with Samsung and the development of our omni-channel platform, honeyBee, with Accenture
- + Proposed all-share merger with Dixons Retail plc expected to deliver synergies of £80m in the financial year 2017–18

This has been a good year for Carphone Warehouse. Financially, we have delivered on the guidance we gave; operationally, we have strengthened our business and growth platform; and strategically, we are proposing a merger of equals with Dixons Retail plc to add substantially to our growth potential going forward and to capture the opportunities of a changing marketplace.

FINANCIAL HIGHLIGHTS

We completed our buy-back of Best Buy's 50% share in CPW Europe on 26 June 2013. Consequently, in order to give a more meaningful picture of our performance, we have provided the results for CPW on a pro forma basis, as if CPW Europe had been 100% owned by the Group for the whole of 2013–14 and the previous year.

On a top line basis, total pro forma revenue dropped 2% to £3,282m compared to £3,348m in 2012–13. This primarily reflects decreased activity in our dealer business, which was particularly strong in the prior year. However, our dealer business operates at low margins and has little impact on the overall profitability of the business.

Within this performance, we saw like-for-like revenue growth for the full year of 5.3%, building on the 4.6% growth in the prior year, predominantly driven by postpay growth in the UK and a continued shift towards high-end smartphones which drive higher revenues.

We delivered pro forma Headline EBIT of £151m (2013: £132m), an increase of 14% year-on-year, and in line with the guidance we gave a year ago. Improved pro forma EBIT in CPW, along with the benefits of consolidating 100% of CPW Europe from 26 June 2013, resulted in an increase in Group Headline net earnings from £55m to £102m and an increase in Headline EPS to 18.4p (2013: 11.6p).

+ PERFORMANCE REVIEW PAGES 20-24

CPW

Our retail operation enjoyed a good year with like-for-like revenue growth of 5.3%, despite the continued sharp reduction in the prepay market, reflecting the regulatory cuts in mobile termination rates and the consequent withdrawal by network operators of subsidies on prepay handsets. While the fall in prepay connections reduced overall total connections, both for us and for the market in general, we held our prepay market share.

More important for us has been the strength of our postpay sales, on which we have again grown our UK market share. We have been particularly encouraged by the uptake of 4G phones, with 4G now a major new dynamic in the mobile marketplace. The speed of 4G has a significant impact on data usage, and the sale of 4G devices typically brings with it additional data packages, the result of which is an overall increase in the average revenue per user and therefore the revenues we earn.

4G is a very clear example of the way that technology is becoming more complicated, with an increasingly wide choice of new devices and 4G tariffs. Our customers are looking for simple, independent and impartial advice to simplify technology for them and to ensure they have the right solution for their needs; providing this is our primary purpose.

During the last year we invested significantly in our brand and in our distribution channels. We introduced a new tablet-based assisted sales tool called Pin Point. This gives our customers a personalised experience, guiding them through the overwhelming variety of devices, networks, tariffs and services, to find the most suitable package to meet their needs. Pin Point has been rolled out throughout our stores in the UK and has resulted in our highest levels of customer satisfaction and customers' willingness to recommend us to others. Pin Point was acknowledged through the BT Retail Week Technology Awards, for the Customer Experience Technology Award of the year for 2014.

“ IT'S ALL ABOUT POSITIONING OUR BUSINESS IN THIS CHANGING WORLD AND ENSURING THAT WHAT WE DO IS RELEVANT FOR OUR CUSTOMERS ”

Andrew Harrison Chief Executive Officer



Chief Executive Officer's statement continued

CPW continued

All retailers are affected by the growth of the internet and online shopping. We have adapted our business accordingly and are a true multi-channel retailer. The number of visitors to our website last year was a record, in particular around Christmas. Whilst the majority of mobile shoppers conduct their research online, our retail channels continue to remain the key part of the mobile phone purchase journey. Customers generally want to see and hold the device, ensure they understand its functionality, transfer their contacts and leave the store with their phone working.

Our growth last year was the result of strong performances in countries such as the UK, Ireland and Spain, balanced by challenges in some of our Mainland European markets. In the Netherlands, we experienced a weak consumer market, while in Germany, our performance was affected by challenges in the wholesale market. However, we are encouraged by other business ventures in both of these markets, such as partnership opportunities in the Netherlands and a growing connections services business in Germany.

The exit process from the French retail market is now substantially complete, and we are delighted to have been able to transfer the majority of our employees to third parties as part of this process. The costs of exit, together with French operating losses, have been recorded as non-Headline items, along with net costs associated with the CPW Europe Acquisition and the amortisation of acquisition intangibles which arose on the transaction. Including these items, statutory earnings for the year are £48m (2013: £4m).

EUROPEAN PARTNERSHIPS

Our European partnerships are helping us to gain scale and grow value within our existing markets. In the Netherlands we concluded our partnership with Media-Markt Saturn and are on track to complete the roll-out of our store-in-store format across their estate by the end of September 2014.

In Germany we have made good progress developing our relationship with the Metro Group and continue to work with them on a more tailored B2B offering.

In Ireland, we completed the roll-out of stores within all 12 Harvey Norman stores.

Discussions continue with Media-Markt Saturn and with other partners across targeted territories and we believe that these partnerships offer a mutually beneficial way of expanding the sales of connected products and services.

CONNECTED WORLD SERVICES

Connected World Services is our growing B2B business, which aims to leverage our core expertise and systems to provide a range of services to third parties, as set out on pages 12 to 13 of this annual report.

Connected World Services was established around 18 months ago and has made real progress during the year. In partnership with Accenture, we have developed our omni-channel platform, honeyBee. We have been extremely encouraged by the initial response from manufacturers, networks and retailers across the globe to the wide range of expertise and services that CPW can provide. We entered into a preferred-partner agreement to operate Samsung Experience Stores in Europe, and we have now opened 33 Samsung stores in seven countries.

Over time, we see Connected World Services as a means to take Carphone Warehouse global, in a low-risk way, with limited demands on capital expenditure.

VIRGIN MOBILE FRANCE

In a very tough French marketplace, Virgin Mobile France delivered a resilient performance, substantially maintaining its contract customer base and continuing to migrate this base onto its Full MVNO platform. This reflects extremely well on the quality and commitment of our French management team.

It was clear to us, however, that Virgin Mobile France's future would be best served by being part of a larger organisation. Subsequent to the year end, in May, we and our joint venture partner, Virgin Group, together with management shareholders, announced an exclusivity agreement for the sale of Virgin Mobile France to Numericable Group.

PROPOSED MERGER

On 15 May 2014, we announced our proposal to merge with Dixons Retail plc. The relevant shareholder documents will be made available to shareholders for the general meeting to be held on 17 July 2014. Subject to shareholder approval, this merger is expected to complete in August 2014.

This is a merger of equals, a merger of complementary organisations and a merger for growth. It anticipates the ways in which our marketplace is converging and changing, and it positions us to be able to take advantage of this. Hardware innovation, mobile broadband developments such as 4G, content evolution and cloud-based storage have advanced at a rapid pace and are converging to create a phenomenon known as the Internet of Things. Having access to the Internet of Things, including all the services needed to get working and stay working, creates a powerful and compelling story for our customers.

Coming together will give us greater scale and reach, enabling us to invest more efficiently in our systems, employees and customer proposition, and enhancing our combined relevance for our suppliers and network operators alike.

We believe that the combined group will be able to achieve integrated mobile retailing and procurement synergies, together with cost savings, of at least £80m on a recurring basis, which are expected to be delivered in full in the financial year 2017–18.

Lastly, this is a story about growth. We see real opportunities to tap into a services market that we feel is ripe with potential. Both of our businesses have growing services platforms and the proposed merger will enhance opportunities to develop this further for consumers and businesses. We are the leading independent European provider of connectivity, and Dixons Retail plc is a leading European retailer of electrical products. Both of us share a commitment to customer service and impartial advice. Put us together and we create a new digital retailer for a new digital age.

OUTLOOK

We have worked incredibly hard over the past year, focusing on our customer proposition, improving our operational excellence, driving 4G penetration, forging new partnerships in Europe with leading retailers and developing our Connected World Services business. I believe all this provides us with significant potential for growth over the future years.

We currently face and continue to expect challenges in Mainland Europe, but our outlook remains positive.

The history of Carphone Warehouse has been anticipating change and positioning the business to take advantage of this change. The changes we see in the marketplace offer considerable opportunities to create value for our employees, our customers, our partners and our shareholders. From a position of strength, we are planning to take advantage of these changes through our proposed merger.

Andrew Harrison Chief Executive Officer

CELEBRATING 25 YEARS

+ SEE MORE ONLINE
WWW.CPWPLC.COM/ABOUT-US/HISTORY/



1989 Founded by
Sir Charles Dunstone



1990 First store opened
in Marylebone



1996 First branches opened
in Mainland Europe



2000 Initial Public Offering on
the main market of the
London Stock Exchange



2003 Launch of TalkTalk,
a new residential fixed
line service provider



2007 Launched Best Buy Mobile
in collaboration with Best Buy



2008 Best Buy acquired 50% of the
Group's retail and distribution
business for £1.088bn



2010 Demerger of TalkTalk as
separately listed group



2013 Acquisition of Best Buy's
50% interest in the Group for
net consideration of £471m

The Group has a long history of retail and customer service awards. Over the last year alone, it has received awards from Mobile News for 'Best Large High Street Retailer' and 'Best Airtime Distributor'. It received the 'Best High Street Retailer' award at the uSwitch.com mobile awards in November 2013. The Group came first in the 'Retailers – Specialist' category of Britain's Most Admired Companies 2013 and also received a 5 star rating from Defaqto for its Geek Squad service, for the third year running.

Continued progress to transform the business...

CONNECTING

+ SOLUTIONS FOR A CONNECTED WORLD
PAGES 08-09

ADAPTING

+ PARTNERSHIPS AND MANAGED SERVICES
PAGES 10-11

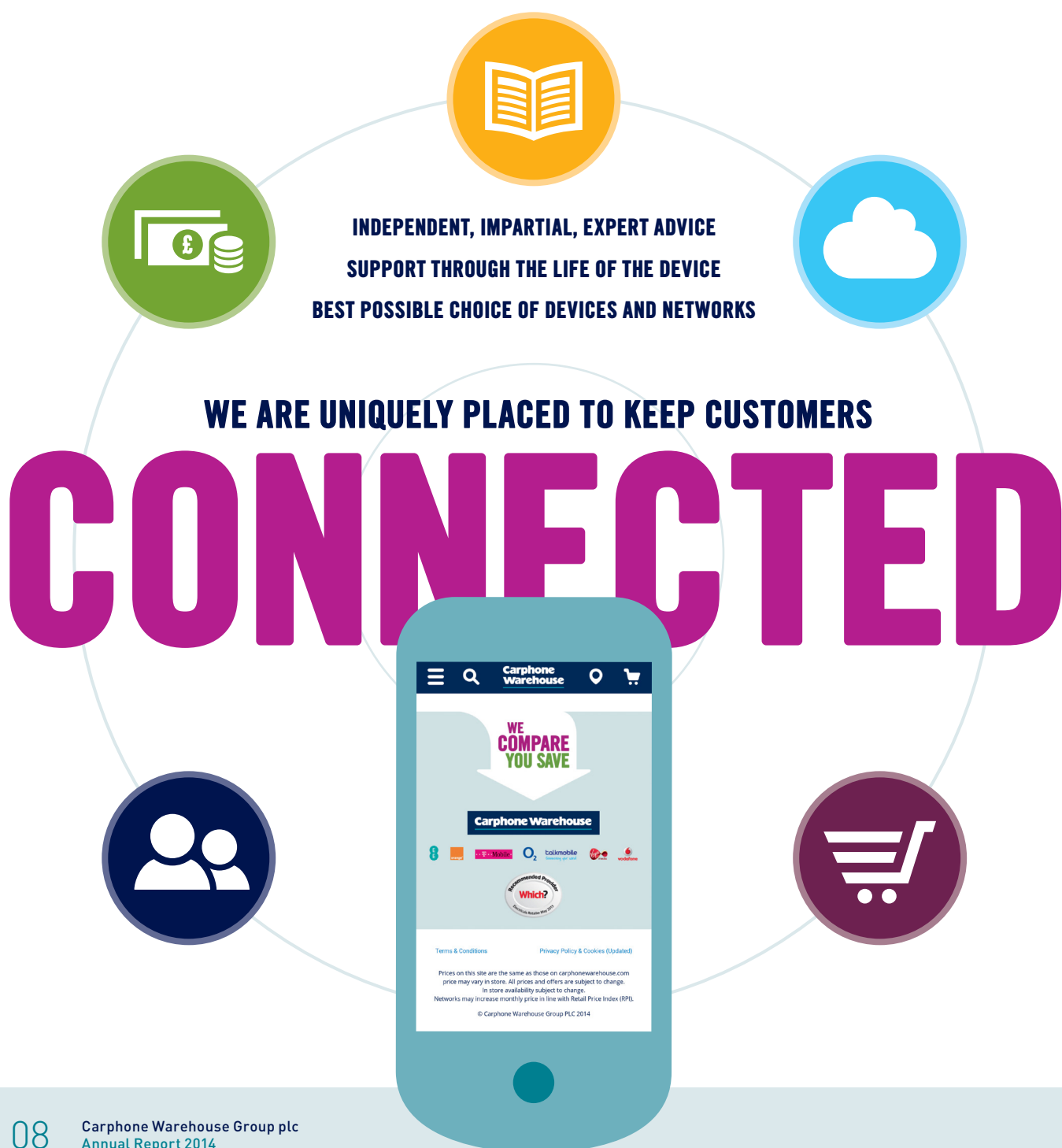
EVOLVING

+ CONNECTED WORLD SERVICES
PAGES 12-13

SOLUTIONS FOR A CONNECTED WORLD

For the last 25 years Carphone Warehouse has been committed to making mobile technology available and accessible to everyone.

Innovation in mobile technology has transformed our lives – the way we bank, shop, socialise and so much more.





We have adapted and evolved our retail offering to accommodate customers' changing needs. We recognise that we have the opportunity to connect with customers using multiple channels. We aim to offer a consistent and high-quality experience across all our channels – contact centres, retail outlets and online alike.

CONNECTIVITY IS AT THE HEART OF WHAT WE DO

CHANNELS



CONTACT CENTRES



RETAIL STORES



WEBSITES



MOBILE SITES

Our websites are the most visited touch-points for our brand and the beginning of the journey for most customers. While we have invested to provide a truly multi-channel offering, customers continue to value the advice available within stores, given the complexity of the technology available, and the opportunity to obtain technical support through the business' Geek Squad service.

DELIVERY



CLICK AND COLLECT



FREE NEXT DAY



FREE NOMINATED DAY



DELIVERY TRACKING

SUPPORT



GEEK SQUAD



INSURANCE



TECH SUPPORT



REPAIRS

UNDERSTANDING OUR CUSTOMERS

We recognise that a consistent offering across all channels provides a seamless multi-channel experience for our customers.

Personalisation is the next step in retail evolution. We've built a revolutionary tablet-based assisted sales tool called Pin Point.



5,000 expertly trained colleagues are using the Pin Point sales tool across the whole of our UK estate.

PERSONALISED DEAL

We know that personalisation is the future of customer experience. Using tablets in store, we ask customers a few simple questions to help them find the right deal. Pin Point helps us add value for customers through personalisation.

NETWORK COVERAGE CHECKER

With Pin Point, we can compare network coverage for customers. For example, using home and work postcodes, the network coverage checker compares networks to determine which one provides the best coverage, across 3G and 4G networks.

FUTURE-PROOFING

For customers looking to upgrade to 4G for the first time, it can be difficult working out how much data will be needed. Pin Point helps our customers assess their future usage, using simple illustrations, helping us to future-proof customer deals.

PARTNERSHIPS AND MANAGED SERVICES

CPW has taken the opportunity to leverage its retail expertise to build store-in-store ("SIS") partnerships and provide other retail services, making these services available to retailers, MNOs and manufacturers.

We have SIS partnerships in the Netherlands and Ireland, and currently run stores on behalf of MNOs in Spain, Portugal and Germany.

PROVEN SUCCESS THROUGH BEST BUY MOBILE

Best Buy Mobile was launched in 2007 as a partnership with Best Buy, through which CPW received a profit share. Stores, based on the Carphone Warehouse model, were rolled out across Best Buy's 'Big Box' stores, as well as on a stand-alone basis in the US. The venture was a resounding success and in January 2012 the Group disposed of its interest in Best Buy Mobile for a total consideration of £838m.

CPW aims to replicate the success of the Best Buy Mobile SIS concept, by providing a specialist connected products and services proposition on behalf of retailers with larger store formats, who enjoy significant footfall but who lack expertise in the mobile field.



CONNECTED WORLD SERVICES ("CWS")

CWS aims to leverage the specialist skills, operating processes and technology of the business to provide services to third parties looking to develop their own connected world solutions.

CWS already provides managed services to a number of businesses and is actively exploring further opportunities within existing markets and elsewhere.

CONNECTED RETAILING IS A COMPLICATED BUSINESS...

Selling connected devices requires a range of experience and processes that many retailers find impossible to build. It can be an expensive, complicated and difficult process.

SUITE OF SERVICES



CONNECTED RETAILING

Multi-channel consultancy and support for connected product and service propositions, ranging from specific managed services through to partnerships on the Best Buy Mobile model

WHY SO COMPLICATED?

- + MNO and supplier relationships
- + Complex propositions
- + Exposure to fraud
- + Complex remuneration structures
- + Need for highly trained consultants

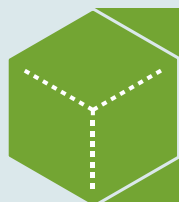


SERVICES AND SUPPORT

Partner **AVIVA**

Provision of insurance services, including policy administration, claims administration and fulfilment, and provision of technical support solutions for connected devices

- + Regulation
- + Exposure to fraud
- + Repairs: manufacturer accreditation



HONEYBEE PLATFORM

Partner **accenture**

Provision of technology platforms and managed services to support complex transactions, connections to service providers and customer relationship management

- + Capital intensive
- + Requires interfaces to networks
- + Tracking serialised stock
- + Credit checking

honey  Bee



GLOBAL PARTNERSHIPS

Leverages CPW's scale and commercial relationships, enabling partner retailers to source hardware and to access network operator services

- + Scale is key to buying power
- + Short supply of popular devices
- + Rapid product cycles



EXAMPLE SERVICES

- + Sales processes and proposition design
- + Store format design
- + Employee blueprint and reward model
- + Customer fulfilment and loyalty

- + Insurance and claims management
- + Trade-ins
- + Repairs
- + Delivery
- + Remote technical support

- + honeyBee assisted sales tool
- + Activation services
- + Web solutions
- + Data security suite
- + Customer relationship management

- + Commercial relationships
- + Scale advantages
- + Purchasing benefits

EXISTING CLIENTS

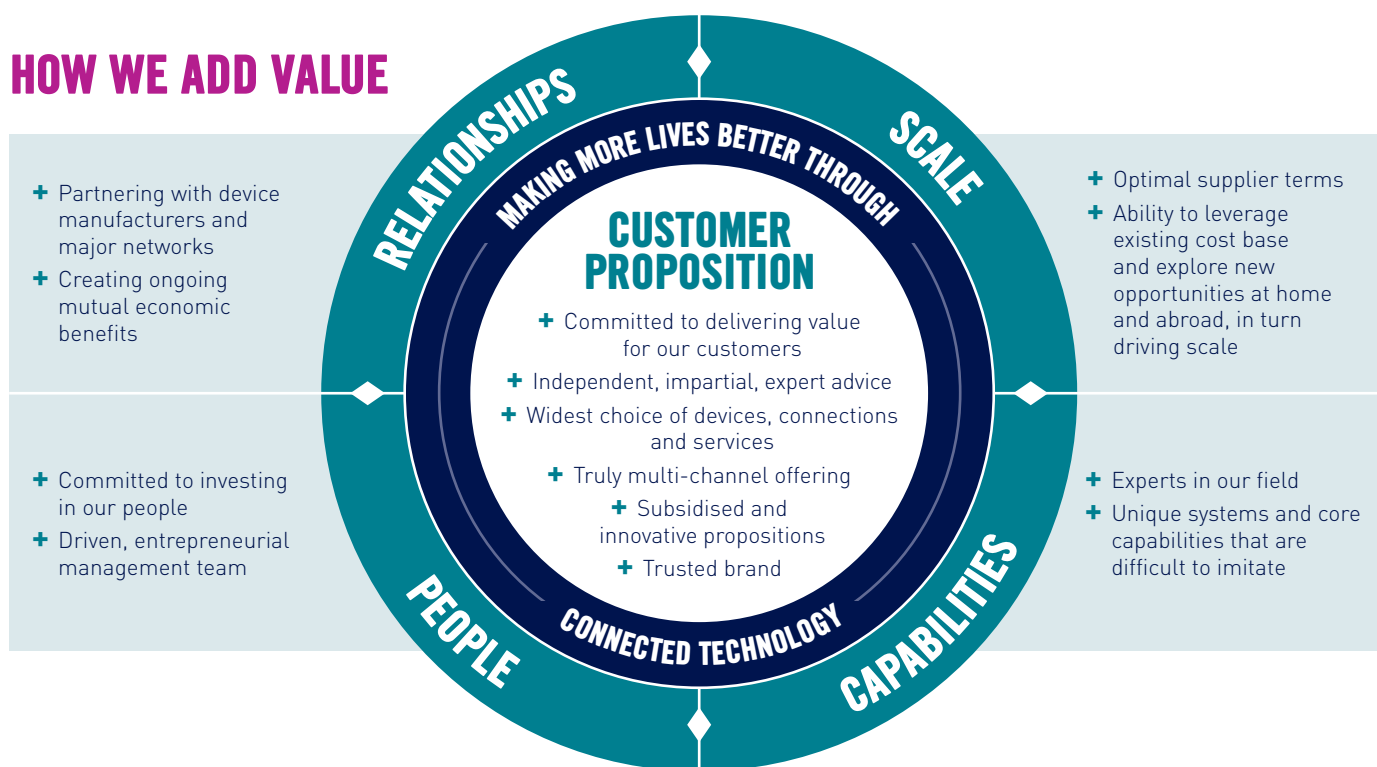


SIMPLIFYING COMPLEX TECHNOLOGY FOR CUSTOMERS AND BUSINESSES

For 25 years we have been offering the best choice, advice, price and support for our customers. Our retailing, systems and process expertise provides a strong platform for growth.

CPW is committed to prioritising long-term value creation for shareholders.

HOW WE ADD VALUE



UNIQUE RETAILER WITH PLATFORM FOR GROWTH

CPW has an unusual revenue model compared to traditional retailers. A significant proportion of our revenue is derived from MNOs, for delivering new customers and upgrades. The business generally receives a share of future customer revenues, and/or commissions, which are typically used to subsidise the sales values of a range of connected devices. Other revenue streams include value-enhancing products such as accessories, insurance and assurance products.

Adapting to changing market dynamics, CPW has realised the potential to grow new revenue streams by leveraging its unique relationships, core systems and expertise to provide a range of managed services to businesses, including MNOs, other service providers and manufacturers.

LONG-TERM APPROACH TO CREATE SHAREHOLDER VALUE

Over the past 25 years, we have built the largest independent telecommunications retailer in Europe, attracting consumers and businesses looking for simple, impartial, expert advice about the complexities of mobile technology. Our long-standing purpose is to help customers understand technology.

Our long-term approach to investing creates a sustainable opportunity to continue to add value for a wide range of stakeholders, from our customers, through employees, communities, suppliers, partners, and fundamentally, for our shareholders.

ADAPTING TO AN EVOLVING MARKET

DEVICE INNOVATION

Mobile devices have been transformed in recent years by the development of smartphone technology, evolving rapidly from simple devices used to make and receive calls, to sophisticated hardware with advanced computing functionality. The market has seen continuous innovation, with ever-improving processing speeds and ever-evolving functionality, and increasing choice of screen sizes. Alongside competition between manufacturers of devices, competition has also developed between operating systems, providing broader choice for customers and making CPW's expert and impartial proposition particularly relevant.

NETWORK EVOLUTION

In recent years, Western European MNOs have been subject to significant regulatory intervention, particularly on charges to terminate calls from other network operators and on international roaming charges, causing downward pressure on MNO ARPUs. Mobile termination rate cuts have caused MNOs to reduce subsidies on prepay phones, making them increasingly more expensive for consumers, causing a shift towards postpay in some markets.

MNOs across Western Europe have been investing significantly in the development of their 4G network infrastructures. 4G technology facilitates much faster downloads, providing comparable levels of performance to many Wi-Fi networks, and providing a much better platform for streaming than 3G infrastructure. As 4G services have been rolled out, MNOs have seen significantly increased levels of data usage, a trend which is expected to increase as network quality continues to improve, and more and more devices become capable of communicating with one another. In most of the markets in which CPW operates, MNOs are still in the process of rolling out their 4G networks, with nationwide coverage expected in the UK by the end of 2015. After several years of downward pressure on ARPUs, caused by weak consumer confidence, regulatory intervention and competition, increased data usage provides opportunities for MNOs to increase customer ARPU.

REPLACEMENT CYCLE

Fixed minimum term mobile phone contracts (typically 24 months) help to drive the replacement cycle of connected devices, supported by the device innovation noted above.

To benefit from 4G services, customers need 4G-enabled devices and as 4G network coverage improves in Western Europe, there is an incentive for customers to upgrade their services, providing a stimulus to the replacement cycle.

ECONOMIC GROWTH

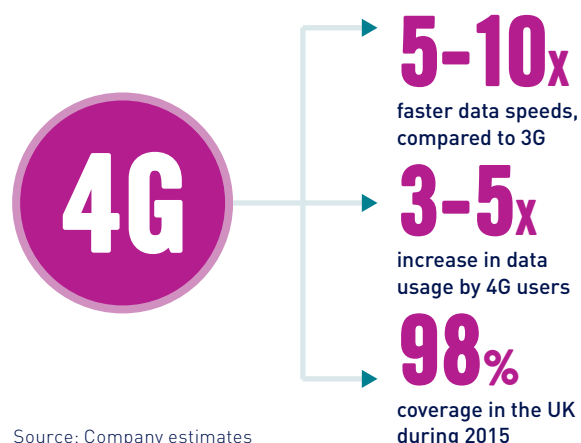
Mobile phones have become an integral part of customers' lives and are considered to be less discretionary than other consumer electronics. However, the economic backdrop and a challenging consumer environment can determine the rate at which consumers are willing to upgrade their handsets and their average monthly spend.

ONLINE

As with most markets, the internet plays an increasingly important part of customers' purchasing journey. The majority of customers research online before making a purchase. However, unlike many multi-channel retailers, for whom online channels now represents a significant portion of sales, online sales continue to represent between 10% and 15% of total retail sales for CPW. Customers continue to value the advice available within stores, given the complexity of the technology available, the nature of entering into mobile contracts, and the opportunity to obtain technical support through the business' Geek Squad service.

INTERNET OF THINGS

Developments in mobile broadband technology such as 4G will continue to transform lives and current industry developments suggest that everyday objects will increasingly be connected to the internet, described as the 'Internet of Things'. The 'Internet of Things' means that people can manage home security or heating, or domestic electronics such as TVs, fridges, home entertainment systems and washing machines, through their smartphones. This phenomenon will not only drive mobile data growth, but also machine-to-machine data growth. With smartphones at the heart of this evolution of consumer electronic devices, we believe that CPW is well placed to take advantage of this evolution.



Source: Company estimates

Strategy and KPIs

OBJECTIVES

2013–14 ACHIEVEMENTS

OWNERSHIP OF THE CONNECTED WORLD

Provide outstanding value and simplify complex areas of connected technology for our customers

- + Launched a tablet-based sales tool called Pin Point, which enables our colleagues in store to explore our customers' needs around complex areas such as data usage, 4G coverage and how to future-proof tariffs
- + Invested in nationwide training and engagement events for all our UK colleagues to develop a world-class assisted sales experience for our customers
- + Launched the Geek Squad quick-start self-help programme on our GeekSquad.co.uk website, offering free technology advice
- + Developed a number of new insurance propositions for our customers, including multi-policy discounts
- + Continued to improve customer service, achieving record customer recommendation scores for the year

Enhance multi-channel platforms to improve customer choice

- + Delivered record market share gains in online new subscriptions and upgrades in the UK
- + Successful launch of online live-chat functionality
- + Improved and adapted online and in-store customer journeys
- + Focused on social media and m-commerce to drive traffic and improve conversion

CONTINUE TO BUILD SCALE

Leverage global scale to build strategic relationships with key suppliers and partners

- + Delivered significant postpay market share gains in the UK
- + Continued to develop franchise and managed services businesses, which generally require limited capital investment
- + Entered into global purchasing agreement with major Ukrainian retailer, Allo

Replicate success of Best Buy Mobile in the US by partnering with retailers in target markets

- + Signed store-in-store ("SIS") agreement with Media-Markt Saturn in the Netherlands, for approximately 40 stores, as well as an online partnership with Redcoon, its online brand
- + Signed SIS partnership agreement with Harvey Norman in Ireland, for 12 stores

CONTINUE TO DEVELOP CONNECTED WORLD SERVICES

Leverage expertise and systems capabilities to provide managed services to third parties

- + Signed a preferred-partner agreement to run Samsung Experience Stores across Europe
- + Continued to develop omni-channel platform, honeyBee, with Accenture
- + Continued to develop third party service agreements with RBS, for the provision of mobile phone insurance, and with TalkTalk and British Gas, for the provision of technical support services
- + Signed insurance sales and administration agreement with Innov8 in France

GOING FORWARD

- + Continue to construct innovative propositions and to find new ways to subsidise expensive products
- + Focus on improved functionality and wider deployment of Pin Point sales tool
- + Develop best-in-class merchandising opportunities for both manufacturers and networks, allowing them to demonstrate their full range of products and services, including end-to-end solutions for customers

- + Continue to enhance the online journey across mobile, tablet and desktop versions of the websites
- + Provide a research experience that drives customers into our stores, providing a seamless multi-channel experience
- + Continue to invest in online functionality, improving the customer research journey

- + Continue to reinvest the benefits of scale in the customer proposition, to drive further growth
- + Focus on the development of partnerships to leverage CPW's scale and commercial relationships

- + Seek to conclude further partnerships with retailers in existing markets

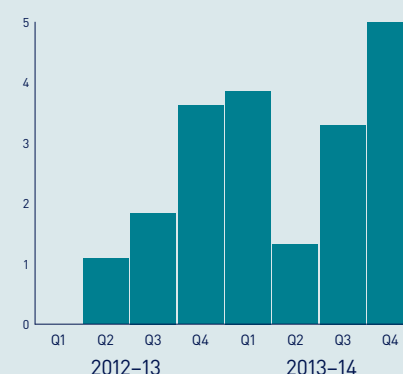
- + Continue to build client base for the provision of retail managed services, insurance services, technology platforms and global partnerships
- + Continue to develop honeyBee to enable deployment to third parties
- + Focus on developing retail partnerships in target markets outside our existing retail footprint

KPIs

NET PROMOTER SCORE ("NPS")

NPS allows CPW to gauge customer satisfaction. The chart below shows quarterly NPS measured against Q1 2012–13. CPW achieved record levels of NPS for Q4 2013–14.

NPS IMPROVEMENT AGAINST Q1 2012–13

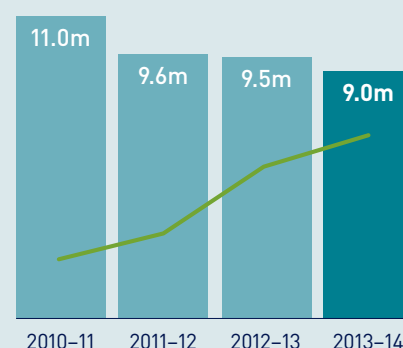


CONNECTIONS (M)

Continued decline caused by weak prepay market, which in the UK was down c.25% year-on-year. This has had a positive impact on postpay mix for the Group.

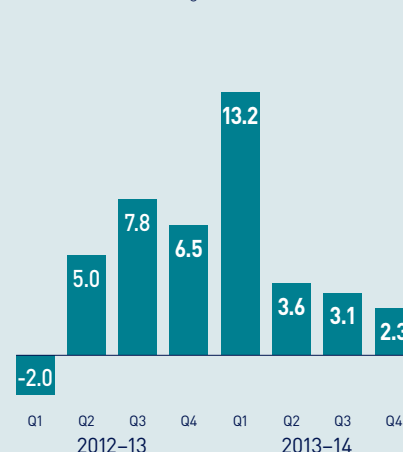
INCLUDES FRANCHISE CONNECTIONS

■ POSTPAY MIX (%)



LIKE-FOR-LIKE REVENUE GROWTH (%)

Q4 2013–14 was the seventh consecutive quarter of like-for-like revenue growth.



VIRGIN MOBILE FRANCE

In May 2014 the shareholders of Virgin Mobile France entered into an exclusivity agreement for its sale to Numericable Group.

Founded in 2006, Virgin Mobile France is the largest MVNO in the French market, with a reputation for innovation and high-quality customer service, offering a wide range of tariffs and contract options, catering for a broad range of customer needs.



OVERVIEW

OWNERSHIP

A joint venture with Virgin Group (46% each), with remaining interests (8%) held by management. Virgin Group was founded by entrepreneur Sir Richard Branson and operates across a range of sectors globally.

MANAGEMENT STRUCTURE

Experienced management team, led by chairman Geoffroy Roux de Bézieux and chief executive officer Pascal Riolland. Geoffroy joined Carphone Warehouse in 1995 and was a member of the Old Carphone Warehouse board before leaving to set up this venture, in which he is also a minority shareholder. Pascal joined Virgin Mobile France in 2010 having previously worked at SAP, SFR and Xerox. A shareholder board meets formally on a regular basis to agree strategy and review performance.

FUNDING

Funded primarily through shareholder loans, which are provided in proportion to each party's shareholding, supplemented by a third party finance lease facility.

DISTRIBUTION

Strong distribution network with over 2,000 third party handset sales points, some 37,000 distribution points for prepay vouchers, a portfolio of Virgin Mobile branded stores, and a well-established online platform.

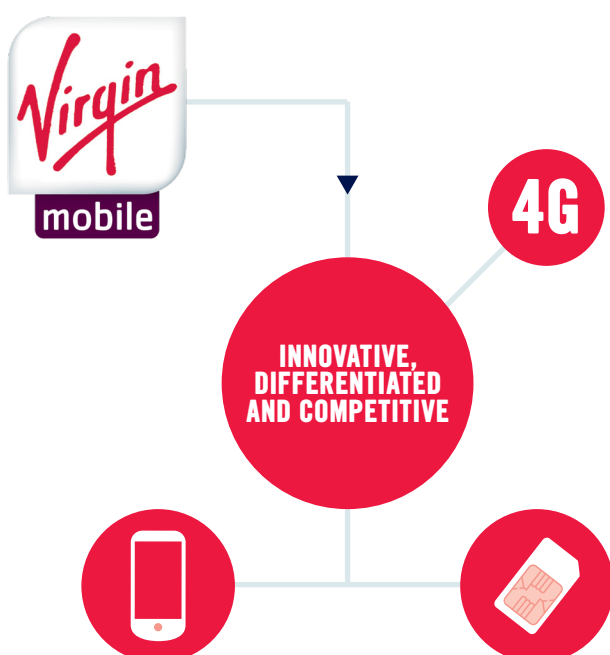
NETWORK RELATIONSHIPS

Strong partnerships with Orange, SFR and more recently Bouygues Telecom, all of which provide network infrastructure for the business. Now offering 4G services on both the SFR and Bouygues networks.

FULL MVNO

The business has invested in the development of a Full MVNO infrastructure, which enables it to participate more fully in customer revenue streams, including termination revenues, and to reduce its costs. It also provides additional strategic flexibility by giving the business greater control of its customers. The business had 77% of its customers on this infrastructure at March 2014.

Revenue	Subscribers	Full MVNO
£346M	1.7M	77%



Risk management

CPW has a well-established risk management function, which monitors the key risks facing the business.

The table below summarises the most material risks identified and the ways in which the business seeks to mitigate them.

RISK

MITIGATION

CONSUMER ENVIRONMENT

CPW's major markets have experienced economic headwinds since 2009. There still remains some uncertainty around the economic outlook for some markets. The products and services offered by CPW may be viewed as discretionary, and consequently affected by consumer confidence.

CPW continues to focus on strong cost control to try to ensure that it is well positioned to deal with an uncertain environment.

DEPENDENCE ON KEY SUPPLIERS AND CUSTOMERS

CPW's principal revenue streams are from MNOs. Changes in MNO strategies in relation to CPW or more generally, and/or their performance, could materially affect the revenues and profits of the business.

CPW is dependent on relationships with key suppliers to source products on which availability may be limited.

CPW prioritises commercial arrangements that are closely aligned with the interests of MNOs and focuses on high-value segments to help drive economic value for the networks.

CPW seeks to increase and leverage the scale of its operations to support strategic relationships.

COMPETITION

CPW operates in markets that are highly competitive and competitor behaviour may damage revenues and margins.

In some markets CPW may not have the scale required to compete effectively against increased competition.

The business has sought to differentiate itself through innovative propositions, high quality customer service, and a good supply of scarce products.

The business is working to build partnerships with other retailers in certain territories in order to achieve additional scale.

REGULATION

CPW is subject to regulation in a number of areas, including insurance operations, information security and customer management. Non-compliance with regulation could result in financial loss and/or reputational damage to the business.

The business has internal committees and control structures to manage these requirements, to ensure appropriate compliance, and to react swiftly should issues arise.

OPERATIONS

CPW is dependent on internal and external IT systems which could fail or be unable to keep pace with the needs of the business.

A significant investment has been made over recent years in the IT infrastructure of the business, supported by testing processes and ongoing business continuity planning.

CPW mitigates the risk of being dependent on outsourced IT systems by partnering with 'tier 1' application and infrastructure providers with best-in-class credentials, whilst also retaining key intellectual property and know-how in-house.

FOREIGN EXCHANGE

A material part of CPW's activities and earnings are denominated in Euros, giving rise to exposure to foreign currency fluctuations.

The business may hedge a proportion of such earnings, to provide certainty of their value.

Performance review

“ THE BUSINESS DELIVERED ITS EARNINGS TARGET, DESPITE MARKET CHALLENGES

Nigel Langstaff Chief Financial Officer



IN SUMMARY

- + 59% growth in Headline EPS, following CPW Europe Acquisition
- + Strong operating cash flow
- + French exit process substantially complete
- + 20% growth in annual dividend to 6.00p

THIS PERFORMANCE REVIEW COVERS:

- + CPW: the Group's wholly owned businesses including, since 26 June 2013, CPW Europe which prior to this date had been a 50% joint venture. CPW results are shown on a pro forma basis, as though CPW Europe had been 100% owned by the Group throughout the current and prior periods, to enable year-on-year comparison.
- + Virgin Mobile France: the Group's 46% interest in a joint venture with Virgin Group, which is now classified as a discontinued operation.
- + Group results: covering the Headline and statutory performance of the Group as a whole, reflecting the CPW Europe Acquisition as it is reported in the Group's income statement and other financials.

CPW HEADLINE INCOME STATEMENT (PRO FORMA BASIS)*

	2014 £m	2013 £m
Revenue	3,282	3,348
Gross margin	837	835
Gross margin %	25.5%	24.9%
Operating expenses	(636)	(627)
EBITDA**	201	208
Depreciation and amortisation	(50)	(76)
EBIT	151	132
EBIT %	4.6%	3.9%
Interest	(18)	(7)
PBT	133	125
Tax	(30)	(26)
PAT	103	99

* Prior year Headline results have been restated to exclude the results of the Group's French retail business following the decision to exit this market. This business generated revenues of £357m and EBIT of £8m in the prior year. Current year losses associated with the French business during the exit programme, details of which are provided within Group results below, are similarly excluded from Headline results and KPIs. For further details see note 4 to the Group financial statements.

** Pro forma Headline EBITDA includes the unwinding of discounts for the time value of money on network commissions receivable over the life of the customer. This unwind had a value of £9m in the year (2013: £9m) and is treated as interest income in the Group's non-pro forma Headline and statutory results.

PRO FORMA RESULTS

	Revenue 2014 £m	EBIT 2014 £m	PBT 2014 £m	Revenue 2013 £m	EBIT 2013 £m	PBT 2013 £m
Headline results	2,505	136	127	11	51	53
Share of results of joint ventures	—	(3)	(3)	—	(48)	(48)
CPW Europe joint venture (see note 24)	777	12	9	3,337	129	120
Unwind of discounts on network commissions receivable***	—	6	—	—	—	—
Pro forma results	3,282	151	133	3,348	132	125

*** As explained in note 24, CPW Europe Headline EBIT includes the unwinding of discounts for the time value of money on network commissions receivable over the life of the customer. In the period since the CPW Europe Acquisition, the Group has reflected such discounts in the income statement within interest income. The discounts, which have a value of £6m in this period, have been reclassified in pro forma results for consistency with CPW Europe presentation.

CPW generated revenues of £3,282m, a decrease of 2.0% year-on-year (2013: £3,348m), principally due to reduced revenues in our dealer business, which operates at very low margins and therefore has a limited impact on overall profitability. These reductions were partially offset by strong like-for-like revenue growth in our retail and online channels and a strengthening of the Euro year-on-year.

Full year like-for-like revenue growth was 5.3%, a second consecutive year of strong momentum, again driven by postpay growth in our UK business, which continued to deliver year-on-year market share gains in this category.

We were encouraged by customer take-up of 4G services as network infrastructure was rolled out more widely across the UK market during the year. The significantly improved network quality and download speeds have encouraged customers to take richer data packages, which in turn drive increases in monthly line rental. Our executional focus remains strong, with our tablet-based sales tool, Pin Point, continuing to drive customer satisfaction and conversion, to the benefit of customers, network operators and ourselves.

Outside the UK, the business has made good progress on improving its critical mass through partnerships and we continue to focus on exporting the UK business' proven operational excellence. In the Netherlands, a weakened consumer environment caused some year-on-year deterioration in performance, but we have made excellent progress on our partnership with Media-Markt Saturn and expect the roll-out of our proposition across their estate to be completed by the middle of the forthcoming financial year. We have also made good progress with the Metro Group in Germany, with trials launching early in the coming year, and while performance was affected by challenges in the German wholesale market, our connections aggregation business performed very strongly. Elsewhere, we saw a resilient performance in Spain, despite the challenging market and consumer backdrop, and a strong performance from our Irish business, which launched a highly successful partnership with Harvey Norman during the year.

We have made good progress with Connected World Services, continuing to focus on building a pipeline for future growth, and launched our preferred supplier partnership with Samsung, through which we have now opened 33 Samsung Experience Stores in seven countries.

The declines experienced in the prepay market in recent years continued, reflecting reduced subsidies from network operators following regulatory cuts in mobile termination rates and roaming charges, in addition to the migration of prepay customers to postpay.

As a result of continued weakness in the prepay segment, although we held our market share, connection volumes dropped year-on-year by 6.4% from 8.9m to 8.4m.

CPW opened or re-sited 94 stores during the year and closed 130 stores, ending the year with 2,024 stores, of which 292 were franchise stores, up from 268 at March 2013 (all excluding France). The increase in franchise stores primarily reflects growth in Spain, where we have focused on using the successful franchise model to maintain scale without the fixed costs of leasing our own stores. The decrease in our own stores also reflects net closures in Germany and Portugal.

LIKE-FOR-LIKE

Like-for-like revenue compares year-on-year revenue generated from sales in store, internet sales and telesales, using constant exchange rates. New stores are included once they have been open for a calendar year and were therefore open both in the current and the comparative period. Closed stores are excluded for any period of closure including periods of refitting. Revenues from our dealer, Connected World Services and other non-retail businesses are excluded from like-for-like revenues. Like-for-like revenue is expressed on a pro forma basis as though CPW Europe had been 100% owned by the Group throughout the relevant periods.

CPW's overall gross margin increased year-on-year to £837m (2013: £835m) while CPW's gross margin percentage increased by 60 basis points year-on-year to 25.5% (2013: 24.9%), largely reflecting a lower proportion of low margin dealer revenues. Gross margins on the core business declined marginally, principally reflecting a higher year-on-year weighting towards high-end handsets, which have a lower gross margin percentage than other categories, in the first half of the year. Average cash gross margins on our core categories were slightly improved year-on-year, in part reflecting the effects of higher value 4G customers, together with the continued benefit of incremental revenues beyond the minimum contract period.

Operating expenses increased by 1.4% to £636m (2013: £627m). Savings from reduced numbers of our own stores, last year's reorganisation programme and the unwinding of acquisition lease liabilities were more than offset by investment in the retail sales journey, partnerships and Connected World Services.

Depreciation and amortisation decreased to £50m (2013: £76m). This reduction reflects the full year effect of outsourcing contracts, through which responsibility for capital investment has transferred to third parties, as noted last year. Depreciation and amortisation have also been affected, in line with expectations, by the acquisition accounting exercise, which resulted in the revaluation of CPW Europe's non-current assets to fair value. As a result of this, and as previously noted, the ongoing depreciation and amortisation charge is closer to our anticipated ongoing level of capex in the core business, before investment in Connected World Services and partnerships.

CPW's pro forma Headline EBIT increased from £132m to £151m, reflecting the factors noted above.

The interest charge for the year was £18m (2013: £7m), reflecting additional borrowing costs following the CPW Europe Acquisition.

CPW had an effective tax rate of 22% on Headline earnings (2013: 21%).

OPERATING CASH FLOW (PRO FORMA BASIS)*

	2014 £m	2013 £m
Headline EBITDA*	201	208
Working capital	(63)	89
Capex	(65)	(61)
Operating free cash flow	73	236

* Headline EBITDA is presented on a pro forma basis for consistency with earnings analysis.

Headline EBITDA decreased year-on-year to £201m (2013: £208m), primarily reflecting the incremental investment in operating expenses noted above.

As anticipated, the business saw some working capital absorption during the year, reflecting growth in our postpay volumes, together with an increase in average revenues as 4G connections became a more significant proportion of sales during the year. The business recorded a working capital outflow of £63m, compared to an inflow in the year to March 2013 of £89m.

Capex spend increased to £65m (2013: £61m), driven principally by the IT investment in our honeyBee platform, which will support the continued development of both our retail and Connected World Services businesses.

Performance review continued

VIRGIN MOBILE FRANCE

HEADLINE INCOME STATEMENT (100% BASIS)*

	2014 £m	2013 £m
Revenue	346	385
EBITDA	13	20
Depreciation and amortisation	(10)	(8)
EBIT	3	12
EBIT %	0.7%	3.1%
Interest	(1)	(1)
PBT	2	11
Tax	(1)	(4)
PAT	1	7
Group share	—	3

* See note 24 to the Group financial statements.

As announced in May 2014, we, alongside our fellow shareholders, have entered into an exclusivity agreement for the sale of Virgin Mobile France to Numericable Group for an enterprise value of €325m. During the exclusivity period, the parties have carried out the necessary consultations with employee work councils; the transaction is subject to regulatory approval. In light of the disposal process, the business is now reported as a discontinued operation in the income statement and has been recorded as an asset held for sale in the balance sheet at March 2014.

Virgin Mobile France revenue fell by 10.2% year-on-year on an actual currency basis to £346m (2013: £385m) reflecting a decline of 13.1% at constant currency, partly offset by a strengthening of the Euro year-on-year. The reduction was broadly in line with expectations and reflects market re-pricing in the past two years, driven by intense market competition, which has caused downward pressure on outbound ARPU.

The total customer base was down year-on-year at 1.67m customers (2013: 1.71m) with a 2.4% reduction in the postpay base to 1.32m (2013: 1.35m) and a 3.0% reduction in the prepay base to 0.35m (2013: 0.36m). The business continues to perform creditably despite intense market competition, maintaining its focus on innovative propositions and high quality customer service to provide differentiation.

We have seen further good progress on migrating the base to a Full MVNO infrastructure, which enables the business to participate more fully in customer revenue streams, including termination revenues, and to reduce its operating costs. At the end of March, 77% of the customer base was on this platform, and substantially more of the base by value.

Reduced revenue, together with competitive pressure on margins, resulted in a reduction in EBITDA to £13m (2013: £20m), while increased depreciation and amortisation of £10m (2013: £8m) reflects investment in the Full MVNO infrastructure.

Interest was flat year-on-year at £1m (2013: £1m) and the tax charge decreased to £1m (2013: £4m), reflecting the lower level of pre-tax earnings described above.

CASH FLOW (100% BASIS)

	2014 £m	2013 £m
EBITDA	13	20
Working capital	(9)	4
Capex	(12)	(19)
Operating free cash flow	(8)	5
Other	(2)	(5)
Movement in net debt	(10)	—
Opening net debt	(40)	(40)
Closing net debt*	(50)	(40)

* Comprises shareholder loans of £37m (2013: £42m), third party financing of £15m (2013: nil) and net cash of £2m (2013: £2m).

EBITDA decreased from £20m to £13m for the reasons described above.

As anticipated, after substantial working capital inflows over the previous five years, the business recorded a working capital outflow, of £9m (2013: inflow of £4m).

Capex decreased year-on-year to £12m (2013: £19m) with the prior year spend including investment in the Full MVNO deferred from the previous year.

Other cash flows reflect interest and tax payments and the impact of foreign exchange.

GROUP RESULTS

HEADLINE INCOME STATEMENT

	2014 £m	2013 £m
EBIT		
— Wholly owned operations	133	3
— Joint ventures	3	51
Interest	(9)	2
PBT	127	56
Tax	(25)	(1)
PAT	102	55
EPS (basic)	18.4p	11.6p

EBIT for wholly owned operations includes CPW Europe from 26 June 2013. In the period from 1 April 2013 to 26 June 2013 CPW Europe registered a post-tax profit of £5m, of which the Group's share was £3m, which is included in results from joint ventures. The Group's share of post-tax results from joint ventures was £51m for the year to March 2013.

Net interest expense of £9m (2013: income of £2m) reflects additional borrowings following the CPW Europe Acquisition, with net income in the prior year principally reflecting interest on loans to Virgin Mobile France.

A tax charge of £25m arose in the year (2013: £1m) increasing in line with pre-tax profitability from wholly owned operations.

Improved pro forma Headline EBIT in CPW, together with the benefits of consolidating 100% of CPW Europe from 26 June 2013, resulted in an increase in Group net earnings from £55m to £102m. This in turn resulted in an increase in Headline EPS to 18.4p (2013: 11.6p) for the year.

Since Virgin Mobile France is now treated as a discontinued operation, the Group's share of its prior year post-tax profits are shown separately in the income statement. The Group's share of its post-tax profits in the current year is nil. Profit after tax for continuing operations is therefore £102m (2013: £52m) and EPS on the same basis is 18.4p (2013: 10.9p).

NON-HEADLINE ITEMS

	2014 £m	2013 £m
Headline PAT	102	55
French operations (in process of closure)	(29)	(45)
CPW Europe Acquisition	(12)	—
CPW Europe Reorganisation	—	(5)
Amortisation of acquisition intangibles	(13)	(1)
Statutory PAT	48	4
Statutory EPS (basic)	8.6p	0.9p

Non-Headline items in the current year comprise losses associated with our French retail business during our exit from that market, together with the results of France for comparative periods, items associated with the CPW Europe Acquisition, and the amortisation of acquisition intangibles.

The exit process from the French retail market is now substantially complete. The large majority of our own store leases have been transferred to third parties and all of our franchise contracts have been terminated. We have made every effort to minimise redundancies and have been able to transfer the majority of our employees to third parties.

The non-Headline results of France include the Group's post-tax share of operating losses, asset write-downs and provisions for closure costs, recorded prior to the CPW Europe Acquisition, totalling £23m. Since the CPW Europe Acquisition, the French business incurred further EBIT losses of £6m.

Non-Headline items also include net costs of £15m in relation to the CPW Europe Acquisition, against which a tax credit of £3m has been recognised. These costs represent banking and professional fees on the transaction and cash and non-cash charges associated with employee incentive schemes. This was partially offset by gains on the revaluation of CPW Europe and on the disposal of the consideration shares issued to Best Buy in relation to the CPW Europe Acquisition.

The Group's results also include an amortisation charge of £16m, against which a tax credit of £3m has been recognised, on acquisition intangibles arising on the CPW Europe Acquisition.

Statutory profit after tax, including non-Headline items, was £48m (2013: £4m) and EPS on the same basis increased from 0.9p to 8.6p.

MOVEMENTS ON NET FUNDS (DEBT)*

	2014 £m	2013 £m
Operating free cash flow	73	236
CPW Europe Acquisition	(361)	—
Net proceeds on shares	126	—
Distributions to shareholders	(30)	(56)
Other	(54)	(15)
Movement in net (debt) funds	(246)	165
Opening net (debt) funds	238	73
Closing net (debt) funds	(8)	238

* This summary aggregates the net funds (debt) of the Group and CPW Europe at the start of each year, to enable a complete understanding of cash flows.

The operating free cash inflow was £73m (2013: £236m) for the reasons described in the CPW section on page 21.

Cash outflows relating to the CPW Europe Acquisition were £361m, comprising net upfront cash consideration of £341m, cash costs of incentive schemes of £8m, and banking and professional fees of £12m.

Net proceeds on shares comprise £103m raised through the placing in April 2013 of 47m shares at a price of £2.22 per share and £23m received in July 2013 on the disposal of the consideration shares issued to Best Buy in respect of the CPW Europe Acquisition.

Distributions to shareholders of £30m (2013: £56m) represent ordinary dividends, together with £33m in the prior year returned to shareholders through the deferred capital option of the B/C Share Scheme following the disposal of Best Buy Mobile in January 2012.

Other cash flows include operating losses and other cash exit costs of £29m in relation to our French business. Further cash costs in the region of £15m, which have been provided in full at March 2014, are anticipated in the coming year, principally in relation to final redundancy payments and lease exit costs. Within our previous expectations of net cash exit costs, we had anticipated the disposal of our French insurance business. However, it has become apparent that our expertise in this area represents an opportunity to develop a new Connected World Services business in France, focusing initially on insurance, as we did in Belgium. Since the year end, we have put in place a team to develop this business, which has already secured two third party clients and is actively engaged in tenders for other business. While the value of the run-off base, in the absence of the retail infrastructure to support it, is clearly uncertain, we will aim to use it to grow the Connected World Services business as part of continuing operations going forward.

Other cash flows also include proceeds on the disposal of CPW Europe's fixed line operations in Switzerland and the disposal of the Group's remaining freehold in Acton, both of which completed in April, offset by working capital movements in France, tax and interest payments, and the purchase of the Group's own shares.

Other cash flows in the prior period reflect exceptional cash costs associated with Best Buy UK, offset by EBITDA from the French business, and other cash flows reported by the wholly owned Group in that period.

Performance review continued

BALANCE SHEET

	2014 £m	2013 £m
Goodwill	481	—
Other fixed assets	226	27
Joint ventures/assets held for sale	11	537
Deferred consideration	(50)	—
Working capital/other	220	(20)
Net (debt) funds	(8)	117
Net assets	880	661

As a result of the CPW Europe Acquisition, the Group has derecognised its interest in the CPW Europe joint venture and consolidated the CPW Europe balance sheet in full with effect from 26 June 2013.

CPW Europe's assets and liabilities have been consolidated at fair value, resulting in certain differences to their book value at acquisition. These differences relate principally to property, plant and equipment, operating intangible assets and property leases. Property, plant and equipment and operating intangible assets were valued by third party experts using a replacement market cost methodology. Leases were also valued by third party experts, comparing actual rents to market rents at acquisition, resulting in the recognition of a liability for leases that are deemed to be over-rented. At the same time, deferred rent-free incentives and key money assets have been derecognised.

Acquisition intangibles with a value of £66m, in relation to customer relationships and brands, were also recognised as part of the acquisition.

Goodwill of £481m arose on the acquisition, reflecting the fact that CPW Europe's value is based on its cash generating potential rather than its existing assets, and the fact that many of its key strengths, such as scale and expertise, do not represent intangible assets as defined by IFRS.

DIVIDENDS

We are proposing a final dividend of 4.00p per share, taking the total dividend for the year to 6.00p per share, a 20% increase on the previous year (2013: 5.00p). The final dividend is subject to shareholder approval at the Company's forthcoming annual general meeting. The ex-dividend date is 9 July 2014, with a record date of 11 July 2014 and an intended payment date of 1 August 2014.

OTHER KPIS

The KPIs which are relevant for the Group as a whole are those regarding shareholder returns and profitability.

	2014	2013
Headline KPIs		
ROCE	11.1%	8.0%
EPS	18.4p	11.6p
Dividends for the year	6.00p	5.00p

The improvement in return on capital employed and EPS principally reflects the CPW Europe Acquisition, which was accretive to the Group's earnings.

RISK MANAGEMENT

The key risks of the wholly owned Group are set out on page 19.

The Group does not exercise control over Virgin Mobile France and therefore material decisions can only be made with the consent of our joint venture partner. Inability to reach consensus on such decisions could have an adverse effect on the growth, business and financial results of this business. Such risks are mitigated through agreed strategies, defined and documented processes and regular communication.

The Group is also exposed to market risks such as interest rate risk and foreign currency risk. Further details on such risks are provided below.

FINANCING AND TREASURY

The Group has a £650m term and revolving credit facility agreement, which matures in April 2017. In addition, the Group also has overdraft and uncommitted money market and factoring lines, at various banks and in various currencies, all technically repayable on demand, to assist with cash management efficiency.

The Group's investment policy for surplus cash is to maximise investment returns whilst ensuring low risk and suitable liquidity.

Cross-border funding is provided on an arm's length basis and currency risk is fully hedged using foreign exchange swaps and currency borrowings, as appropriate, at all times. Other than this, translational exposures are not hedged against movements in exchange rates and any such movements are taken to reserves. The Group is exposed to cross-border transactional trading commitments including the purchase of stock and, where significant, these exposures are hedged at inception.

As further described in note 25 to the Group financial statements, treasury policy permits the use of long-term derivative treasury products for the management of currency and interest rate risk, and the Group's exposures are monitored regularly and adjustments to levels of hedging made as necessary. The Group does not speculate in any financial instruments.

GOING CONCERN

A review of the Group's business activities, together with the factors likely to affect its future development, performance and position, are set out within this Strategic Report, including the risk management section. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are shown in the balance sheet, cash flow statement and accompanying notes to the Group financial statements.

As described in note 1 to the Group financial statements, in their consideration of going concern, the directors have reviewed the future cash and profit forecasts of the Group which they consider to be based on prudent assumptions. Based on these forecasts, the directors consider that it is appropriate to prepare the Group financial statements on the going concern basis.

Nigel Langstaff Chief Financial Officer

CORPORATE RESPONSIBILITY

For 25 years, we have been connecting people, adapting and evolving the business to add value for customers and shareholders.

Our corporate mission statement, 'We exist to make more lives better through connected technology', helps to define our role as a retailer in a unique position to keep people connected and show them how connected technology can change their lives.

The Board is committed to operating a responsible and ethical business. We listen to our customers, shareholders and employees, as well as local and wider communities to understand their expectations and ensure they are reflected in our business decisions. Our priorities are to engage employees with our vision and values; to make a noticeable difference in the communities in which we operate; to minimise our impact on the environment; and to work towards a more sustainable business for the future.

HIGHLIGHTS 2013-14

During 2013-14 we set out to make even more lives better through diverse activities. New initiatives included:

- headline sponsorship of the national Spring Online campaign to tackle digital and social exclusion;
- the first Tablets for Schools conference; and
- a charity-driven fitness day to improve health awareness and raise funds for the Dallaglio Foundation's Rugby for Change programme.



Lawrence Dallaglio with youths involved in the Rugby for Change programme.

“ Carphone Warehouse was the first company to get behind our life-enhancing Dallaglio Foundation's Rugby for Change programme which aims to give young people the opportunity to make a mark on the world by giving them the means and inspiration to change their lives for the better, engaging them through the power of rugby and sport.”

Lawrence Dallaglio OBE, Rugby for Change



Emma Solomon OBE, speaking at the National Digital Conference in June 2014.



Rt. Hon. David Blunkett MP and Andrew Harrison, Group CEO of Carphone Warehouse, at the first Tablets for Schools conference in November 2013.

“ We were delighted and privileged to have had Carphone Warehouse's support for Spring Online 2013. Their involvement was instrumental in enabling local organisations to provide digital learning opportunities for communities. Carphone Warehouse's in-store taster events were a fantastic reflection of the organisation's vision of making people's lives better through technology.”

Emma Solomon OBE, Managing Director, Digital Unite

CHARITY

CONTRIBUTIONS TO GOOD CAUSES 2013-14



GET CONNECTED

This registered charity is a free, confidential helpline for young people under the age of 25. It provides a first point of contact for those in need of help, emotional support or advice. Volunteers are trained to deal with young people in need using technology such as text, email, phone and webchat.

As a charity partner, our direct support of Get Connected has helped us indirectly touch the lives of thousands of young people through the years. During 2013-14 contributions from the business through donations, gifts-in-kind and fundraising events enabled Get Connected to develop a unique service and significantly expand its reach with a 53% increase in demand year-on-year. The annual Get Connected dinner and charity auction raised £217,000.

+ FOR MORE INFORMATION
WWW.GETCONNECTED.ORG.UK



Get Connected launched a new smartphone app during the year, placing its service directly into the hands of young people in need.

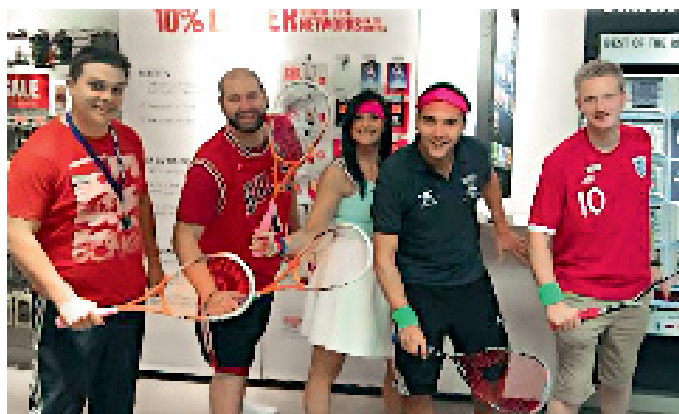
THE CARPHONE WAREHOUSE FOUNDATION

The Carphone Warehouse Foundation supports employees with their own fundraising initiatives. Funded through our Take Back handset recycling scheme, the foundation matches employee personal fundraising efforts with grants of up to £200 per employee per annum, or up to £500 for employee team efforts.

DALLAGLIO FOUNDATION

In August we ran an event called Game Changing Day in support of the Dallaglio Foundation's Rugby for Change charity and its work with disadvantaged young people. Store colleagues were encouraged to fundraise through team fun and games, and demonstrate fitness apps and app-accessories to customers.

As part of the event Carphone Warehouse executives held a charity tennis tournament at The Queen's Club. The event raised a total of £66,000.



Store colleagues on Game Changing Day.



Support Centre colleagues on Game Changing Day.



Senior executives taking part in a charity tennis tournament at The Queen's Club.

COMMUNITY

“ USING OUR TECHNOLOGICAL EXPERTISE TO COMBAT DIGITAL AND SOCIAL EXCLUSION

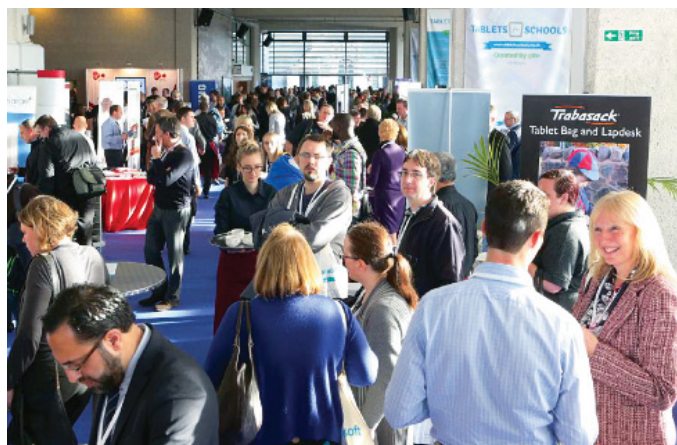
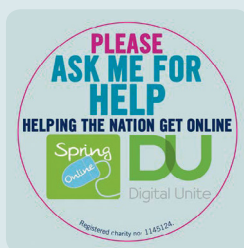


Our experts sharing technology tips during the 'Spring Online' campaign.

DIGITAL UNITE

CPW was the headline sponsor of Spring Online, one of the UK's largest digital inclusion campaigns, and thereby played a role in helping an estimated 20,000 people (mostly older people) to use smartphones, tablets and the internet for the first time. Spring Online provided an engaging and innovative opportunity to attract new customers and make a positive impact on our communities. Our sponsorship fee went directly to supporting dedicated digital taster events within communities across the country. Furthermore, our store colleagues volunteered to host similar events in store, demonstrating key functions such as how to send an email or a text message. Our support of this initiative won a Corporate Engagement 2013 award for 'Best alignment with brand values through partnership or collaboration' as well as a 'Digital Impact Silver Award' for community engagement.

+ FOR MORE INFORMATION
WWW.DIGITALUNITE.COM



The Tablets for Schools conference in December was attended by over 400 school teachers from across the UK.

TABLETS FOR SCHOOLS ("T4S")

T4S is a registered charity established by Carphone Warehouse in partnership with Dixons Retail plc and other industry leaders. The charity is passionate about the positive effect of using tablets in the classroom and brings together teachers, industry leaders and academics using robust and independent research on how tablets can impact learning and attainment. The T4S research and expertise on how to set up and optimise the use of tablets are made freely available to teachers, schools and the Government.

+ FOR MORE INFORMATION
WWW.TABLETSFORSCHOOLS.ORG.UK

SAFER INTERNET DAY

Organised by Insafe, Safer Internet Day is held once a year. It aims to promote safer and more responsible use of online technology and mobile phones, especially amongst young people. CPW helped promote this important campaign, leveraging its relationships with Get Connected and Tablets for Schools to help provide support for young people against online threats such as cyber-bullying, harmful online movements and pornography. We also aim to support parents and help them understand the risks that can be associated with buying a child their first mobile phone, so as to help protect young people from illegal or anti-social activity. In recent years we have published our 'Guide to Mobile Safety', which is available on our corporate website.

NEIGHBOURLY

Carphone Warehouse is participating in the trial of the new social network called 'Neighbourly', helping community projects and charitable causes highlight their needs to companies ready to help financially or through volunteering programmes. For 2013-14, we pledged £25,000 and 2,500 volunteering hours to help support local causes through Neighbourly.

+ FOR MORE INFORMATION
WWW.NEIGHBOURLY.COM

ENVIRONMENT

GREENHOUSE GAS EMISSIONS REPORTING

Recent reports have yet again highlighted the major impact climate change is expected to have on our planet. As a business, we are fully committed to minimising the impact of our operations on the environment. During 2014 Carphone Warehouse was again awarded the Carbon Saver Gold Standard for management and reduction of carbon emissions across the organisation.

This year we report on greenhouse gas emissions for the first time in accordance with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. Our greenhouse gas footprint is 36,208 tonnes of CO₂e. Working closely with Energy Quote JHA, our energy consultants, where practicable and applicable, emissions include electricity, heat and cooling for our use, as well as refrigerants use across our European territories.

Reporting year

1 April 2013 – 29 March 2014.

Baseline year

The reporting year forms the baseline for subsequent periods.

Comparatives

The current year is the first year to be reported on using new methodology in accordance with the mandatory reporting requirements for greenhouse gas ("GHG") emissions and as such there are no comparatives for the current year.

Methodology

The methodology used to calculate emissions is based on the World Business Council for Sustainable Development Greenhouse Gas Protocol Standard Revised Edition.

The operational control approach was selected as the basis for identifying emissions that were relevant for reporting.

Intensity metric

Annual emissions associated with the Group's activities are expressed using revenue as the intensity metric.

Target

6% reduction by March 2015.

SCOPE OF REPORTED EMISSIONS

As far as possible, emissions data has been reported for our own stores and support centres in the United Kingdom, Spain, the Netherlands, Germany, Portugal, Sweden, Ireland and France. In line with the regulatory requirements, this report includes emissions data for scope 1 and scope 2 only.

TOTAL EMISSIONS BY TYPE

For the period 1 April 2013 – 29 March 2014



• Scope 1

Fuel combustion and process emissions

• Scope 2

Electricity, heat and cooling purchased for own use

• Intensity metric
Tonnes of CO₂e per £m of revenue

Tonnes of CO₂e

2,800

33,408

14.1

“ USING TECHNOLOGY TO MINIMISE OUR IMPACT ON THE ENVIRONMENT ”

WASTE

Our 'bin free' policy in support and contact centres helps to ensure that employees recycle their waste on site and is a contributing factor to our 100% landfill-free status, which the business has maintained since 2010. In respect of our retail portfolio, according to waste management and recycling specialist, BIFFA, we have increased recycling from 79% to an average of 85% year-on-year.

We are committed to recycling old handset components through our Take Back handset recycling scheme. Recycling bags are available to customers purchasing a new handset, encouraging them to send us their old handsets so that we can dispose of the handsets responsibly. During 2013–14, we recycled thousands of handsets, the estimated value of which was donated to The Carphone Warehouse Foundation. As part of the Take Back scheme, CPW is WEEE (Waste Electrical and Electronic Equipment) compliant and committed to recycling and reusing old components. The business offers a trade-in service whereby customers can trade in old devices for cash. If the device doesn't have a trade-in value, it is recycled under the Take Back scheme mentioned above.

PEOPLE

We believe that the key to our success as a business is its exceptional group of colleagues who are innovative and creative, customer focused, great at building relationships, achievement driven and who can strike the perfect balance in the risks they take and the decisions they make.



2013 saw the return of the CPW ball with circa 6,000 colleagues in attendance.



Colleagues taking time out for yoga.

EMPLOYEE ENGAGEMENT

Our people are the Company's greatest asset and therefore its biggest investment. Attracting and retaining the right people by ensuring they feel valued and rewarded is of the utmost importance. We encourage two-way dialogue with colleagues, through a variety of communication channels.

Our teams are central to delivering the strategy for the business. Our annual OneTeam conference brings managers together to discuss the strategy of the business and the plan for its implementation going forward. We also hold regular 'Town Hall' meetings in our Acton support centre with a follow-on cascade to the rest of the business.

We use a balanced scorecard called 'Compass', based on the belief that engaged teams deliver great service, which, in turn, delivers results for the business. Colleague objectives and rewards are aligned to this scorecard. We measure the people element of our scorecard using a colleague engagement survey called 'Pulse', which runs twice a year.

Colleague feedback has influenced some of our biggest people initiatives over the last year including 'My Learning World', an online learning platform has been designed to support our people by providing relevant training and tools to help them carry out their roles to the best of their abilities.

During the year we launched a sharesave scheme giving employees the chance to own a part of the company and share in its success. Over 20% of employees registered under either a three-year or five-year scheme.

We want our people to enjoy working for the business. We encourage a range of social activities and last year saw the return of the Carphone Warehouse Ball with circa 6,000 colleagues in attendance.

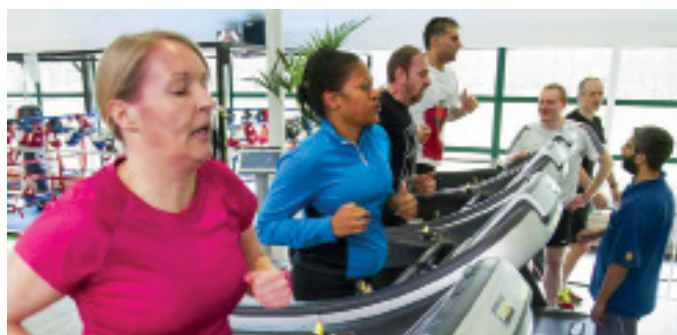
HEALTH AND WELL-BEING

Healthy living is promoted through a number of initiatives and facilities including on-site gyms in Acton, Warrington and Preston, where we also provide on-site canteens offering a range of foods for a balanced diet.

Last summer, support centre employees took part in activities such as touch rugby with the RFU, football skills with Queens Park Rangers football club, table tennis, golf, basketball, gym workouts and yoga as well as enjoying complimentary massages and healthy snacks.

Support is offered in other ways too. The Employee Assistance Programme offers a 24/7 online and telephone helpline for all of our employees, and an opportunity to speak to an independent, impartial third party.

We are pleased to be the headline sponsor of the Race to the Stones 2014. This ultra-marathon challenge will be held over two days during July 2014. Around 180 employees have registered to take part in what promises to be a fun and fit weekend for all. We have nominated Get Connected as the headline charity for this event, helping to increase awareness for our charity partner. To coincide with employee training for the 2014 Carphone Warehouse Race to the Stones, a wider well-being campaign is being run to encourage employees to exercise and adopt healthier lifestyles. Race to Fitness is a 25 week programme where employees exchange training tips, 'ask the experts' and take part in running clubs and local well-being initiatives.



Employees get in training as part of our Race to Fitness campaign.

EMPLOYEE POLICIES

Our relationship with employees is two-way and one of mutual dependency, with moral duties arising from both sides. We have developed a range of policies covering various areas of importance such as employee conduct, learning and development, parenting, payroll and performance management. Our policies help to ensure our people are treated fairly and that issues are resolved in a timely manner. Our dignity at work and grievance policies provide formal and informal approaches to resolve workplace disputes. Informal mediation is also available to assist colleagues in constructively dealing with any workplace conflicts. Our policies underpin our relationship with our people, as well as the relationship between colleagues, and help safeguard our close-knit business and fun, family environment.

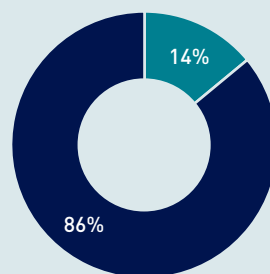
HEALTH AND SAFETY

The greatest importance is given to the health, safety and welfare of our colleagues, temporary colleagues, visitors and members of the public. Our health and safety policy states our intent to demonstrate an ongoing and determined commitment to improving health and safety throughout our organisation.

DIVERSITY

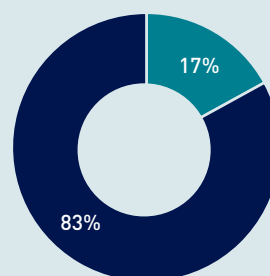
CPW is committed to equality and values diversity within its workforce. We welcome applications from all suitably qualified candidates and monitor statistics to ensure our workforce reflects the diversity of the wider population. Our attraction and selection strategies are continually reviewed and evaluated to achieve this aim. We take talent management seriously, ensuring we have the skills needed to meet our growth strategies. At CPW we also believe in creating balanced, diverse teams and have particularly focused on increasing the number of female leaders in the business.

EMPLOYEE GENDER SPLIT 2013-14



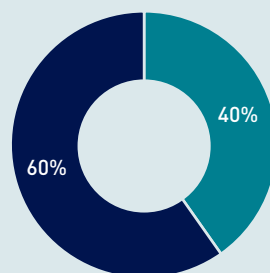
Across the Board of directors

● Female 1
● Male 6



Across senior management

● Female 8
● Male 38



Across all employees

● Female 4,614
● Male 6,922

“ ENHANCING THE DIVERSITY OF OUR BUSINESS THROUGH TALENT GROWTH

HUMAN RIGHTS

The Group respects human rights and is committed to avoiding anything that may infringe on the basic human rights of others. We welcome the implementation of the United Nations' 'Guiding Principles on Business and Human Rights' and support the principles.

Due to the nature of our operations as a retailer, we believe that the direct risk of exploiting human rights is relatively low. However, we recognise that there is a risk associated with the operations of the manufacturers we depend on for the products we sell. The vast majority of our manufacturers are large corporations. Having conducted a review during the year, we are satisfied that they have relevant and necessary policies in place to address human rights issues. While we have little control over their adherence to their own policies, we obtain some comfort in that they are listed entities, answerable to shareholders and aware of the repercussions adverse human rights could have on their businesses. We are not currently aware of any adverse direct or indirect human rights impacts.

THIS STRATEGIC REPORT

was approved by the Board on 25 June 2014 and is signed on its behalf by:

Andrew Harrison Chief Executive Officer

Nigel Langstaff Chief Financial Officer

CORPORATE GOVERNANCE

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55	Statement of directors' responsibilities

Board of directors



SIR CHARLES DUNSTONE CHAIRMAN

Sir Charles is the founder of Carphone Warehouse and has been Chairman since 28 January 2010. He was chief executive officer of Old Carphone Warehouse from 1989 to 2010 where he led the growth of Carphone Warehouse both before and after its flotation on the London Stock Exchange in 2000 to become Europe's largest independent retailer of mobile phones. Sir Charles was also appointed chairman of TalkTalk in 2010. He was a non-executive director of The Daily Mail and General Trust Plc from 2001 until 2012 and a non-executive director of Independent Media Distribution Plc (now Independent Media Distribution Limited) from 2002 until 2011. Sir Charles has been chairman of the Prince's Trust since 2009 and a member of its Council since 2000.



ROGER TAYLOR DEPUTY CHAIRMAN

Roger is Deputy Chairman and has been in his current role since 24 July 2013. From January 2010 to 24 July 2013 he was Chief Executive Officer of Carphone. During this time he was responsible for new business development, strategic initiatives and investor relations. He was chief financial officer of Old Carphone Warehouse from 2000 to 2010 where he played a key role in the growth of Carphone Warehouse across Europe and the construction and completion of the successful transactions with Best Buy. He is also a director of Virgin Mobile France and was non-executive deputy chairman of TalkTalk from 2010 until 2012.



ANDREW HARRISON CHIEF EXECUTIVE OFFICER

Andrew was appointed as Chief Executive Officer on 24 July 2013. He has worked for Carphone Warehouse for 18 years. He was a member of the board of Old Carphone Warehouse from 2006 to the formation of the joint venture with Best Buy in 2008. Andrew was responsible for Carphone Warehouse and Phone House operations within the joint venture, before being appointed chief executive officer of the joint venture in 2010. Earlier roles include UK chief executive officer and UK commercial director. He began his career working for a management consultancy business.



NIGEL LANGSTAFF CHIEF FINANCIAL OFFICER

Nigel has been Chief Financial Officer since 28 January 2010, with responsibility for the Group's finance functions. He previously held roles within Carphone Warehouse from 1997 to 2010, including UK finance director and group finance director. Prior to 1997, he spent four years with Arthur Andersen. Nigel has considerable experience and in-depth knowledge of all of the Group's businesses and has played a key role in the growth of Carphone Warehouse to date. He is also a director of Virgin Mobile France.

N A R



JOHN GILDERSLEEVE NON-EXECUTIVE DIRECTOR

John is a non-executive director and joined the board on 28 January 2010. He was non-executive deputy chairman prior to Roger Taylor's appointment as Deputy Chairman in July 2013. He was a member of the board of Old Carphone Warehouse from 2000 and was non-executive chairman between 2005 and 2010. He was appointed a non-executive director of The British Land Company PLC in September 2008 and became Chairman in January 2013. He has been a non-executive director of TalkTalk since January 2010. Previously, he was an executive director of Tesco plc until he retired in February 2004. He was appointed as an independent non-executive director of Pick n Pay Stores Limited, with effect from 21 October 2013. John was also appointed as non-executive deputy chairman and senior independent director to Spire Healthcare Group plc, on 25 June 2014.

N A R



BARONESS MORGAN OF HUYTON NON-EXECUTIVE DIRECTOR

Baroness Morgan joined the Board as a non-executive director on 28 January 2010. She was a non-executive director of Old Carphone Warehouse from 2005 to 2010. From November 2001 until May 2005, she was director of government relations at 10 Downing Street. Prior to this, Baroness Morgan 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 as a board member of the Olympic Delivery Authority. Baroness Morgan is an adviser to the board of the children's charity ARK and a member of the advisory committee of Virgin Group Holdings Limited. She was appointed chair of Ofsted in March 2011.

N A R



JOHN ALLWOOD NON-EXECUTIVE DIRECTOR

John joined the Board as a non-executive director on 28 January 2010. He is also a non-executive director of TalkTalk and chairman of Romanes Media Group Limited. He has spent his career in the telecoms and media sectors in a number of senior positions including chief executive of Orange UK and chief executive and finance director of Mirror Group plc. He is a governor of Exeter University and a trustee director of the Exeter University Retirement Benefit Scheme. He is also a proposed non-executive director of IMI mobile plc which, on 12 June 2014, announced its intention to float on the AIM market of the London Stock Exchange.

John Allwood is also the Senior Independent Director.

N A R



GERRY MURPHY NON-EXECUTIVE DIRECTOR

Gerry is a former Deloitte LLP partner and was leader of its Professional Practices Group with direct industry experience in consumer business, retail and technology, media and telecommunications. He was a member of the Deloitte board and chairman of its audit committee for a number of years and also chairman of the Audit and Assurance Faculty of the Institute of Chartered Accountants in England and Wales.

N Nomination Committee

A Audit Committee

R Remuneration Committee

X Committee chairperson

Chairman's introduction

We have a reputation for our entrepreneurial management style and it is essential that we have the necessary controls and procedures in place to steer this entrepreneurial drive and ambition. The Board of directors is ultimately responsible for the strategic direction, management and control of the Group's activities. The Board recognises the importance of achieving high standards of corporate governance, to help facilitate the success of the business.

Sir Charles Dunstone Chairman

RESPONSIBILITIES

The overriding responsibility of the Board is to provide clear, entrepreneurial and responsible leadership to the Group within a framework of efficient and effective controls so as to allow the key issues and risks facing the business to be assessed and managed.

Specifically the Board:

- + determines the overall strategic direction for the Group;
- + manages the Group's investments, including reviewing their performance;
- + reviews and challenges management performance;
- + ensures that the necessary operational, financial and human resources are in place to enable the Group to meet its objectives;
- + develops an understanding of the views of major shareholders about the Group; and
- + communicates with shareholders in conjunction with its dedicated internal investor relations department.

COMPOSITION OF THE BOARD

SIR CHARLES DUNSTONE (CHAIRMAN)
ROGER TAYLOR (DEPUTY CHAIRMAN)
ANDREW HARRISON (CHIEF EXECUTIVE OFFICER)
NIGEL LANGSTAFF (CHIEF FINANCIAL OFFICER)
INDEPENDENT NON-EXECUTIVE DIRECTORS
JOHN GILDERSLEEVE
JOHN ALLWOOD
BARONESS MORGAN OF HUYTON
GERRY MURPHY (FROM 2 APRIL 2014)

Since 28 October 2013 the Company has held a premium listing on the main market of the London Stock Exchange, and as such is required to comply with the UK Corporate Governance Code (the "Code") published by the UK Financial Reporting Council. The Board is committed to the highest standards of corporate governance and in accordance with the Listing Rules of the UK Listing Authority ("Listing Rules") the Board confirms that, except to the extent stated below, the Company has throughout the year and as at the date of this annual report complied with the provisions set out in the Code. In accordance with the Listing Rules, the relevant parts of this Report have been reviewed by the Company's auditors and their opinion is contained in the Independent auditors' report on pages 57 to 59.

PROPOSED MERGER WITH DIXONS RETAIL PLC

The Prospectus and Circular, which will be sent to our shareholders in respect of the Merger with Dixons Retail plc, set out the proposed changes to the Board of directors and to the Board Committees should the Merger complete. Other governance matters will also be changed accordingly. All such changes will be set out in next year's annual report if the Merger completes and therefore this Corporate Governance Report should be considered by shareholders in this regard.

INDEPENDENCE AND COMPLIANCE

The Board has eight members, four of whom, excluding the Chairman, are considered to be independent non-executive directors. These directors are John Gildersleeve, John Allwood, Baroness Morgan of Huyton and Gerry Murphy. Therefore more than half of the directors excluding the Chairman are considered to be independent. Although John Gildersleeve was a non-executive director of Old Carphone Warehouse for more than nine years, the Board does not believe this affects his independence given that he satisfies all of the other tests of independence set out in the Corporate Governance Code and that Carphone is a company completely separate from Old Carphone.

Executive directors and the Chairman have service contracts that can be terminated by either the Company or the director on 12 months' notice.

The non-executive directors 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 and notice period are set out in the Remuneration Report on pages 49 to 51.

Each of the directors will stand for re-appointment at the Company's annual general meeting.

MEETINGS

The Board had ten formal meetings during the year as well as other meetings as were appropriate for approving certain announcements to shareholders and other matters from time to time. All directors attended each meeting with the exception of John Gildersleeve, who was absent from the Board call on 20 January 2014 to approve the Q3 trading statement, due to a prior commitment.











EXPERIENCE



The wide range of experience and expertise of the non-executive directors, combined with the skills of the executive directors, provides vast retailing, mobile industry and general business experience, strong personal skills and independence of thought and perspective.

John Allwood is the Senior Independent Director and non-executive director with relevant financial experience.

COMMITTEE MEMBERS

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

	John Gildersleeve	Baroness Morgan of Huyton	John Allwood	Gerry Murphy
Audit p38				
Remuneration p37				
Nomination p36			n/a	n/a

 Chair  Member

The Consumer Regulatory and Compliance Committee was instituted during the year, to monitor and control the Group's compliance in respect of regulation affecting its customers, primarily in relation to its insurance business and data protection. The chair of the Committee is Baroness Morgan of Huyton and one meeting was held during the year.

RESERVED MATTERS

There are documented schedules of matters reserved to the Board and matters delegated to Committees of the Board. Such reserved matters include:

- + approval of published financial statements;
- + declaration of interim and final dividends;
- + approval of budget and strategy;
- + appointment and remuneration of directors and auditors;
- + approval of major acquisitions and disposals;
- + approval of authority levels for expenditure; and
- + approval of treasury and risk management policies.

EXTERNAL APPOINTMENTS

The Board supports executive directors taking up non-executive directorships as part of their continuing development, and the Board believes that this will ultimately benefit the Company. Further details are provided in the Remuneration Report on page 49.

BOARD GOVERNANCE MATTERS

All Board papers are sent out on a timely basis with sufficient information for the directors to be able to discharge their duties. The Company Secretary ensures that all Board papers are sent to non-attending directors and that, where possible, any comments they have are received beforehand so that they can be expressed at the meeting.

PERFORMANCE EVALUATION

The internal annual review of the balance of skills, knowledge and experience of the directors was conducted as usual during the course of the year. In addition, the Code recommends that the performance of the Board be reviewed externally every three years. The first external review of the Company was carried out by NJMD Corporate Services in May 2013; therefore the next external evaluation is due in 2016.

Internally, using the Higgs Report 'Suggestions for Good Practice' as guidance, the individual directors completed separate questionnaires and the Chairman, the Senior Independent Director, the Chief Executive Officer and the Board as a whole then collated and analysed the results. The areas covered included the roles of the executive and non-executive directors, the Board, Board Committees, the Chairman, 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 Chairman meets regularly with all the non-executive directors, usually on an 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.

Following the results of the internal evaluation, the Chairman confirms that all directors 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 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 of the directors apart from the Chairman. The Board is of the opinion that the Chairman had no other significant commitments during the year that affected his performance in his role.

COMMUNICATION WITH INVESTORS

The Board believes that it is important to explain business developments and financial results to the Company's shareholders and to understand shareholder concerns. The principal communication media used to impart information to shareholders are news releases (including results announcements), investor presentations and Company publications.

The Chief Executive Officer has lead responsibility for investor relations. He is 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 and potential shareholders as well as sell-side analysts. In all such dialogue, care is taken to ensure that no price sensitive information is released. The Chairman ensures that the Board receives regular shareholder updates at Board meetings. The Board also receives periodic reports on investors' views of the performance of the Company. The Chairman and all the non-executive directors, in particular the 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, a review of current issues, and provides the opportunity for shareholders to ask questions.

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

Board committees

NOMINATION COMMITTEE



MEMBERS

- + Baroness Morgan of Huyton (chair)
- + John Gildersleeve



MEETINGS

- + The Nomination Committee meets as and when required.
- + The Nomination Committee met once during the year.

	Meetings
John Gildersleeve	●
Baroness Morgan of Huyton	●

● Attended ○ Did not attend

RESPONSIBILITIES

The principal responsibility of the Nomination Committee is to consider succession planning and appropriate appointments to the Board, and its duties include:

- + overseeing the identification, selection and appointment of directors;
- + reviewing the structure, size, composition and leadership needs of the Board;
- + considering other commitments of directors relative to the time required for them to fulfil their duties;
- + evaluating the skills, knowledge and experience of the Board; and
- + making recommendations to the Board.

The terms of reference of the Nomination Committee are available on the Group's website (www.cpwplc.com) or on request from the Company Secretary.

During the year the Nomination Committee considered and approved the appointment of Gerry Murphy as a non-executive director. The Company did not use an external search consultant as part of this appointment.

REMUNERATION COMMITTEE



MEMBERS

- + John Gildersleeve (chair)
- + John Allwood
- + Baroness Morgan of Huyton
- + Gerry Murphy (from 2 April 2014)



MEETINGS

The Remuneration Committee met three times during the year.

	Meetings		
John Gildersleeve	●	●	●
John Allwood	●	●	●
Baroness Morgan of Huyton	●	●	●

● Attended ○ Did not attend

RESPONSIBILITIES

Responsibility for the establishment of overall remuneration policy for the Group lies with the Board. The Remuneration Committee has the following principal duties:

- + making recommendations to the Board on the Company's framework of executive remuneration;
- + considering and making recommendations to the Board on the remuneration of the executive directors and senior management relative to performance and market data;
- + approving contracts of employment which exceed defined thresholds of total remuneration or have unusual terms or termination periods;
- + considering and agreeing changes to remuneration policy or major changes to employee benefit structures; and
- + approving employee share-based incentive schemes and associated performance conditions and targets.

The terms of reference of the Remuneration Committee are available on the Group's website (www.cpwplc.com) or on request from the Company Secretary.

OTHER GOVERNANCE MATTERS

- + None of the members of the Remuneration Committee has any personal financial interest (other than as shareholders) in the matters to be decided by the Remuneration Committee nor potential conflicts of interest arising from cross-directorships.
- + No director or any person advising the Remuneration Committee plays a part in any discussion about his or her own remuneration.
- + All members are non-executive directors who have no day-to-day involvement in running the Group's business.

A detailed description of the Remuneration Committee's work during the period is contained in the Remuneration report on pages 43 to 53.

AUDIT COMMITTEE



MEMBERS

- + John Allwood (chair)
- + John Gildersleeve
- + Baroness Morgan of Huyton
- + Gerry Murphy (from 2 April 2014)

Biographies on the members of the Audit Committee are set out on page 33. All four members are regarded by the Board as independent non-executive directors. Their collective skills, experience and knowledge of the Group allows them to fulfil their duties as Committee members and to provide appropriate oversight of the Group's auditors.



MEETINGS

The Audit Committee met three times during the year. All members attended each of these meetings. The Chief Financial Officer, Head of Group Internal Audit, other senior management and representatives of the Company's external auditors (Deloitte LLP) attend the Audit Committee meetings by invitation of the Committee.

	Meetings		
John Gildersleeve	●	●	●
John Allwood	●	●	●
Baroness Morgan of Huyton	●	●	●

● Attended ○ Did not attend

ADVISORS

The Board makes funds available to the Audit Committee to enable it to take independent legal, accounting or other advice when the Audit Committee believes it necessary to do so.

RESPONSIBILITIES

The Audit Committee has the following principal duties:

- + monitoring the integrity of the half-year and full year financial statements and any formal announcements relating to the Group's financial performance;
- + advising the Board on whether, as a whole, the annual report is fair, balanced and understandable;
- + reviewing significant financial reporting judgements;
- + reviewing the Group's financial controls and internal control and risk management systems;
- + monitoring and reviewing the effectiveness of the Group's internal control functions, including the findings of the internal audit department and other risk management systems;
- + providing the Board with an independent assessment of the Group's accounting affairs and financial position;
- + making recommendations to the Board in relation to the appointment of external auditors;
- + reviewing and monitoring the relationship with the external auditors, including their independence, objectivity, effectiveness, remuneration and terms of engagement;
- + considering arrangements by which employees may raise concerns about possible improprieties in matters of financial reporting or other matters;
- + considering other topics, as defined by the Board; and
- + referring matters to the Board which, in its opinion, should be addressed at a meeting of the Board.

The terms of reference of the Audit Committee are available on the Group's website (www.cpwplc.com) or on request from the Company Secretary.

OTHER GOVERNANCE MATTERS

- + The chairman of the Audit Committee updates the Board on any significant issues that have arisen at the previous Audit Committee meeting.
- + External auditors have direct access to the Audit Committee during formal meetings and time is set aside for them to have private discussions with the Audit Committee, in the absence of management.

Audit Committee report

1. CONSIDERATION OF ACCOUNTING AND FINANCIAL REPORTING MATTERS

The Committee is responsible for reviewing the appropriateness of the half-year and annual financial statements in conjunction with both senior management and the external auditors. During the year ended 29 March 2014 consideration was given to the following matters:

- + the suitability of the Group's accounting policies and practices;
- + compliance with financial reporting and governance standards;
- + areas where significant levels of judgement have been applied or items which have been discussed with the external auditors;

- + whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides sufficient information necessary for shareholders and other users of the accounts to assess the Group's performance, business model and strategy; and
- + updated accounting and corporate governance regulations including changes to the UK Corporate Governance Code.

To assist with discharging these responsibilities, the Committee considers documents prepared by management and reports received from the external auditors on the outcomes of their annual audit procedures.

The primary areas of judgement considered by the Committee in relation to the 2013-14 financial statements, and how these were addressed, are set out in the following table:

SIGNIFICANT ISSUES AND AREAS OF JUDGEMENT	HOW THE ISSUE WAS ADDRESSED BY THE COMMITTEE
Revenue recognition	<p>As set out in note 1 to the Group financial statements, the Group assessed revenue recognition as a critical accounting policy, particularly in relation to the recognition of network commissions receivable.</p> <p>The Committee assessed the accounting policies applied in relation to revenue recognition and concluded that they remain appropriate. The Committee also assessed the key judgements made in respect of revenue recognition with reference to contractual terms, the Group's historical experience of customer behaviour and information received from third parties. This involved challenging the assumptions used by management in its calculations, whilst taking into consideration the guidance contained within IAS 18 'Revenue'.</p> <p>The Committee was satisfied with the methodology and assumptions used.</p>
Acquisition accounting	<p>The CPW Europe Acquisition required a comprehensive exercise to establish the fair value of the identifiable assets and liabilities of CPW Europe, as set out in note 23 to the Group financial statements.</p> <p>This valuation exercise included consideration of external valuations and calculations which incorporated management judgement.</p> <p>The Committee challenged the methodologies used in the valuation of the net assets acquired and the outcomes of these valuations and is comfortable with the fair values that have been recognised.</p>
Impairment of acquisition-related intangibles	<p>Following the completion of the CPW Europe Acquisition, the Group recognised separately identifiable intangible assets of £125m and goodwill of £484m.</p> <p>As set out within the Group's accounting policies, the carrying value of these assets is reviewed at least annually and more frequently if there is an indication of impairment.</p> <p>The Committee considered the judgements made in relation to the valuation model inputs and the methodology used. It also reviewed a sensitivity analysis regarding the impact of reasonably possible changes in the key assumptions applied. The Committee was satisfied that the carrying value remains appropriate. Key assumptions are set out in note 10 to the Group financial statements.</p>

Audit Committee report continued

1. CONSIDERATION OF ACCOUNTING AND FINANCIAL REPORTING MATTERS CONTINUED

SIGNIFICANT ISSUES AND AREAS OF JUDGEMENT	HOW THE ISSUE WAS ADDRESSED BY THE COMMITTEE
Closure of French operations	The closure of the Group's French operations has required management judgement in a number of areas, particularly in relation to the recognition of provisions for committed closure costs. The Committee reviewed management's assumptions when performing these calculations and is comfortable that the amounts recognised up to 29 March 2014 appropriately reflect the costs incurred up to, and liabilities assumed as at, this date.
Taxation	The Group operates across multiple tax jurisdictions, and the complex nature of tax legislation in these jurisdictions necessitates the use of judgement; additionally, management uses assumptions and judgements to assess the likelihood of utilisation of available tax losses. The Committee considered the material judgements made by management, with reference to the assumptions made, progress made on matters being discussed with tax authorities and advice provided by external advisers where applicable. The Committee was satisfied that the conclusions reached by management were appropriate.
Going concern	The Committee assessed the Group's available facilities, facility headroom, banking covenants and the results of a sensitivity analysis performed. The Committee also reviewed management's analysis which was performed with reference to budgeted revenue and earnings levels for the coming years and were satisfied that the going concern basis of preparation continues to be appropriate for the Group.

2. RISK AND INTERNAL CONTROLS

A. RISK MANAGEMENT

The Group has established a risk management programme that assists management to identify, assess and mitigate business, financial, operational and compliance risks. The Board views risk management as integral to good business practice and protecting the best interests of shareholders. Executive management of the Group has direct responsibility for the risk management programmes of their businesses. The Board's focus is primarily on reviewing the effectiveness of these processes, more than involving itself in the processes themselves. Specific controls and processes are detailed further below.

The Group's risk management framework aims to:

- + assist management to implement effective means of risk identification, assessment and mitigation;
- + instil a risk-based approach and awareness into the Group's culture;
- + encourage accountability for identifying and managing the risks specific to line managers' respective areas of the business; and
- + create and implement risk management strategies which address all types of risks.

The Group maintains a risk register, and all senior managers within the business are responsible for managing and monitoring the risks identified within their areas, and identifying new risks as they arise.

The risk register is reviewed and updated at each of the tri-annual meetings of the Committee, with informal tracking taking place every two months. Each risk identified is ranked according to a weighted score based on the risk category, the likelihood of an event occurring and its impact on the business should it occur due to either failure or absence of mitigating controls. Mitigating controls in place are also documented.

B. INTERNAL CONTROL

As in any business, the Group faces a number of risks and uncertainties on a daily basis, and a detailed internal control framework exists so as to mitigate these risks and protect the interests of shareholders. The directors have overall responsibility for the Group's systems of internal control and for reviewing effectiveness, and they discharge this responsibility by performing the following:

- + determining the Group's risk appetite and tolerance;
- + overseeing the risk management strategy; and
- + ensuring that management implements effective systems of risk identification, assessment and mitigation.

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 significant risks and include the risk management processes set out above.

The systems of internal control described in this report were in place throughout the year 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 UK Corporate Governance Code, Internal Control: Guidance to Directors (formerly known as the Turnbull Guidance). These systems are also refined as necessary to meet changes in the Group's business and associated risks. They can only provide reasonable and not absolute assurance against material errors, losses, fraud or breaches of laws and regulations.

The Company 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.

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

C. JOINT VENTURE CONTROL PROCESSES

The Board places reliance as far as possible on the risk management processes of the Virgin Mobile France joint venture board. The risk management processes of Virgin Mobile France have involved assessments of significant business risks which are wide-ranging, covering risks arising from the regulatory environment, strategy, counterparties and organisational change associated with major projects. The output from each assessment is a list of 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, taking account of costs and benefits.

Reports, action plans and any changes to the status of significant risks and risk matrices are reported at each Audit Committee meeting and at Board meetings where applicable. During the year the Board has not identified or been advised of any significant control failings.

Other controls in place for Virgin Mobile France are as follows:

- + Roger Taylor and Nigel Langstaff are directors of Virgin Mobile France. Its board ordinarily meets monthly and has ultimate responsibility for strategic, operational, risk and compliance matters for the business.
- + There is frequent informal interaction between shareholders and management on strategic and operational matters.

D. INTERNAL AUDIT

The Group has an internal audit department which conducts reviews of selected business processes each year. The internal audit programme for the 2013–14 financial year consisted of reviews across a range of areas documented and prioritised in the Group's internal audit plan, which was prepared and approved with input from management and the Committee. The plan is designed each year to test the robustness of mitigating controls and procedures are designed to identify any areas of improvement. Part of the approval process of this plan involves the Committee's consideration of alignment of the proposed test plan with the principal risks faced by the Group.

The Committee receives and reviews reports from the internal audit department detailing its material findings from testing performed and any recommendations for improvement. The progress and implementation of ensuing action plans are tracked to completion by the internal audit department, and areas where additional controls have been put in place are subsequently re-tested to ensure the process is fully complete.

The Committee considered the effectiveness of the internal audit department through holding discussions with management, considering the quality of reports submitted to the Committee, the timeliness of the clearance of action points, and the perceived impartiality of the audit team itself. The Committee concluded that the internal audit department has in all respects been effective during the 2013–14 financial year.

3. EXTERNAL AUDIT

The external auditors are appointed by shareholders to provide an opinion on the financial statements and certain disclosures prepared by Group management. Deloitte LLP acted as the external auditors to the Group throughout the year. The Committee is responsible for oversight of the external auditors, including approving the annual audit plan and all associated audit fees.

A. OVERSIGHT OF EXTERNAL AUDIT PROCESS

On an annual basis the Committee receives a detailed audit plan from Deloitte LLP, which outlines their assessment of the significant Group audit risks, and how their audit procedures will address these risks. The Committee assesses the effectiveness of the audit process through consideration of formal reports received from Deloitte LLP at the conclusion of the year-end audit. The Committee also obtains feedback on the effectiveness of the audit process in addressing areas of key audit risk. Feedback is sought from employees who have the most exposure to the external audit team, such as the financial management team at corporate and business levels, the Company Secretary, and the tax and internal audit departments. The following points are also considered:

- + the external auditors' progress against the agreed audit plan and communication of changes to the plan;
- + the competence with which the external auditors handle key accounting and audit judgements and the way in which these matters are communicated to management and the Committee;
- + the qualifications, expertise, resources and composition of the audit team; and
- + the cost effectiveness of the engagement, weighing up the extent and quality of services received against agreed fees.

The results of all of these considerations are subsequently reviewed by the Committee.

Audit Committee report continued

3. EXTERNAL AUDIT CONTINUED

A. OVERSIGHT OF EXTERNAL AUDIT PROCESS continued

The Audit Committee continues to be satisfied with the quality of the audit. The Committee holds private meetings with Deloitte LLP to allow opportunity for open dialogue and feedback without the presence of management. This allows the Committee to ensure that management are acting appropriately in response to significant risks, that no audit procedures were hindered by management, and that there were no compromises to auditor independence during the audit process.

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

B. CONSIDERATION OF AUDITOR APPOINTMENT AND INDEPENDENCE

On an ongoing basis the Committee considers the appropriateness of the re-appointment of the external auditors, including rotation of the audit partner. Matters considered during these deliberations include the deemed effectiveness of audit procedures performed, and the independence of the external auditors. The Group has a number of policies in place to help safeguard the independence of external auditors. For example, the external auditors are not permitted to perform any work which they may subsequently need to audit or which might create a conflict of interest. The Committee's consideration of non-audit services provided by Deloitte LLP has been set out separately below.

Recent changes to the UK Corporate Governance Code include a new provision that FTSE 350 companies put the external audit contract out to tender at least every ten years. Guidance issued by the Financial Reporting Council suggests that for ease of transition it is acceptable for a formal audit tender to be delayed if necessary to the end of the current lead audit partner's tenure. Deloitte LLP has been the external auditor since the Group's formation in 2010 (following the demerger of Old Carphone Warehouse into the Group and TalkTalk Group), and was also the external auditor prior to this of Old Carphone Warehouse. The current lead audit partner has been in place for three years (partner rotation is required on a five-yearly basis). The Committee has recommended to the Board that Deloitte LLP be retained for the 2014–15 financial year and a resolution proposing the re-appointment will be put to shareholders at the Company's forthcoming annual general meeting. The Committee will continue to consider the requirements of the UK Corporate Governance Code and also recent proposals by the Competition Commission and the European Union on audit tendering and rotation, and will make a decision at the appropriate time to tender the audit once these proposals are finalised, in order to ensure compliance with the relevant regulations.

C. CONSIDERATION OF NON-AUDIT SERVICES

To safeguard the objectivity and independence of the external auditors, the Committee has established a formal policy regarding the provision of non-audit services by the external auditors. The policy specifies the types of work from which the external auditors are excluded, those which do not require referral to the Audit Committee, and instances where a case-by-case decision is required. Having undertaken a review of the non-audit related work, the Audit Committee has satisfied itself that the services undertaken during the year did not prejudice the external auditors' independence. The non-audit services performed by the external auditors during the year involved assignments which were closely related to the annual audit or work of such a nature that a detailed understanding of the Group was necessary. As such it was considered appropriate that these services be performed by Deloitte LLP.

D. FEES PAID

A statement of fees paid or accrued for services from the external auditors during the year is set out below. The ratio of non-audit fees to audit fees is monitored by the Audit Committee within an overall limit set by the Board on the recommendation of the Audit Committee.

	2014 £m	2013 £m
Audit services – statutory audit	1.4	0.1
Tax advisory services	0.5	—
Tax compliance services	0.2	—
Other assurance services	0.6	—
Total	2.7	0.1

The Group's share of the external auditors' statutory audit fees for joint ventures was £0.1m (2013: £0.5m) and the Group's share of their fees for tax and other services was £0.1m (2013: £0.2m).

Fees paid in relation to non-audit services primarily related to the CPW Europe Acquisition, in respect of which the external auditors acted as reporting accountant.

The Committee approved the fees proposed for audit services for 2013–14 following a review of the level of work to be performed by Deloitte LLP, including the impact of significant one-off transactions which took place during the year.

John Allwood Chairman, Audit Committee

CHAIRMAN'S STATEMENT

Over the past 12 months Carphone Warehouse has continued to deliver solid performance in its core business whilst outlining a compelling growth strategy for the future. It has also seen the business re-enter the FTSE 250 as a company with a premium listing on the London Stock Exchange and managed the smooth transition of senior level Board changes with Roger Taylor moving from Chief Executive Officer to Deputy Chairman and Andrew Harrison joining the Board as Chief Executive Officer.

We have used this opportunity to review our approach to remuneration to ensure it is aligned to our strategic direction, appropriate for a FTSE company and focused on driving superior shareholder returns.

As a result we have made a number of changes this year including the introduction of new long-term incentive plans that align the interests of our senior managers with our shareholders, providing the opportunity for them to earn significant value but only if superior returns are delivered to our shareholders. We were pleased to see this new plan receive 96% support from our shareholders at the general meeting on 24 June 2013.

We have also taken the opportunity to bring our executive directors' salary and notice periods in line with the market and normal practice for a FTSE 250 business.

No changes are proposed to the basic salaries of the executive directors as part of the annual pay review process. Bonus payments will be at slightly above target levels. No long-term incentives vested during the year.

In relation to our other remuneration policies we have maintained our approach of providing a strong link between our overall reward packages and performance and the delivery of our strategic priorities, which we have stated as continuing to grow our core business, creating partnerships across Mainland Europe and developing Connected World Services.

We are also acutely aware that our success is largely down to the dedication and hard work of all our employees and that it is vital that they continue to feel fairly and appropriately rewarded and that they are able to share in the success of the business. We are therefore very pleased this year to have been able to reintroduce a sharesave plan for all UK employees, which has enjoyed a good take-up rate.

If the Merger is completed, the Group's remuneration policy will be changed accordingly. In particular this will reflect changes in remuneration for executive directors and changes to their participation in our long-term incentive plans with the intention to have consistent alignment between existing executives and those who join the Group as part of the Merger. The Prospectus and Circular also set out details in respect of the existing incentive schemes of Dixons Retail plc and how these will be affected by the Merger. The new policy will be set out in next year's annual report and put to shareholders for approval at next year's annual general meeting. The current remuneration report and policy should therefore be considered by shareholders in this context.

John Gildersleeve Chairman, Remuneration Committee

REMUNERATION POLICY REPORT

The Remuneration Policy set out in this report will be put to shareholders for approval in a binding vote at the annual general meeting on 23 July 2014 and the policy will be effective from that date. Shareholders will be asked to approve the policy for a period of three years starting from the effective date of the policy.

REMUNERATION STRATEGY

Put simply, our aim is to generate superior returns for our shareholders and the key to achieving this is our people.

Our remuneration strategy is underpinned by remuneration packages that are designed to motivate high-performing people to deliver our strategy. The remuneration packages:

- + are transparent and demonstrably aligned with the interests of shareholders;
- + are weighted to variable pay that incentivises outperformance over the short and long term;
- + are structured to ensure that superior rewards are only paid for exceptional performance against challenging targets;
- + are consistently applied across the Group to promote alignment and teamwork;
- + recognise the importance of delivering across a balanced set of metrics to ensure the right behaviours are adopted and the long-term health of the business is protected; and
- + encourage management to have a significant personal stake in the long-term success of the business.

Remuneration report continued**REMUNERATION POLICY REPORT CONTINUED****REMUNERATION POLICY TABLE**

The individual elements of the remuneration packages offered to executive directors are summarised in the following table:

ELEMENT	PURPOSE AND LINK TO STRATEGY	OPERATION	OPPORTUNITY	ASSESSMENT OF PERFORMANCE
Base salary (fixed)	<p>To aid the recruitment, retention and motivation of high-performing people.</p> <p>To reflect their experience and importance to the business.</p>	<p>Reviewed annually with effect from 1 July.</p> <p>The review reflects a range of factors including merit levels, internal relativity and cost. Typically increases for executive directors will be in line with increases across the Group. Increases beyond those granted across the Group may be awarded in certain circumstances such as changes in responsibilities, progression in the role and significant increases in the size, complexity or value of the Group.</p> <p>Our overall policy, having due regard to the factors noted, is normally to target salaries up to the median level.</p> <p>Salaries for new appointments as executive directors will be set in accordance with the Recruitment Policy set out on page 47 of the Remuneration Policy Report.</p>	<p>No changes to the base salaries of the executive directors are proposed for the coming year.</p> <p>Salary levels for current incumbents are as follows:</p> <ul style="list-style-type: none"> – Chief Executive Officer £475,000 – Chief Financial Officer £350,000 	Salaries are reviewed annually by the Committee at the appropriate meeting having due regard to the factors noted in the Remuneration Policy.
Benefits (fixed)	In line with the Company's strategy to keep remuneration weighted to variable pay that incentivises outperformance, a modest range of benefits is provided.	<p>Directors are entitled to a combination of benefits which, with the exception of the car allowance, are provided to all UK-based employees. They include:</p> <ul style="list-style-type: none"> + car allowance; + subsidised private medical cover; + long-term incapacity cover; + life assurance; + holiday and sick pay; and + eligibility to participate in employee Save As You Earn schemes. <p>Should an executive director be recruited from or in a non-UK location, benefits may be determined by those typically provided in the normal country of residence.</p>	The cost to the Group of providing such benefits will vary from year to year in accordance with the cost of providing such benefits.	Not applicable.
Pension (fixed)	A modest pension is provided which is consistent with that provided to managers across the Group and in line with our strategy to keep remuneration weighted to variable pay that incentivises outperformance.	<p>The Company makes a modest contribution to defined contribution pension schemes or self-invested pension plans.</p> <p>Executive directors may choose to receive a cash allowance in lieu of pension contribution.</p>	Executive directors typically receive a pension contribution or allowance of 5% of salary; however a greater contribution of up to 20% of salary may be made where necessary to recruit or retain an executive director.	Not applicable.

ELEMENT	PURPOSE AND LINK TO STRATEGY	OPERATION	OPPORTUNITY	ASSESSMENT OF PERFORMANCE
Annual performance bonus (short-term variable)	<p>Annual performance bonuses are in place to incentivise the delivery of stretching, near-term business targets based on our business strategy.</p> <p>These bonuses provide a strong link between reward and performance and drive the creation of further shareholder value.</p> <p>The principles and approach are consistently applied across the Group ensuring alignment to a common vision and strategy.</p> <p>They are based on a balanced approach ensuring appropriate behaviours are adopted and encouraging a longer-term focus.</p>	<p>All measures and targets are reviewed and set by the Committee at the beginning of the financial year.</p> <p>The bonus scheme has targets based on financial measures including profit and cash and a balanced scorecard. The balanced scorecard may include financial, employee, customer and strategic measures. The weighting of measures will be determined by the Committee each year. Financial measures (e.g. profit) will represent the majority of the bonus, with other measures representing the balance.</p> <p>Bonus payments are subject to a minimum profit gate being achieved before payment is due against any objectives achieved.</p> <p>The annual bonus is typically paid in June based on the audited performance over the previous financial year.</p> <p>With effect from the 2014–15 financial year clawback and/or malus provisions will be introduced to the Group's annual bonus scheme enabling performance adjustments and/or recovery of sums already paid.</p> <p>The Chairman, Deputy Chairman and non-executive directors do not receive an annual performance bonus.</p> <p>The Committee retains the discretion to establish additional bonus schemes and to set stretching targets focused on the delivery of specific business strategies in the event of substantial business change.</p>	<p>Maximum annual bonus potential of 200% of salary.</p> <p>No bonus is payable if the minimum profit gate is not achieved.</p>	<p>Performance is reviewed by the Committee using its judgement where necessary to assess the achievement of targets.</p> <p>The Committee retains the discretion to adjust downwards bonus payments where achievement of targets would result in a payment of a bonus at a level which would not be consistent with the interests of the Company and its shareholders.</p> <p>Clawback and/or malus provisions will be introduced with effect from the 2014–15 financial year.</p>
Mid-term incentive plan	<p>This incentive plan will only be implemented should the Merger complete.</p> <p>The purpose would be to motivate selected key individuals to deliver specific objectives relating to the Merger and reward them for doing so.</p>	<p>Executive directors and selected other key individuals would be eligible to participate in this scheme.</p> <p>Pay-outs under this scheme will be made only if participants deliver exceptional performance over and above the business plan.</p>	<p>Maximum bonus potential of up to 200% of salary.</p>	<p>The performance conditions for this scheme would be based on the achievement of specific objectives relating to the successful implementation of the Merger and integration of the businesses, such as the delivery of targeted levels of synergies.</p> <p>It is intended that performance conditions applicable to this scheme will be set at a stretching level with separate and incremental targets to those rewarded by the annual bonus plan.</p>

Remuneration report continued

REMUNERATION POLICY REPORT CONTINUED

REMUNERATION POLICY TABLE continued

ELEMENT	PURPOSE AND LINK TO STRATEGY	OPERATION	OPPORTUNITY	ASSESSMENT OF PERFORMANCE
Mid-term incentive plan continued				Since the implementation of this arrangement is contingent on the completion of the Merger, the Committee has not yet finalised the measures and targets. Further details on the performance conditions will be disclosed to shareholders in next year's annual report if the arrangement is implemented following the completion of the Merger.
Long-term incentive schemes (long-term variable)	<p>Long-term incentive schemes are transparent and demonstrably aligned with the interests of shareholders over the long term.</p> <p>The schemes reward execution of our strategy only when they have delivered superior value to shareholders.</p>	<p>The executive directors participate in the Carphone Warehouse Share Plan approved by shareholders in June 2013.</p> <p>New executive directors appointed from time to time may participate in the Carphone Warehouse Share Plan (or a comparable plan implemented with shareholder approval) or the Carphone Warehouse Share Scheme approved by shareholders in 2010 and amended in June 2013. Maximum returns for executive directors (excluding any buy-out arrangements provided for in the Recruitment Policy) will be consistent with existing executive directors and the limits set out in this Policy Table.</p> <p>Further details of the Carphone Warehouse Share Plan and Carphone Warehouse Share Scheme are provided on page 47.</p>	<p>The total pool for distribution to participants is subject to a cap of 4% of the total issued share capital of the Company on the measurement date.</p> <p>The Chief Executive Officer allocation is 7% of the total pool and Chief Financial Officer allocation is 6%.</p> <p>Grants under the Carphone Warehouse Share Scheme are subject to overall dilution limits and a maximum grant per participant in any financial year of a market value of 300% of basic salary.</p>	Performance will be determined by the Committee against the stretching targets agreed by shareholders in June 2013.
Save As You Earn	Encourages employees to make a long-term investment in the Company's shares and therefore be aligned to the long-term success of the Company.	<p>Executive directors are eligible to participate in all employee share plans.</p> <p>An HMRC approved Save As You Earn scheme was introduced in the UK in December 2013 and a comparable scheme will be launched in Ireland in due course.</p>	<p>Participants can save up to £250 per month for either three or five years. This limit may be increased for future schemes in accordance with the statutory limits in place from time to time.</p> <p>At the end of the savings period participants can purchase shares in the Company based on a discounted share price determined at the commencement of the scheme.</p>	The performance of the scheme will be determined by the share price of the Company at the end of the relevant savings period.

ELEMENT	PURPOSE AND LINK TO STRATEGY	OPERATION	OPPORTUNITY	ASSESSMENT OF PERFORMANCE
Share ownership guidelines	Provides close alignment between the longer-term interests of executive directors and shareholders in terms of the Company's growth and performance.	We recognise that senior employees should hold a minimum level of shares in the Company and we currently believe the number of shares held by our executive directors as set out in this report satisfies this requirement without the need currently to specify a precise minimum number. However, this policy will be regularly reviewed by the Committee, in particular in light of the Merger, and any proposed changes will be set out in next year's report.	Not applicable.	Not applicable.

LONG-TERM INCENTIVES

CARPHONE WAREHOUSE SHARE PLAN

Under the Carphone Warehouse Share Plan, participants share 10% of the incremental value created in CPW in excess of an opening valuation (assessed over a three month period prior to approval by shareholders in June 2013) and beyond an annual rate of return of 7% on invested capital. The plan is underpinned by a minimum annual compound TSR growth of 5% and outperformance of the median TSR of the FTSE 250.

Participants acquired at market value participation shares in a subsidiary company that holds the Company's interests in CPW Europe. The Group granted loans to participants at a commercial rate of interest to acquire the shares. Loans are ordinarily repayable in full if performance conditions are met.

The performance of the scheme will ordinarily be measured in or around June 2017, when 60% of the shares vest, with 40% deferred for a further year. When the awards vest, the value of the shares held by participants will be based on the incremental value (if any) of CPW in excess of the opening valuation together with the minimum return on invested capital. These shares will then be purchased by the Company for cash and/or the Company's ordinary shares.

A 'bad leaver' will be required to transfer the participation shares to such party as the Company designates for an amount equal to the total amount outstanding under the loan. If the market value of the shares is less than the amount of the outstanding loan (and any accrued interest) then the participant may be required to repay 20% of the shortfall out of their own resources.

A participant shall only be a 'good leaver' at the sole discretion of the Remuneration Committee and may be permitted to retain an award notwithstanding the termination of their employment.

The mechanics of the plan may be varied by the Remuneration Committee if necessary to ensure that participants are neither advantaged nor disadvantaged by a variation of the share capital of the Company, bona fide merger, reconstruction or similar reorganisation. As part of the Merger, proposals to amend the plan are set out in the Prospectus and Circular.

CARPHONE WAREHOUSE SHARE SCHEME

The Carphone Warehouse Share Scheme allows nil-priced and market-priced options to be offered to senior employees who are not participants in the Carphone Warehouse Share Plan.

Options granted in January 2014 are subject to continuing employment and are subject to performance conditions based on a combination of absolute TSR performance and relative TSR performance against the FTSE 250.

RECRUITMENT POLICY

On appointment, base salary levels will be set taking into account a range of factors including market levels, experience, internal relativities and cost. If an individual is appointed on a base salary below the desired market positioning, the Committee retains the discretion to re-align base salary over one to three years, contingent on individual performance, which may result in an exceptional rate of annualised increase above ordinary levels. If the Committee intends to rely on this discretion, it will be noted in the first remuneration report following an individual's appointment. Other elements of annual remuneration will be in line with the policy set out in the Policy Table. As such, short-term variable remuneration will be capped as set out in the Policy Table.

The following exceptions will apply:

- + in the event that an internal appointment is made or an executive director joins as a result of a transfer of an undertaking, merger, reconstruction or similar reorganisation, the Committee retains the discretion to continue with existing remuneration provisions relating to pensions and benefits;
- + as deemed necessary and appropriate to secure an appointment, the Committee retains the discretion to make additional payments linked to relocation; and
- + the Committee retains the discretion to provide an immediate interest in Company performance by making a long-term incentive award on recruitment in accordance with the Policy Table under its existing long-term incentive schemes or such future schemes as are introduced by the Company with the approval of its shareholders. The Committee will determine the level of the award, the performance conditions and time horizon that would apply to such awards at the time of award, taking into account the strategy and business circumstances of the Company.

Service contracts will be entered into on terms similar to those for the existing executive directors, summarised in the Recruitment Table; however, the Committee may authorise the payment of a relocation and/or repatriation allowance, as well as other associated international mobility terms and benefits, such as tax equalisation and financial advice.

In addition to the annual remuneration elements noted above, the Committee may consider buying out bonuses and/or incentive awards that an individual forfeits in accepting the appointment. The Committee will have the authority to rely on Listing Rule 9.4.2(2) or exceptional limits within the existing shareholder approved share and share option plans to make awards. If made, the Committee will be informed by the structure, time horizons, value and performance targets associated with any forfeited awards while retaining the discretion to make any payment or award deemed necessary and appropriate. The Committee may also require the appointee to purchase shares in the Company in accordance with its shareholding policy.

Remuneration report continued**REMUNERATION POLICY REPORT CONTINUED****RECRUITMENT POLICY** continued

With respect to the appointment of a new Chairman or non-executive director, contractual terms will be consistent with those currently adopted. Variable pay will not be considered and as such no maximum applies. With respect to non-executive directors, fees will be consistent with policy at the time of appointment. If necessary, to secure the

appointment of a new Chairman not based in the UK, payments relating to relocation and/or housing can be considered.

Elements of remuneration on appointment are set out in the Recruitment Table.

A timely announcement with respect to any director's appointment and remuneration will be made to the regulatory news services and posted on the Company's website.

RECRUITMENT TABLE

AREA	FEATURE	POLICY
Service contract and incentive plan provisions	Notice period	+ Up to 12 months from either side.
	Entitlements on termination	+ As summarised in the Policy on Loss of Office. + Provisions for mitigation and payment in lieu of notice.
	Restrictive covenants	+ Gardening leave provisions. + Non-compete, non-solicitation, non-dealing and confidentiality provisions.
	Variable elements	+ The Committee has the discretion to determine whether an individual shall participate in any incentive in the year of appointment. + The Committee shall have the discretion to determine appropriate bonus performance targets if participating in the year of appointment.
Annual remuneration	Salary	+ To be determined on appointment, taking into account factors including market levels, experience, internal relativities and cost.
	Salary progression	+ If appointed at below market levels, salary may be re-aligned over the subsequent one to three years subject to performance in role. In this situation, the Committee reserves the discretion to make increases above ordinary levels. + This initial market positioning and intention to increase pay above the standard rate of increase in the Policy Table (subject to performance) will be disclosed in the first remuneration report following appointment.
	Pension	+ In line with the Policy Table.
	Benefits and allowances	+ In line with the Policy Table. + The Committee retains the discretion to provide additional benefits as reasonably required. These may include, but are not restricted to, relocation payments, housing allowances and cost of living allowances.
	Variable pay	+ In line with the Policy Table.

POLICY ON LOSS OF OFFICE

Notice provisions in service contracts will be on terms similar to those for the existing executive directors and shall be up to 12 months on either side.

The Company shall have a right to make a payment in lieu of notice in respect of basic salary, private medical contributions and pension contributions only for the director's contractual period of notice or, if termination is part way through the notice period, the amount relating to any unexpired notice to the date of termination. There is an obligation on directors to mitigate any loss which they may suffer if the Company terminates their service contract. The Committee will take such mitigation obligation into account when determining the amount and timing of any compensation payable to any departing director.

A director shall also be entitled to a payment in respect of accrued but untaken holiday and any statutory entitlements on termination. No compensation is paid for summary dismissal, save for any statutory entitlements.

A director shall be entitled to receive a redundancy payment in circumstances where in the judgement of the Committee they satisfy the statutory tests governing redundancy payments. Any redundancy payment shall be calculated by reference to the redundancy payments policy in force for all employees in the UK at the time of the redundancy.

If a director's employment terminates prior to the relevant annual bonus payment date, ordinarily no bonus is payable for that financial year.

The Remuneration Committee shall retain discretion to make a pro rated bonus payment and/or payment of a retention bonus in circumstances where it would be appropriate to do so having regard to the contribution of the director during the financial year, the circumstances of the departure and the best interests of the Company.

Any entitlements under long-term incentive schemes operated by the Company shall be determined based on the rules of the relevant scheme. The default position under the Carphone Warehouse Share Plan is that awards will lapse on the termination of employment unless the Committee exercises the discretion set out in the scheme rules. The Committee retains the discretion to prevent awards from lapsing depending on the circumstances of the departure and the best interests of the Company.

The Committee shall be entitled to exercise its judgement with regard to settlement of potential claims, including but not limited to wrongful dismissal, unfair dismissal, breach of contract and discrimination, where it is appropriate to do so in the interests of the Company and its shareholders.

In the event that any payment is made in relation to termination for an executive director, this will be fully disclosed in the following remuneration report.

A timely announcement with respect to the termination of any director's appointment will be made to the regulatory news services and posted on the Company's website.

REMUNERATION DETAILS

Deloitte LLP has audited the following items in the Remuneration Report as stipulated in the regulations:

- + the single total figure of remuneration;
- + the directors' interests in shares; and
- + the disclosure of directors' interests in the Carphone Warehouse Share Plan on page 46.

EXTERNAL APPOINTMENTS

The Board supports executive directors taking non-executive directorships as a part of their continuing development, and has also agreed that the executive directors may retain their fees from such appointments. The Board has reviewed all such appointments and concluded that there are no appointments that require disclosure pursuant to the Code.

SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

The following table summarises key terms from service contracts in place with directors; other terms are as set out in the Recruitment Table.

	Date of contract/ letter of appointment	Notice period
Sir Charles Dunstone	28 January 2010	12 months
Andrew Harrison	29 October 2013	12 months
Nigel Langstaff	20 June 2014	12 months
Roger Taylor	28 January 2010	6 months
John Allwood	28 January 2010	3 months
John Gildersleeve	28 January 2010	3 months
Baroness Morgan of Huyton	28 January 2010	3 months
Gerry Murphy	13 November 2013	3 months

Andrew Harrison was appointed to the Board in August 2013 under a new service agreement. The notice periods for Andrew Harrison and Nigel Langstaff have been increased from six months to 12 months reflecting standard market practice. Gerry Murphy was appointed to the Board on 2 April 2014. There were no other changes to these service contracts during the financial year.

Each of the non-executive directors has a letter of appointment substantially in the form suggested by the Code. The Company has no age limit for directors.

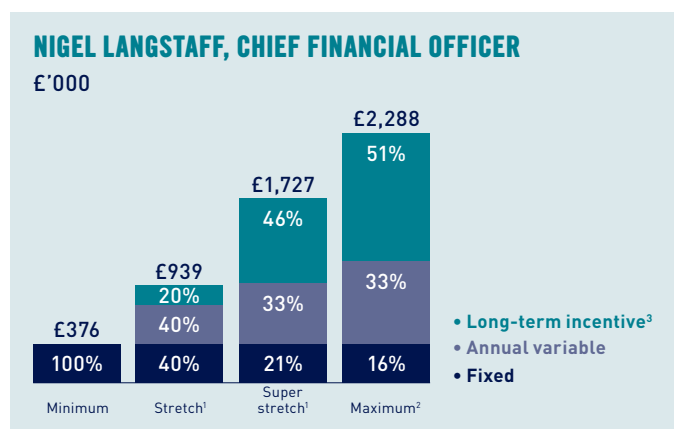
Any changes to service contracts and appointment letters, including fees, following the Merger will be set out in next year's annual report.

Remuneration report continued

REMUNERATION DETAILS CONTINUED

SCENARIO CHARTS

The charts below provide estimates of the potential future remuneration for each executive director based on the total opportunity available for the 2014–15 financial year including an annualised share of the Carphone Warehouse Share Plan.



- Fixed remuneration comprises basic salary, committed taxable benefits and pension contributions.
- Annual variable remuneration represents the annual bonus entitlement. No bonus is assumed at the minimum performance level. Stretch performance assumes 50% of the maximum pay-out, super stretch assumes 75% of the maximum pay-out, while maximum assumes 100% of the maximum pay-out.
- Long-term incentives relate to the Carphone Warehouse Share Plan, in which the executive directors participate. This incentive scheme vests in 2017 and 2018, and the total value of scheme has been annualised over a period of five years.
No reward is assumed at the minimum level of performance. Stretch performance reflects the generation of shareholder returns of £0.5bn over the term of the scheme, while super stretch performance reflects the generation of £1bn of incremental returns on the same basis.
Maximum performance is fixed at the point at which the dilution cap of 4% associated with the Carphone Warehouse Share Plan is expected to apply, being £1.3bn of incremental shareholder returns over the term of the scheme.

CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE GROUP

With the exception of the salary increases reflecting the Company's increased profile following the CPW Europe Acquisition, no increase to the remuneration of the executive directors is proposed. In arriving at this conclusion the Remuneration Committee was mindful that on average, the pay increase for other UK employees is approximately 2%. Whilst employees were not formally consulted on executive remuneration a number of them are shareholders and as such are able to exercise their influence; we also monitor our employee discussion boards and employee forums to ensure employee feedback in general is considered in all our strategy execution.

CONSIDERATION OF SHAREHOLDER VIEWS IN DEVELOPING POLICY

In 2013 we undertook an extensive consultation exercise with our shareholders to seek their views on the Carphone Warehouse Share Plan. As a result of this feedback a number of changes were made to the scheme design, including the introduction of a cap, greater transparency regarding the opening value calculation and the introduction of shareholding guidelines.

SINGLE TOTAL FIGURE OF REMUNERATION

2014	Basic salary/ fees £000	Taxable benefits £000	Pension contributions £000	Annual bonuses £000	Total 2014 £000
Sir Charles Dunstone	240	—	—	—	240
Andrew Harrison*	317	8	15	339	679
Roger Taylor	293	5	7	—	305
Nigel Langstaff	325	10	16	375	726
John Allwood	74	—	—	—	74
John Gildersleeve	81	—	—	—	81
Baroness Morgan of Huyton	60	—	—	—	60
Gerry Murphy	—	—	—	—	—

* Andrew Harrison joined the board on 1 August 2013. His remuneration presented above is for the period for which he was a director.

2013	Basic salary/ fees £000	Taxable benefits £000	Pension contributions £000	Annual bonuses £000	Total 2013 £000
Sir Charles Dunstone	240	—	—	—	240
Roger Taylor	440	12	22	484	958
Nigel Langstaff	275	10	14	303	602
John Allwood	62	—	—	—	62
John Gildersleeve	79	—	—	—	79
Baroness Morgan of Huyton	55	—	—	—	55

No long-term incentive schemes vested during the year. The share schemes approved by shareholders in June 2013 vest in 2017 (60%) and 2018 (40%). Loans of £0.4m and £0.3m were granted to Andrew Harrison and Nigel Langstaff respectively to enable them to subscribe for shares under those schemes as described on page 47.

No payments were made to former directors and no payments for loss of office were made during the year.

ANNUAL BONUS PERFORMANCE MEASURES AND AWARDS FOR FINANCIAL YEAR 2013–14

Measure	As a percentage of maximum bonus opportunity	Threshold	Maximum	Actual	Pay-out
Pro forma Headline EBIT (£m) ¹	50%	£140m	£170m	£151m	31%
Reduction in average net debt ²	20%	£25m	£100m	Missed	—
Number of markets achieving a stretching employee engagement target	7.5%	5 or more markets out of 7	As threshold	Missed	—
Number of markets achieving a stretching customer NPS target	7.5%	5 or more markets out of 7	As threshold	Achieved	7.5%
Personal targets based on the delivery of key elements of business strategy	15%	Discretionary	Discretionary	Maximum	15%

1. Excludes Virgin Mobile France.

2. Reduction in average net debt after applying adjustments in relation to the CPW Europe Acquisition and other one-off items at the discretion of the Committee.

A sliding scale of targets for each objective was set at the start of the financial year, apart from the customer and employee engagement objectives which are either achieved or not met.

FEES FOR NON-EXECUTIVE DIRECTORS

The fees for the independent non-executive directors are determined by the Board (excluding non-executive directors) after considering external market research, and are reviewed on an annual basis. Factors taken into consideration include the required time commitment, specific experience and/or qualifications. A base fee is payable and additional fees are paid for chairing and membership of committees.

Non-executive directors receive no variable pay and receive no additional benefits.

Sir Charles Dunstone and Roger Taylor are employed by the Company and their pay is reviewed by the Remuneration Committee as part of the executive director pay review.

For the 2014–15 financial year, independent non-executive directors will receive a basic fee of £45,000 (2014: £43,000) and additional fees for chairing or membership of committees. The increase in fees paid to non-executive directors reflects the increased profile of the Company following the CPW Europe Acquisition.

	2014 £000	2013 £000
Chair of Audit Committee	15	15
Member of Audit Committee	5	4
Chair of Nomination Committee	8	5
Member of Nomination Committee	5	4
Chair of Remuneration Committee	10	10
Member of Remuneration Committee	5	4
Chair of Consumer Regulatory and Compliance Committee	3	—

John Gildersleeve will also receive an additional fee, consistent with the years to March 2014 and March 2013, of £17,000, in recognition of his serving part of the period as deputy chairman and for additional services he carried out during the period in his capacity as a non-executive director. John Allwood will also receive an additional fee of £15,000 in his capacity as Senior Independent Director, continuing the arrangement since his appointment to that role.

LONG-TERM INCENTIVES

Shareholders approved two new incentive schemes during the year, information on which is provided on page 47. Details of the Carphone Warehouse Share Plan and Carphone Warehouse Share Scheme and the grants made to Andrew Harrison and Nigel Langstaff are set out in the Policy Table.

Remuneration report continued

REMUNERATION DETAILS CONTINUED

PERCENTAGE CHANGE IN REMUNERATION

The percentage change in remuneration in the 2013–14 financial year compared with the prior year for the Company's Chief Executive Officer and for all UK head office-based employees is shown below. Changes in salary relating to changes in roles and/or responsibilities have been excluded from the increase presented for the wider group in order to provide a like-for-like comparison.

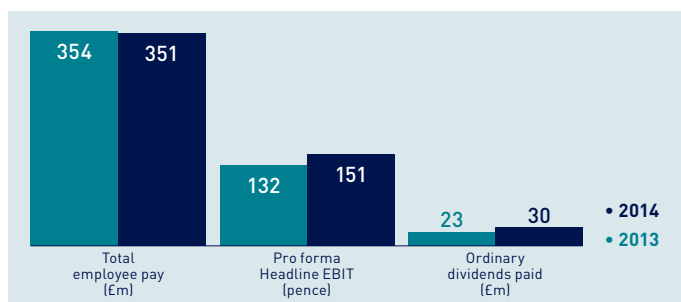
	Chief Executive Officer	Chosen group of other employees
Salary and fees	5%	2%
Taxable benefits*	n/a	n/a
Annual bonuses	(28%)	(16%)

* Taxable benefits have not been separately measured since there have been no material changes in Group benefits year-on-year.

To ensure comparability, the Chief Executive Officer's salary in the table above excludes long-term incentive schemes.

RELATIVE IMPORTANCE OF SPEND ON PAY

The following table sets out both the total cost of remuneration for the Group compared with pro forma Headline EBIT and profits distributed for the 2013–14 financial year and the prior year.



CONSIDERATION BY THE DIRECTORS OF MATTERS RELATING TO REMUNERATION

The Committee retained Towers Watson throughout 2013–14 as independent advisers. Towers Watson is engaged to provide advice to the Committee and to work with the directors on matters relating to the Group's executive remuneration and its long-term incentives. Towers Watson is a member of the Remuneration Consultants Group and operates under its code of conduct in relation to the provision of executive remuneration advice in the UK. Towers Watson has confirmed that it adhered to the Code throughout 2013–14 for all remuneration services provided to the Group. Towers Watson received fees of £84,000 in relation to the provision of those services. The Committee may also take external legal advice, where required, to assist it in carrying out its duties.

STATEMENT OF VOTING AT SHAREHOLDER MEETINGS

This Remuneration Report has been prepared in accordance with the Regulations, the relevant Listing Rules of the Financial Conduct Authority and the Code. The constitution and operation of the Remuneration Committee are in compliance with the Code. In framing its Remuneration Policy the Remuneration Committee has given full consideration to the matters set out in Schedule A of the Code. The Company is committed to ongoing shareholder dialogue in respect of directors' remuneration, and takes an active interest in voting outcomes. Where there are substantial votes against resolutions, explanatory reasons will be sought, and any actions in response will be communicated to shareholders.

The following table sets out the voting results in relation to the resolution to approve the Carphone Warehouse Share Plan at the general meeting in June 2013:

Votes cast	Number	%
For	395,813,705	96.0
Against	16,663,325	4.0
Total	412,477,030	
Withheld	16,650	

The following table sets out the voting results in relation to the Remuneration Report at the annual general meeting in July 2013:

Votes cast	Number	%
For	413,724,142	96.4
Against	15,371,547	3.6
Total	429,095,689	
Withheld	6,216,641	

ANNUAL BONUS PERFORMANCE MEASURE FOR FINANCIAL YEAR 2014–15

The annual bonus for the 2014–15 financial year will operate on a similar basis as for the 2013–14 financial year and will be consistent with the policy detailed in the Remuneration Policy section of this report. The measures have been selected to reflect our key strategic objectives and are aligned to our Group balanced scorecard, with a minimum profit gate that must be achieved before any bonus is paid out.

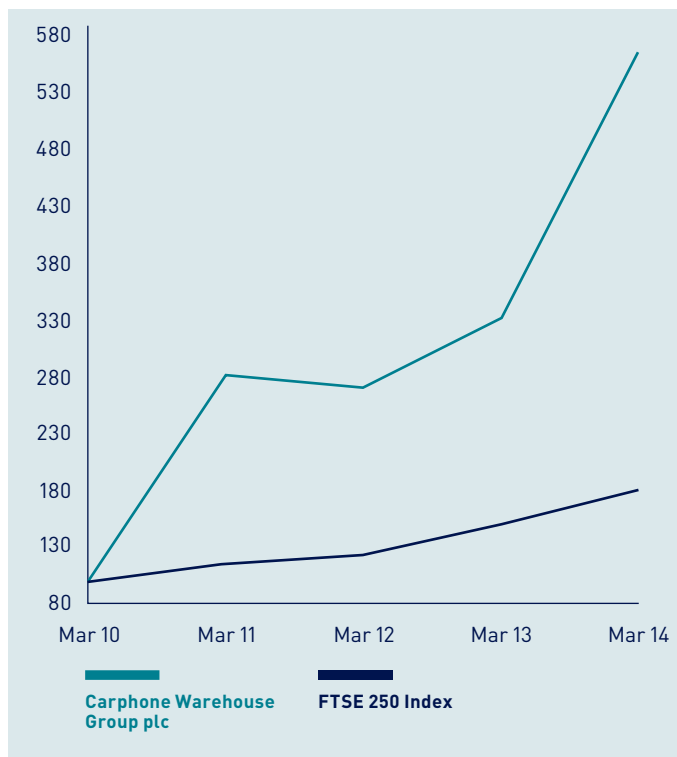
The performance measures and weighting will be as follows:

Measure	As a percentage of maximum bonus opportunity
Headline EBIT	50%
Reduced net debt	20%
Customer NPS	7.5%
Employee engagement	7.5%
Personal targets focused on delivery of business strategy	15%

The proposed target levels for financial year 2014–15 have been set to be challenging relative to the business plan. The targets themselves, as they relate to the 2014–15 financial year, are deemed to be commercially sensitive. However, retrospective disclosure of the targets and performance against them will be provided in next year's Remuneration Report to the extent that they do not remain commercially sensitive at that time.

PERFORMANCE GRAPH

The graph shows the Group's performance measured through TSR, compared with the FTSE 250 Index, since 29 March 2010 when the Company was first admitted to the London Stock Exchange following the Demerger. The FTSE 250 Index was selected as it is a broad market which includes competitors of the Company.



CHIEF EXECUTIVE PAY

The following table shows the Chief Executive Officer's single total figure of remuneration, the amount of bonus earned as a percentage of the maximum remuneration possible, and the vesting of long-term awards as a percentage of the maximum number of shares that could have vested where applicable.

Year		CEO single total figure of remuneration ¹ £000	Annual bonus pay-out against maximum %	Long-term incentive vesting rates against maximum opportunity %
2014	Andrew Harrison	679	54%	n/a
	Roger Taylor ³	159	n/a	n/a
	Total	845		n/a
2013	Roger Taylor	958	55%	n/a
2012	Roger Taylor	474	0% ²	n/a
2011	Roger Taylor	1,193	82%	n/a

1. Excludes remuneration received from long-term incentive schemes established by Old Carphone Warehouse prior to the Demerger because that company is not part of the current Group. Details of remuneration associated with Old Carphone Warehouse incentive schemes were provided in the Company's annual report for the year ended 31 March 2012. Future reports will include long-term incentives operated by the current Group when they have vested. Future reports will also reflect any necessary changes if the Merger completes.

2. In 2012 Roger Taylor waived a bonus of 25% of maximum potential and instead chose for it to be paid directly to charity.

3. The amount quoted relates only to remuneration received whilst Roger Taylor held the position of Chief Executive Officer.

DIRECTORS' INTERESTS IN SHARES

Details of directors' interests in shares of the Company at 31 March 2014 are shown in the following table:

	Ordinary shares	
	2014	2013
Sir Charles Dunstone	135,083,481	132,833,481
Andrew Harrison*	5,000,000	n/a
Nigel Langstaff*	3,654,180	3,609,180
Roger Taylor	9,808,554	9,693,554
John Allwood	10,000	10,000
John Gildersleeve	122,568	123,000
Baroness Morgan of Huyton	991	991
Gerry Murphy	—	—

* In order to participate in the Carphone Warehouse Share Plan Andrew Harrison and Nigel Langstaff have also subscribed for 700 and 600 participation shares respectively in New CPW Limited.

We recognise that senior employees should hold a minimum level of shares in the Company and we currently believe the number of shares held by our executive directors as set out in this report satisfies this requirement without the need currently to specify a precise minimum number. However, this policy will be regularly reviewed by the Committee, in particular in light of the Merger and any proposed changes will be set out in next year's Remuneration Report.

COMPLIANCE

As required by the Regulations, a resolution to approve this Remuneration Report will be proposed at the annual general meeting to be held on 23 July 2014.

This report was approved by the Board on 25 June 2014.

John Gildersleeve Chairman, Remuneration Committee

Other statutory information

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 employees are kept informed of issues affecting the Group through formal and informal meetings and through the Group's internal publications. The management team regularly communicates matters of current interest and concern with employees. Further information on employee engagement is included in the report on corporate responsibility on pages 25 to 30.

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.

SUPPLIER PAYMENT POLICY

The Group's policy is to agree terms of transactions, including payment terms, with suppliers and, provided that suppliers perform in accordance with the agreed terms, it is the Group's normal practice that payment is made accordingly. The average credit period taken on trade payables, calculated by reference to the amounts owed at the year end as a proportion of the amounts invoiced by suppliers in the year, adjusted to take account of the timing of acquisitions, was 59 days. Trade payables were not material at 31 March 2013.

DONATIONS

Information on the Group's charitable activities and donations is included in the report on corporate responsibility on pages 25 to 30. No political donations were made during either year by the Group or its joint venture businesses.

INFORMATION SECURITY

The Group is committed to protecting both electronic and physical information from unauthorised access, processing, modification or destruction. There are a number of pieces of legislation relevant to information security to which the Group must adhere, including the Data Protection Act 1998 and EU's Data Protection Directive 95/46/EC. The Group has a dedicated information security team. Security controls and awareness remain an area of significant focus for the Board.

DATA PROTECTION

The Group has a responsibility to ensure that all information is collected, stored, processed and disposed of in a secure way. In the UK, it is required to adhere to the UK Data Protection Act 1998. This legislation was enacted to bring UK law in line with the EU Data Protection Directive (the "Directive"), which is applicable to the rest of the Group's European markets. The European Commission has recently unveiled its draft European Data Protection Regulation which will supersede the Directive. Ahead of the adoption of the new regulation, the business is engaged to prepare for changes in this area. The Group is committed to the ongoing monitoring of its data protection policies and procedures, and the implementation of improvements where necessary.

DIRECTORS' INDEMNITIES

The Company has made qualifying third party indemnity provisions (as defined in the Companies Act 2006) for the benefit of its directors during the year; these provisions remain in force at the date of this report.

CAPITAL STRUCTURE

Details of the movements in issued share capital during the year are provided in note 20 to the Group financial statements. Ordinary shares of the Company carry the right to one vote at a general meeting of the Company and have no right to fixed income.

Details of employee share schemes are provided in note 5 to the Group financial statements. The Group's ESOT held 4.9m shares on 29 March 2014 (2013: 0.04m) and has waived its right to receive dividends.

The shareholder agreement of Virgin Mobile France includes a change of control clause, whereby if there is a change of control event in relation to the Company, the other shareholders have the option to acquire the Company's ownership of Virgin Mobile France, or require the Company to acquire the other shareholders' interests.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment are set out in note 11 to the Group 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 £4m at 29 March 2014.

SIGNIFICANT SHAREHOLDINGS

At 25 June 2014, the Company had been notified, in accordance with Chapter 5 of the Disclosure and Transparency Rules of the UK Financial Conduct Authority, of the following interests of over 3% of issued share capital of 576,067,769 ordinary shares:

Name	Number of shares	Percentage of share capital
D P J Ross	56,388,699	9.79%
M&G Investment Management Ltd	37,398,599	6.49%
Odey Asset Management LLP	34,132,735	5.93%
Kames Capital	29,793,129	5.17%
BlackRock, Inc.	27,011,855	4.69%
Newton Investment Management Ltd	22,329,216	3.88%
Capital World Investors	22,195,000	3.85%
Aviva Investors	20,754,999	3.60%

Directors' interests in the Company's shares and the movements thereon are detailed in the Remuneration Report on pages 43 to 53.

AUDITORS

Each director at the date of approval of this annual 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 section 418 of the Companies Act 2006.

Deloitte 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 on 25 June 2014

Tim Morris Company Secretary

Statement of directors' responsibilities

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 are required to prepare the consolidated financial statements in accordance with IFRS and Article 4 of the IAS Regulation and have elected to prepare the Company financial statements in accordance with UK GAAP. Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Company and Group for that period.

In preparing the Company financial statements, the directors are required to:

- + select suitable accounting policies and then apply them consistently;
- + make judgements and accounting estimates that are reasonable and prudent;
- + state whether applicable UK GAAP has been followed, subject to any material departures disclosed and explained in the financial statements; and
- + prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the consolidated financial statements, IAS 1 'Presentation of Financial Statements' requires that directors:

- + properly select and apply accounting policies;
- + present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- + provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- + make an assessment of the Group's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- + the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- + the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- + the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board on 25 June 2014

Andrew Harrison Chief Executive Officer

Nigel Langstaff Chief Financial Officer

FINANCIAL STATEMENTS

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Independent auditors' report

OPINION ON FINANCIAL STATEMENTS OF CARPHONE WAREHOUSE GROUP PLC

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 29 March 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS;
- the Company financial statements have been properly prepared in accordance with UK GAAP; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated cash flow statement, and the related notes 1 to 29 and the Company balance sheet and the related notes 1 to 12.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRS. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and UK GAAP.

GOING CONCERN

As required by the Listing Rules we have reviewed the directors' statement contained on page 24 of the Strategic Report that the Group is a going concern. We confirm that:

- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk

How the scope of our audit responded to the risk

Revenue recognition

Commission receivable for certain transactions is dependent on customer behaviour beyond the point of sale. Management is therefore required to exercise judgement in respect of the level of customer default within the contract period, expected levels of customer spend and customer behaviour beyond the initial contract period. The key judgements and estimates involved are described in more detail on page 69.

We evaluated the design and implementation of both the manual and automated controls over the revenue recognition process in respect of commissions receivable. In addition we tested that these controls were operating effectively throughout the year. We have tested the valuation of revenue recognised through review of the Group's contractual arrangements, substantive testing of management assumptions to third party network data and testing of subsequent cash receipts. We have also assessed the validity of those judgements made in prior years against actual outcomes.

Acquisition accounting

The identification and the determination of the fair value of intangible assets arising from the CPW Europe Acquisition and the recognition of fair value adjustments through the associated purchase price allocation process involves complex accounting considerations. The intangible asset identification process requires management judgement in respect of estimates of future cash flows and associated discount rates in addition to economic lives. Management engaged external valuation experts in relation to this process. Fair value adjustments, in particular those arising from property, plant and equipment, pre-existing intangible assets and property operating leases, require significant judgement in relation to fair value at the date of acquisition, for which management also engaged external valuation experts.

We tested the design and implementation of the controls around management's process for both the identification of intangible assets and fair value adjustments. We used our internal valuation specialists to consider the appropriateness of methodology applied and to test the inputs to the valuation models used to determine the value of the intangible assets, including the discount rates, growth rates and useful economic lives, through comparing these against industry benchmarks on similar assets and our understanding of the future prospects of the business. We also challenged and tested the appropriateness of the cash flow projections used in the valuations. For the other significant fair value adjustments, we used our internal valuation specialists to benchmark the assumptions against relevant industry data to assess the appropriateness of the adjustments.

Impairment of acquisition-related intangible assets

The Group's assessment of impairment of acquisition-related intangible assets, including goodwill, primarily arising from the CPW Europe Acquisition, is a judgemental process which requires estimates concerning the future cash flows and associated discount rates and growth rates based on management's view of future business prospects.

We assessed the assumptions used by management in the impairment model for goodwill and acquisition-related intangible assets, including the allocation to cash generating units, described in note 10 to the Group financial statements, and more specifically the cash flow projections, discount rates and long-term growth rates used against our understanding of the future prospects of the business and the prevailing Group cost of capital at the year end.

Independent auditors' report continued**OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT** continued

Risk	How the scope of our audit responded to the risk
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Closure of French operations

The Group announced its planned exit from the French retail market in April 2013. As part of this exit, the Group has completed necessary restructuring activities and a disposal programme in respect of its store portfolio, for which consideration of onerous lease contracts and asset impairment was required. As this process is ongoing, this requires significant judgement and use of assumptions by management in respect of the quantum of the associated provisions.

We tested the design and implementation of the controls operating around the accounting for the closure. We reviewed the associated contractual agreements as part of this disposal as well as substantively testing a sample of costs incurred through the year. For those provisions remaining at year end, we have compared management assumptions to contractual agreements and recent market data.

Taxation

The Group operates in a number of different tax jurisdictions. The nature of the Group's operations and related transactions can give rise to uncertain tax treatments, including with respect to transfer pricing, thereby requiring the use of estimates and assumptions which may be subsequently challenged by the relevant tax authorities.

We used our internal tax specialists to evaluate and test management's assumptions in respect of tax-related provisions, including assessment against local tax legislation and review of supporting documentation.

The Audit Committee's consideration of these risks is set out on page 39.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

OUR APPLICATION OF MATERIALITY

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £6m, which is below 5% of Headline profit before tax, and below 2% of equity. In using Headline profit before tax, we have followed the Group's definition of Headline and non-Headline results on page 68. We have assessed the use of a Headline measure to be appropriate as this continues to be a key driver of business value, is a critical component of the financial statements and the main measure which management uses to monitor the performance of the business and communicate this to shareholders.

We agreed with the Audit Committee that we would report to the Committee all audit differences identified in excess of £120,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also reported to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on audit work at eight locations, being the retail operations in the UK, France, Spain, Germany, the Netherlands, Ireland and Portugal and the insurance operations in Ireland. Each of these components requires a local statutory audit. In addition, a full scope audit was completed on the Group's joint venture, Virgin Mobile France. These eight locations, and Virgin Mobile France, represent the principal business units and account for approximately 95% of the Group's revenue. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at the eight locations was executed at levels of materiality applicable to each individual entity which were lower than Group materiality.

At the Company level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement in the aggregated financial information of the remaining components not subject to audit.

The Group audit team is directly responsible for the audit of the UK component, which is the largest. In addition, the Group audit team continued to follow a programme of planned visits to overseas components that has been designed so that a senior member of the Group audit team visits the most significant locations each year. In the year ended 29 March 2014, the three largest overseas component locations were visited by a senior member of the Group audit team. In years when we do not visit a particular significant component we will include the component audit team in our team briefing, discuss their risk assessment, and review documentation of the findings from their work.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Other Statutory Information on page 54 for the financial year for which the financial statements are prepared is consistent with the financial statements.

**MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION
ADEQUACY OF EXPLANATIONS RECEIVED
AND ACCOUNTING RECORDS**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION continued

DIRECTORS' REMUNERATION

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

CORPORATE GOVERNANCE STATEMENT

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

OUR DUTY TO READ OTHER INFORMATION IN THE ANNUAL REPORT

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

John Adam (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
25 June 2014

Consolidated income statement

for the years ended 29 March 2014 and 31 March 2013

	Notes	Headline 2014 £m	Non-Headline* 2014 £m	Statutory 2014 £m	Restated* Headline 2013 £m	Restated* Non-Headline* 2013 £m	Restated* Statutory 2013 £m
Continuing operations							
Revenue	2, 4	2,505	71	2,576	11	—	11
Cost of sales	4	(1,864)	(48)	(1,912)	—	—	—
Gross profit		641	23	664	11	—	11
Operating expenses	4	(508)	(60)	(568)	(8)	—	(8)
Profit (loss) from operations before share of results of joint ventures		133	(37)	96	3	—	3
Share of results of joint ventures	2, 4, 24	3	(23)	(20)	48	(50)	(2)
Profit (loss) before interest and taxation	3	136	(60)	76	51	(50)	1
Interest income	6	8	—	8	2	—	2
Interest expense	6	(17)	—	(17)	—	—	—
Profit (loss) before taxation		127	(60)	67	53	(50)	3
Taxation	4, 7	(25)	6	(19)	(1)	—	(1)
Profit (loss) from continuing operations		102	(54)	48	52	(50)	2
Profit (loss) from discontinued operations	24	—	—	—	3	(1)	2
Net profit (loss) for the year		102	(54)	48	55	(51)	4

Earnings per share

Basic							
Continuing operations	9	18.4p		8.6p	10.9p		0.3p
Discontinued operations	9	0.0p		0.0p	0.7p		0.6p
Total	9	18.4p		8.6p	11.6p		0.9p
Diluted							
Continuing operations	9	18.1p		8.5p	10.8p		0.3p
Discontinued operations	9	0.0p		0.0p	0.7p		0.6p
Total	9	18.1p		8.5p	11.5p		0.9p

* Non-Headline items comprise exceptional items, amortisation of acquisition intangibles and the results of the Group's retail operations in France, which are in the process of closure (see note 4). Prior year comparatives have been restated to classify the results of the French business as non-Headline and to classify the results of Virgin Mobile France as discontinued operations. A reconciliation of Headline results to statutory results is provided in note 8.

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

Consolidated statement of comprehensive income

for the years ended 29 March 2014 and 31 March 2013

	2014 £m	2013 £m
Net profit for the year	48	4
Items that may be subsequently reclassified to profit and loss:		
Exchange differences arising on translation of foreign operations	(8)	2
Other foreign exchange differences	(3)	—
Movements in relation to interest rate hedges	2	—
Total recognised income and expenses for the year	39	6

The accompanying notes are an integral part of this consolidated statement of comprehensive income.

Consolidated statement of changes in equity

for the year ended 29 March 2014

	Share capital £m	Share premium reserve £m	Accumulated profits £m	Translation reserve £m	Demerger reserve £m	Capital redemption reserve £m	Total £m
At the beginning of the year	1	170	1,238	2	(750)	—	661
Net profit for the year	—	—	48	—	—	—	48
Other comprehensive income (expense)	—	—	2	(11)	—	—	(9)
Issue of shares	—	113	103	—	—	—	216
Net purchase of own shares	—	—	(12)	—	—	—	(12)
Equity dividends	—	—	(30)	—	—	—	(30)
Tax on items recognised directly through reserves	—	—	6	—	—	—	6
At the end of the year	1	283	1,355	(9)	(750)	—	880

for the year ended 31 March 2013

	Share capital £m	Share premium reserve £m	Accumulated profits £m	Translation reserve £m	Demerger reserve £m	Capital redemption reserve £m	Total £m
At the beginning of the year	34	170	697	—	(750)	557	708
Net profit for the year	—	—	4	—	—	—	4
Other comprehensive income	—	—	—	2	—	—	2
Redemption of shares	(33)	—	(33)	—	—	33	(33)
Equity dividends	—	—	(23)	—	—	—	(23)
Capital reduction	—	—	590	—	—	(590)	—
Share of other reserve movements of joint ventures	—	—	3	—	—	—	3
At the end of the year	1	170	1,238	2	(750)	—	661

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

Consolidated balance sheet

as at 29 March 2014 and 31 March 2013

	Notes	2014 £m	2013 £m
Non-current assets			
Goodwill	10	481	—
Intangible assets	10	136	—
Property, plant and equipment	11	90	27
Trade and other receivables	14	191	—
Interests in joint ventures	24	—	537
Deferred tax assets	7	54	1
		952	565
Current assets			
Stock	13	240	—
Trade and other receivables	14	821	3
Assets held for sale	24	11	—
Cash and cash equivalents	15	283	117
		1,355	120
Total assets		2,307	685
Current liabilities			
Trade and other payables	16	(869)	(17)
Deferred consideration	17	(25)	—
Provisions	18	(50)	(7)
Corporation tax liabilities		(36)	—
Finance lease obligations	19	(1)	—
		(981)	(24)
Non-current liabilities			
Trade and other payables	16	(113)	—
Deferred consideration	17	(25)	—
Deferred tax liabilities	7	(18)	—
Loans and other borrowings	19	(290)	—
		(446)	—
Total liabilities		(1,427)	(24)
Net assets		880	661
Equity			
Share capital	20, 21	1	1
Share premium reserve	21	283	170
Accumulated profits	21	1,355	1,238
Translation reserve	21	(9)	2
Demerger reserve	21	(750)	(750)
Funds attributable to equity shareholders		880	661

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

The consolidated financial statements of the Company on pages 60 to 96 were approved by the Board on 25 June 2014 and signed on its behalf by:

Andrew Harrison Chief Executive Officer

Nigel Langstaff Chief Financial Officer

Consolidated cash flow statement

for the years ended 29 March 2014 and 31 March 2013

	Notes	2014 £m	Restated 2013 £m
Operating activities			
Profit before interest and taxation		76	1
Adjustments for non-cash items:			
Share-based payments		4	—
Non-cash movements on joint ventures		19	2
Depreciation of property, plant and equipment		18	1
Amortisation of acquisition intangibles		16	—
Amortisation of other intangibles		16	—
Impairment of property, plant and equipment		—	1
Profit on disposal of property, plant and equipment		—	(3)
Operating cash flows before movements in working capital		149	2
Decrease in trade and other receivables		107	19
Decrease in stock		97	—
Increase in trade and other payables		125	7
Decrease in provisions		(20)	(3)
Cash flows from operating activities		458	25
Taxation paid		(16)	(1)
Net cash flows from operating activities		442	24
Investing activities			
Interest received		2	2
Net cash outflow arising from CPW Europe Acquisition	23	(317)	—
Proceeds from disposal of property, plant and equipment		10	40
Proceeds on sale of current investments		5	—
Acquisition of property, plant and equipment		(18)	—
Acquisition of intangible assets		(42)	—
Net receipts from joint ventures		2	4
Cash flows from investing activities		(358)	46
Financing activities			
Settlement of financial instruments		3	—
Interest paid		(14)	—
Repayment of obligations under finance leases		(2)	—
Net purchase of own shares		(12)	—
Equity dividends paid	22	(30)	(23)
Net drawdown of borrowings	19	19	—
Facility arrangement fees paid		(6)	—
Issue of shares		124	—
Shares redeemed	22	—	(33)
Cash flows from financing activities		82	(56)
Net increase in cash and cash equivalents		166	14
Cash and cash equivalents at the start of the year		117	103
Cash and cash equivalents at the end of the year	15	283	117

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

Notes to the Group financial statements

1 ACCOUNTING POLICIES

a) BASIS OF PREPARATION

The Company is incorporated in England and Wales. The financial statements of the Group have been prepared on a going concern basis in accordance with IFRS as applied in accordance with the provisions of the Companies Act 2006 and Article 4 of the EU IAS Regulation. The financial statements have been presented in UK Sterling, the functional currency of the Company, on the historical cost basis except for the revaluation of certain financial instruments, as explained below. All amounts have been rounded to the nearest one million pounds, unless otherwise stated. The principal accounting policies adopted are set out below.

On 26 June 2013 the Group completed the CPW Europe Acquisition for a net consideration of £471m, at which point CPW Europe became a 100% owned subsidiary of the Group. In these financial statements, CPW Europe is treated as a joint venture prior to 26 June 2013 and a wholly owned subsidiary from 26 June 2013 onwards.

In prior periods the Group reported to a financial year end of 31 March. CPW Europe reports to a retail calendar, whereby its year-end date is normally the Saturday closest to 31 March. Following the CPW Europe Acquisition the Group is reporting to the same retail calendar as CPW Europe and has consequently prepared financial statements for the period from 1 April 2013 to 29 March 2014 (the "year ended 29 March 2014").

GOING CONCERN

Note 25 to the financial statements includes the Group's policies and processes for managing its exposure to liquidity risk.

In their consideration of going concern, the directors have reviewed the Group's future cash forecasts and profit projections, which are based on market data and past experience. This review considered the implications of the CPW Europe Acquisition during the year, including the effect on forecast cash flows and changes to the Group's financing facilities. The directors are of the opinion that the Group's forecasts and projections, which take into account reasonably possible changes in trading performance, show that the Group is able to operate within its current facilities and comply with its banking covenants for the foreseeable future. In arriving at their conclusion that the Group has adequate financial resources, the directors were mindful that the Group has a robust policy towards liquidity and cash flow management and that it is financed through facilities, excluding overdrafts repayable on demand, totalling a maximum of £650m (of which £360m was undrawn at 29 March 2014) committed to April 2017. The Group's operations are financed by these committed facilities (further described in note 19), retained profits and equity.

Accordingly the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operation for the foreseeable future and consequently the directors continue to apply the going concern basis in the preparation of the financial statements.

JOINT VENTURES

Where necessary, adjustments are made to the financial statements of the Group's joint ventures to bring accounting policies used into line with those used by the Group. The accounting policies below also relate to those applied to the Group's joint ventures.

b) BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries and joint ventures acquired or sold during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. Intercompany transactions and balances between subsidiaries are eliminated on consolidation.

c) FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS

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 IAS 39 '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 profit or loss in respect of fair value hedges.

The results of overseas operations are translated at the average foreign exchange rates for the year, and their balance sheets are translated at the rates prevailing at the balance sheet date. Goodwill is held in the currency of the operation to which it relates. Exchange differences arising on the translation of net assets, goodwill and results of overseas operations are recognised in the translation reserve. All other exchange differences are included in profit or loss in the year in which they arise except as follows:

- where the Group designates financial instruments held for the purpose of hedging the foreign currency exposures that result from material transactions undertaken in foreign currencies as cash flow hedges, hedge accounting as defined by IAS 39 'Financial Instruments: Recognition and Measurement' is applied. The effective portion of changes in the fair value of financial instruments that are designated as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised in profit or loss.

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

1 ACCOUNTING POLICIES continued

c) FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS continued

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

	Average		Closing	
	2014	2013	2014	2013
Euro	1.19	1.22	1.21	1.19
Swedish Krona	10.36	10.56	10.82	9.91

d) REVENUE

All revenue is stated net of VAT and other sales-related taxes. The following accounting policies are applied to the various revenue-generating activities in which the Group is engaged:

- revenue arising on the sale of mobile and other products and services is recognised when the relevant products or services are provided;
- 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. Commission includes a share of customer airtime spend, to the extent that it can be reliably measured and there are no ongoing service obligations (see 'Use of critical accounting estimates and assumptions' in note 1u). Where the time value of money has a material impact, an appropriate discount is applied such that revenue is recognised at an amount equal to the present value of the future consideration received;
- other ongoing revenue is recognised as it is earned over the lives of the relevant customers;
- 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;
- insurance premiums are typically paid either monthly or quarterly in advance. Sales commission paid by third parties is recognised when the insurance policies to which it relates are sold, to the extent that it can be reliably measured and there are no ongoing service obligations. Insurance premium income for the provision of ongoing insurance services is recognised over the lives of the relevant policies;
- revenue from the sale of prepaid credits is deferred until the customer uses the airtime or the credit expires;
- revenue generated from the provision of fixed and mobile network services is recognised as it is earned over the lives of the relevant customers;
- rental income from investment property is recognised on a straight-line basis over the term of the lease;
- consultancy income is recognised as the services are provided; and
- all other revenue is recognised when the relevant goods or services are provided.

e) SHARE-BASED PAYMENTS

Equity settled share-based payments are measured at fair value at the date of grant, and expensed over the vesting period, based on an 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 EPS targets) and a Monte Carlo model for those with external performance criteria (such as TSR 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 date 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 date is recognised in the income statement, with a corresponding entry in reserves.

If a share-based payment scheme is cancelled, any remaining part of the fair value of the scheme is expensed through the income statement. If a share-based payment scheme is forfeited, no further expense is recognised and any charges previously recognised through the income statement are reversed.

Charges also arise on loans that are provided to employees to fund the purchase of shares as part of long-term incentive plans, to the extent to which the loans are not, in certain circumstances, repayable; the cost of the relevant part of such loans is expensed over the course of the relevant incentive plans.

Notes to the Group financial statements continued

1 ACCOUNTING POLICIES continued

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 year in which they are approved by shareholders. Interim and other dividends are recognised in the year in which they are paid.

h) LEASES

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

THE GROUP AS LESSOR

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

THE GROUP AS LESSEE

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in the income statement, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see note 1r). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives and rent-free periods are received to enter into operating leases, such incentives are amortised through the income statement over the period of the lease.

i) TAXATION

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

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

Deferred tax liabilities represent tax payable in future periods in respect of taxable temporary differences. Deferred tax assets represent tax recoverable in future periods in respect of deductible temporary differences, 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.

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) GOODWILL AND INTANGIBLE ASSETS

GOODWILL

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is recognised initially as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. At the acquisition date, goodwill is allocated to each of the 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 subsidiary undertakings and businesses, the relevant goodwill is included in the calculation of the profit or loss on disposal.

1 ACCOUNTING POLICIES continued**j) GOODWILL AND INTANGIBLE ASSETS** continued**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, it is probable that the asset will generate future economic benefits, and the development cost can be measured reliably. Where these conditions are not met, development expenditure is recognised as an expense in the year 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

Acquisition intangibles include customer relationships and brands arising on the CPW Europe Acquisition. These intangible assets are amortised on a straight-line basis over their expected useful lives of up to eight years for customer relationships and up to ten years for brands. 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 measured at cost less accumulated depreciation and any accumulated impairment losses. Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

Depreciation is provided for on all property, plant and equipment (excluding land) at rates calculated so as to write off the cost, less the estimated residual value, of each asset on a straight-line basis over its expected useful life from the date it is brought into use.

Rates applied to different classes of property, plant and equipment are as follows:

Short leasehold costs:	10% per annum or the lease term if less
Network equipment and computer hardware:	12.5–50% per annum
Fixtures and fittings:	20–25% per annum

Investment property (property held to earn rental income and/or for capital appreciation) is stated at cost, net of accumulated depreciation and provisions for impairment. Depreciation is applied at 2–4% per annum.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

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 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or CGU in prior years. A reversal of an impairment loss is recognised immediately in the income statement.

m) INVESTMENTS

Investments, other than subsidiaries and joint ventures, are initially recognised at cost, being the fair value of the consideration given plus any transaction costs associated with the acquisition. 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

Interests in joint ventures are accounted for using the equity method. The consolidated income statement includes the Group's share of the post-tax profits or losses of the joint ventures based on their financial statements for the year. In the consolidated balance sheet, the Group's interests in joint ventures are shown as a non-current asset in the balance sheet, representing the Group's investment in the share capital of the joint ventures, as adjusted by post-acquisition changes in the Group's share of the net assets or liabilities less provision for any impairment. Any associated goodwill is included within the carrying value of the investment and is assessed for impairment as part of that investment.

Where a joint venture has net liabilities, any loans advanced to it are included in the Group's equity-accounted investment in it. Where a joint venture has net assets, any loans advanced to it are shown separately in the balance sheet, as a receivable to the Group.

o) ASSETS HELD FOR SALE

Non-current assets or disposal groups are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets or disposal group is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a non-current asset or disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is booked to stock, financial assets, deferred tax assets, employee benefits assets or investment property, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on re-measurement are recognised in profit or loss. Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

Notes to the Group financial statements continued

1 ACCOUNTING POLICIES continued

p) 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 to disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

q) 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.

r) LOANS AND OTHER BORROWINGS

Loans and other borrowings in the Group's balance sheet represent committed and uncommitted bank loans. Loans and other borrowings in the balance sheets of joint ventures represent committed and uncommitted bank loans and loans from shareholders other than the Group.

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

s) PROVISIONS

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

Provisions fall into the following categories:

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 historical trends and any other information that is considered to be relevant.

REORGANISATION

Reorganisation provisions relate principally to redundancy costs, the costs of onerous leases and other onerous contracts, and 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.

OTHER

Other provisions relate to warranties provided in relation to the Best Buy Joint Venture Transaction, dilapidations and similar property costs, and all other provisions, principally being the anticipated costs of unresolved tax issues and legal disputes, the expected costs of insurance claims, and costs associated with onerous contracts. All such provisions are assessed by reference to the best available information at the balance sheet date.

t) HEADLINE RESULTS

Headline results are stated before the results of discontinued businesses, including those within joint ventures, any exceptional items that are considered to be one-off and so material that they require separate disclosure to avoid distortion of underlying performance, and the amortisation of acquisition intangibles.

u) CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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.

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

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. 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. Further details on the key assumptions utilised in assessing the carrying value are provided in note 10.

ACQUISITION ACCOUNTING

Accounting for the CPW Europe Acquisition involved the use of assumptions in relation to the future cash flows associated with acquisition intangibles, and the use of valuation techniques in order to arrive at the fair value of the other non-current assets and liabilities acquired. The assumptions applied were based on the best information available to management and valuation techniques were supported by third party valuation experts. Nevertheless, the actual performance of these assets and liabilities may differ from the valuations derived through this exercise.

1 ACCOUNTING POLICIES continued**u) CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY** continued**TRADE AND OTHER RECEIVABLES**

Provisions for irrecoverable receivables are based on extensive historical evidence and the best available information in relation to specific issues, but are unavoidably dependent on future events.

REVENUE RECOGNITION

Commission receivable on sales depends for certain transactions on customer behaviour after the point of sale. Assumptions are therefore required, particularly in relation to levels of customer default within the contract period, expected levels of customer spend, and customer behaviour beyond the initial contract period. Such assumptions are based on extensive historical evidence, and provision is made for the risk of potential changes in customer behaviour, but they are nonetheless inherently uncertain. Changes in estimates recognised as an increase to revenue may be made, where for example more reliable information is available, and any such changes are required to be recognised in the income statement. Changes of estimates during the year ended 29 March 2014 in relation to commission receivable after the initial contract term for sales originating in previous years totalled £18m (2013: £21m). The total value of ongoing revenues receivable at 29 March 2014 was £525m. The value of ongoing revenues receivable within CPW Europe at 31 March 2013 was £550m.

CURRENT TAXATION

The complex nature of tax legislation across the tax jurisdictions in which the Group and its joint ventures operate 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 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.

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

v) RECENT ACCOUNTING DEVELOPMENTS

In the current year the Group has applied for the first time certain new standards and interpretations, with only IFRS 13 and Amendments to IAS 1 affecting the Group. The impact of the application of these standards is as follows:

- IFRS 13 'Fair Value Measurement' – provides guidance for fair value measurements and disclosures about fair value measurements. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market under current market conditions. Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.
- IAS 1 (amended) 'Presentation of Items of Other Comprehensive Income' – requires certain groupings of items presented in the statement of comprehensive income. Items that will be reclassified (or recycled) to profit or loss in the future are presented separately from items that will never be reclassified.

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

- IAS 36 (amended) 'Recoverable Amount Disclosures for Non-Financial Assets'
- IAS 39 (amended) 'Novation of Derivatives and Continuation of Hedge Accounting'
- IFRS 9 'Financial Instruments'
- IFRS 10, IFRS 12 and IAS 27 (amended) 'Investment Entities'
- IFRS 15 'Revenue from Contracts with Customers'
- IFRIC 21 'Levies'

A detailed review of the impact of the adoption of these standards, amendments or interpretations will be performed in due course; however the directors do not currently expect that they will have a material impact on the financial statements of the Group in future periods.

Notes to the Group financial statements continued**2 OPERATING SEGMENTS****a) BASIS FOR SEGMENTATION**

IFRS 8 'Operating Segments' requires that operating segments mirror the segments that are routinely reviewed by the Board, and which are used to manage performance and allocate resources.

Following the acquisition of CPW Europe, the Group's wholly owned operations consist of two segments, being the UK and Ireland and Mainland Europe (comprising operations in France, Germany, the Netherlands, Portugal, Spain and Sweden). This classification is consistent with the management structure of the Group, and the way in which information is reported to the Board. Connected World Services, our B2B business, is not considered to be a separate segment since its operations are currently integrated with those of our retail business in each market, and are therefore not separable. Virgin Mobile France has previously been reported separately as it has a distinct and separate management team and discrete financial information. In light of the Group's intention to sell this business, Virgin Mobile France is now reported as a discontinued operation and its results are therefore excluded from the segmental results analysis below. Details of its profits and losses are provided in note 24.

The Group's reportable segments under IFRS 8 are as follows:

Reportable segment	Operations
UK and Ireland	Retail, distribution, insurance and telecoms services in the UK and Ireland
Mainland Europe	Retail, distribution, insurance and telecoms services in Mainland Europe
CPW Europe	Retail, distribution, insurance and telecoms services when held by the Group as a joint venture
Virgin Mobile France	MVNO

b) SEGMENTAL RESULTS

Segmental results for continuing operations are analysed as follows:

	CPW		Joint ventures (see note 24)		Unallocated* £m	Total £m
	UK and Ireland £m	Mainland Europe £m	CPW Europe (to 26 June 2013) £m	Virgin Mobile France £m		
2014						
Headline revenue**	1,470	1,035	—	—	—	2,505
Headline EBIT before share of results of joint ventures	126	7	—	—	—	133
Share of Headline results of joint ventures (post-tax)	—	—	3	—	—	3
Headline EBIT	126	7	3	—	—	136
Exceptional items***	(11)	(4)	—	—	—	(15)
Amortisation of acquisition intangibles***	(10)	(6)	—	—	—	(16)
French operations (in process of closure)***	—	(6)	(23)	—	—	(29)
Statutory EBIT (segment results)	105	(9)	(20)	—	—	76
Assets	1,841	455	—	11	—	2,307
Liabilities	(828)	(309)	—	—	(290)	(1,427)
Net assets	1,013	146	—	11	(290)	880
Capital expenditure	60	8	—	—	—	68

* Unallocated liabilities reflect the loans and other borrowings of the Group.

** Non-Headline revenue of £71m (2013: nil) relates to operations in France.

*** See note 4 for further details.

Included within UK and Ireland and Mainland Europe revenue is income from two MNOs of approximately £450m and £400m respectively. No other customers or MNOs represent more than 10% of the Group's revenue.

2 OPERATING SEGMENTS continued
b) SEGMENTAL RESULTS continued

	Joint ventures (see note 24)			Total £m
	CPW UK and Ireland £m	CPW Europe £m	Virgin Mobile France £m	
2013 (restated)				
Revenue	11	—	—	11
Headline EBIT before share of results of joint ventures	3	—	—	3
Share of Headline results of joint ventures (post-tax)	—	48	—	48
Headline EBIT	3	48	—	51
Share of joint venture exceptional items (post-tax)*	—	(5)	—	(5)
French operations (in process of closure)*	—	(45)	—	(45)
Statutory EBIT (segment results)	3	(2)	—	1
Assets	148	524	13	685
Liabilities	(24)	—	—	(24)
Net assets	124	524	13	661
Capital expenditure	—	—	—	—

* See note 4 for further details.

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

c) GEOGRAPHICAL INFORMATION

The geographical information below further analyses the Group's revenue and non-current assets. Revenue and non-current assets are allocated based on the location of customers and assets.

	2014 £m	2013 £m
i) Headline revenue*		
United Kingdom	1,402	11
Netherlands	127	—
Spain	386	—
Germany	395	—
Other	195	—
	2,505	11
ii) Non-current assets		
United Kingdom	779	552
Netherlands	60	—
Spain	60	—
Germany	26	—
Other	27	13
	952	565

* Non-Headline revenue of £71m (2013: nil) relates to French retail operations, which are in the process of closure.

Notes to the Group financial statements continued**3 PROFIT (LOSS) BEFORE INTEREST AND TAXATION**

Profit (loss) before interest and taxation is stated after charging (crediting) the following:

	2014 £m	2013 £m
Depreciation of property, plant and equipment	18	1
Amortisation of acquisition intangibles	16	—
Amortisation of other intangibles	16	—
Impairment of property, plant and equipment	—	1
Impairment of trade receivables	19	—
Impairment of stock	38	—
Profit on disposal of property, plant and equipment	—	(3)
Investment property rental income	(2)	(6)
Cost of stock recognised as an expense	1,782	—
Net rental expense	88	—
Share-based payments expense	4	—
Other employee costs (see note 5)	284	5

Auditors' remuneration comprises the following:

	2014 £m	2013 £m
Fees payable to the Company's auditors for the audit of the Company's annual accounts	0.1	0.1
Fees payable to the Company's auditors and their associates for their audit of the Company's subsidiaries	1.3	—
Tax advisory services	0.5	—
Tax compliance services	0.2	—
Other assurance services	0.6	—
	2.7	0.1

The Group's share of audit fees in the year for joint ventures was £0.1m (2013: £0.5m) and the Group's share of fees for their tax and other services was £0.1m (2013: £0.2m). Other assurance services for the year ended 29 March 2014 relate primarily to the CPW Europe Acquisition, in respect of which the external auditors acted as reporting accountant.

4 NON-HEADLINE ITEMS

Non-Headline items comprise:

i) French operations

— The results, including closure provisions, of the Group's French retail business, which is in the process of closure.

ii) CPW Europe Acquisition

— Exceptional items associated with the transaction.

iii) CPW Europe Reorganisation

— Exceptional items incurred in the prior year in relation to restructuring activity within CPW Europe.

iv) Amortisation of acquisition intangibles

— Amortisation of acquisition intangibles, relating principally to the CPW Europe Acquisition.

The items above have affected the results of both the wholly owned Group and the Group's joint ventures and are analysed as follows:

	Notes	2014 £m	Restated 2013 £m
Continuing operations			
Revenue:			
French operations	i)	71	—
Cost of sales:			
French operations	i)	(48)	—
Operating expenses:			
French operations	i)	(29)	—
CPW Europe Acquisition	ii)	(15)	—
Amortisation of acquisition intangibles	iv)	(16)	—
		(60)	—
Share of results of joint ventures (post-tax):			
French operations	i)	(23)	(45)
CPW Europe Reorganisation	iii)	—	(5)
		(23)	(50)
Taxation:			
CPW Europe Acquisition	ii)	3	—
Amortisation of acquisition intangibles	iv)	3	—
		6	—
Loss for the year from continuing operations		(54)	(50)
Discontinued operations:			
Amortisation of joint venture acquisition intangibles		—	(1)
Loss for the year		(54)	(51)

Notes to the Group financial statements continued

4 NON-HEADLINE ITEMS continued

i) FRENCH OPERATIONS

In light of an increasingly challenging market context, CPW Europe commenced an exit from the French retail market in April 2013. The exit costs and results of this business during this process have been excluded from Headline earnings, with comparatives restated on the same basis.

During the year ended 31 March 2013, a pre-tax charge of £7m was booked in relation to redundancies, lease exit costs and other cash restructuring costs relating to approximately 75 stores which the business had committed to exit at the year end. In addition, the goodwill associated with the French business was written off during the same period, alongside various other non-current assets in the business. Together with asset write-downs associated with store closures that were committed during the year, total non-cash asset write-downs of £94m were booked in the year. A tax credit of £5m was booked against these charges, principally reflecting the de-recognition of deferred tax liabilities.

CPW Europe's French operations recorded an EBIT of £8m in the year ended 31 March 2013, against which a tax charge of £1m was recognised.

The Group's post-tax share of these restructuring costs, asset write-downs and operating results was £45m.

In the year ended 29 March 2014, prior to the CPW Europe Acquisition and in light of the commitment to exit the business, CPW Europe recorded further non-cash asset write-downs of £8m, and provided £32m for estimated future exit costs, principally covering redundancies and lease exit costs. Operating losses of £10m were incurred prior to the CPW Europe Acquisition, resulting from the challenging environment that prompted the decision to exit the French market, together with the effects of the announcement of this decision. A tax credit of £3m was recognised against these items. The Group's post-tax share of these restructuring costs, asset write-downs and operating results was £23m.

Since the CPW Europe Acquisition, the French business incurred further EBIT losses of £6m, representing gross margin of £23m and operating expenses of £29m.

Following our initial decision to exit the French retail market, it has become apparent that there is an opportunity to develop a new Connected World Services business in France, focusing initially on leveraging our French insurance business, as we did following our exit from retail operations in Belgium. Since the year end, we have put in place a team to develop this business, which has already secured its first two third party clients and is actively engaged in tenders for other business. While the value of the run-off base, in the absence of the retail infrastructure to support it, is clearly uncertain, we will aim to use it to grow the Connected World Services business as part of continuing operations going forward and will present this within Headline results.

ii) CPW EUROPE ACQUISITION

The CPW Europe Acquisition gave rise to a number of exceptional items.

Operating expenses include banking and professional fees of £7m in relation to the transaction. Additionally, as a result of the transaction, a number of incentive schemes could not be maintained in their existing form, and they were either allowed to vest early or were replaced during the year. This resulted in cash costs of £8m and an acceleration of non-cash accounting charges of £3m. A tax credit of £3m has been recognised in respect of these costs.

The CPW Europe Acquisition required the Group to fair value its existing 50% interest in CPW Europe, which was considered to be equal to the £500m gross consideration for Best Buy's 50% interest, giving rise to a non-cash gain of £1m.

Arrangements with Best Buy allowed the Group to manage the disposal of the Consideration Shares issued to Best Buy, and to benefit from any gain on disposal above a share price of £1.90. The Consideration Shares were placed at a price of £2.44, resulting in a net cash gain of £23m for the Group. The gain implied by comparing the share price at completion, being £2.38, and £1.90, is treated as an adjustment to consideration (see note 23) and the remaining gain of £2m is recorded in the income statement.

iii) CPW EUROPE REORGANISATION

During the prior year, CPW Europe undertook a review of its UK and group operations, with a view to simplifying group functions and giving more autonomy and accountability to individual business units. CPW Europe also initiated plans to reduce its store portfolio and operating cost base across certain Mainland European markets. As a result of this exercise, the business booked an exceptional charge of £18m in relation to redundancies, lease exit costs and other cash restructuring costs.

A tax credit of £7m was recognised against these charges, principally in respect of relief anticipated on cash reorganisation costs and the de-recognition of deferred tax liabilities.

The Group's post-tax share of these charges was £5m.

iv) AMORTISATION OF ACQUISITION INTANGIBLES

A charge of £16m arose during the year in relation to acquisition intangibles arising on the CPW Europe Acquisition, against which a tax credit of £3m has been recognised.

Amortisation in the prior year within discontinued operations relates to acquisition intangibles within Virgin Mobile France which arose on the acquisition of Tele2 France in December 2009.

5 EMPLOYEE COSTS AND SHARE-BASED PAYMENTS

a) EMPLOYEE COSTS

The aggregate remuneration recognised in the income statement in each year is as follows:

	2014 £m	2013 £m
Salaries and performance bonuses	246	4
Social security costs	34	1
Other pension costs	4	—
	284	5
Share-based payments	4	—
	288	5

The average number of employees (including directors) during the year ended 29 March 2014 was:

	2014	2013
Administration	1,464	22
Sales and customer management	7,243	—
	8,707	22

Compensation earned by key management, comprising the Board of directors and senior executives, was as follows:

	2014 £m	2013 £m
Salaries	4	2
Performance bonuses	4	1
Social security costs	2	—
Share-based payments	1	—
	11	3

During the year loans were advanced to key management to cover the tax arising on the exercise of share options that vested as part of the CPW Europe Acquisition. In addition, loans were advanced to members of key management in relation to the Carphone Warehouse Share Plan. At 29 March 2014 loans to key management in relation to these schemes totalled £10m (2013: £1m). Interest is charged on loans at market rates and interest of £0.3m (2013: nil) has been recognised during the year ended 29 March 2014.

b) SHARE-BASED PAYMENTS

i) CARPHONE WAREHOUSE SHARE PLAN

During the year the Group introduced the Carphone Warehouse Share Plan which allows participants to share 10% of the incremental value created in CPW in excess of an opening value (assessed over a three month period prior to approval by shareholders in June 2013) and beyond an annual rate of return of 7% on invested capital. The plan is underpinned by a minimum annual compound TSR growth of 5% and outperformance of the median TSR of the FTSE 250.

Participants acquired at market value participation shares in a subsidiary company that holds the Company's interests in CPW Europe. The Group granted loans to participants at a commercial rate of interest to acquire the shares. Loans are ordinarily repayable in full if performance conditions are met.

The performance of the scheme will ordinarily be measured in or around June 2017, when 60% of the shares vest, with 40% deferred for a further year. When the awards vest, the value of the shares held by participants will be based on the incremental value (if any) of CPW in excess of the opening valuation together with the minimum return on invested capital. These shares will then be purchased by the Company for cash and/or the Company's ordinary shares.

A 'bad leaver' will be required to transfer the participation shares to such party as the Company designates for an amount equal to the total amount outstanding under the loan. If the market value of the shares is less than the amount of the outstanding loan (and any accrued interest) then the participant may be required to repay 20% of the shortfall out of their own resources.

A participant shall be a 'good leaver' at the sole discretion of the Remuneration Committee and may be permitted to retain an award notwithstanding the termination of their employment.

The mechanics of the plan may be varied by the Remuneration Committee if necessary to ensure that participants are neither advantaged nor disadvantaged by a variation of the share capital of the Company, bona fide merger, reconstruction or similar reorganisation.

Notes to the Group financial statements continued**5 EMPLOYEE COSTS AND SHARE-BASED PAYMENTS** continued**b) SHARE-BASED PAYMENTS** continued**ii) SHARE OPTION SCHEMES**

During the year the Group introduced the Carphone Warehouse Share Scheme which allows nil-priced options to be offered to senior employees who are not participants in the Carphone Warehouse Share Plan.

Options were first granted under the scheme in January 2014. The options are subject to continuing employment and are subject to performance conditions based on a combination of absolute TSR performance and relative TSR performance against the FTSE 250.

Prior to the CPW Europe Acquisition, CPW Europe had a share option scheme, under which participants received options over A shares in New CPW and each of Best Buy and the Company had an obligation to acquire 50% of these shares at a value based on the Headline PBT of CPW Europe over the vesting period. The pool was based on earnings in excess of minimum growth targets, against the earnings for the year ended 31 March 2009. The Company and Best Buy agreed a minimum value of the pool, in recognition of the value that had already accrued in the scheme in relation to Best Buy Mobile.

In order to align the interests of participants with those of the Company, the value of the A shares in New CPW were assessed at defined points during the vesting period, and nil-priced options over shares in the Company were granted to participants through the Participation Plan to match this value, so that participants benefited from any growth in the market capitalisation of the Company during the vesting period.

Further to the CPW Europe Acquisition the Remuneration Committee allowed the scheme to vest based on performance achieved to 31 March 2013. In addition to the Group's obligations under the scheme the Group also agreed to satisfy Best Buy's obligations under the scheme. The Company issued 14m shares in relation to these obligations.

The following table summarises the number and weighted average exercise price ("WAEP") of share options for these schemes:

	2014		2013	
	Number million	WAEP £	Number million	WAEP £
Outstanding at the beginning of the year	5	—	—	—
Granted during the year	18	—	7	—
Lapsed during the year	—	—	(2)	—
Exercised during the year	(14)	—	—	—
Outstanding at the end of the year	9	—	5	—
Exercisable at the end of the year	—	—	—	—

Options exercised during the year were exercised at a weighted average market price of £2.48.

All options outstanding at the end of the year were nil-priced and had a weighted average remaining contractual life of 9.8 years.

iii) SAVE AS YOU EARN SCHEME

During the year the Group introduced a Save As You Earn scheme which allows participants to save up to £250 per month for either three or five years. At the end of the savings period participants can purchase shares in the Company based on a discounted share price determined at the commencement of the scheme. The following table summarises the number and WAEP of share options for these schemes:

	2014		2013	
	Number million	WAEP £	Number million	WAEP £
Outstanding at the beginning of the year	—	—	—	—
Granted during the year	3	2.24	—	—
Outstanding at the end of the year	3	2.24	—	—
Exercisable at the end of the year	—	—	—	—

All options outstanding at the end of the year had an exercise price of £2.24. Options outstanding at the end of the year had a weighted average remaining contractual life of 3.9 years.

iv) JOINT VENTURE INCENTIVE SCHEMES

Virgin Mobile France has issued market-priced and nil-priced share options in Virgin Mobile France to certain employees of the business. These options vest over periods of two to four years.

v) FAIR VALUE MODEL

The fair value of options with external performance targets was 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 Carphone Warehouse and Old Carphone Warehouse shares.

vi) CHARGE TO INCOME STATEMENT AND ENTRIES IN RESERVES

During the year ended 29 March 2014, the Group recognised a non-cash accounting charge to profit and loss of £4m (2013: nil) in respect of equity settled share-based payments, which is offset by an entry through reserves. This entry is offset in reserves by the non-recourse element of loans provided to participants in the Carphone Warehouse Share Plan.

5 EMPLOYEE COSTS AND SHARE-BASED PAYMENTS continued**c) EMPLOYEE SHARE OWNERSHIP TRUST**

The Group has an ESOT, which held 4.9m shares in the Company at 29 March 2014 (2013: 0.04m) for the benefit of the employees of the Group. The maximum number of shares held by the Group's ESOT during the year was 4.9m, from July 2013 to March 2014 (2013: 0.2m, from April 2012 to August 2012), which represented 0.9% (2013: 0.04%) of the Company's issued share capital. The ESOT has waived its rights to receive dividends and its shares have not been allocated to specific schemes. At 29 March 2014 the shares had a market value of £16.3m (2013: £0.1m).

6 INTEREST INCOME AND EXPENSE

Interest income is analysed as follows:

	2014 £m	2013 £m
Interest on cash and cash equivalents	1	1
Interest and other finance income from joint ventures	1	1
Unwind of discounts on trade receivables	6	—
	8	2

Interest expense is analysed as follows:

	2014 £m	2013 £m
Interest on bank overdrafts and loans	(11)	—
Interest on deferred consideration	(1)	—
Other interest expense	(5)	—
	(17)	—

7 CORPORATION TAX**a) AMOUNTS RECOGNISED IN PROFIT OR LOSS**

The corporation tax charge comprises:

	2014 £m	2013 £m
Current tax:		
UK corporation tax	10	—
Overseas tax	3	—
	13	—
Adjustments made in respect of prior years:		
UK corporation tax	1	—
Overseas tax	(6)	—
	(5)	—
Total current tax	8	—
Deferred tax:		
Origination and reversal of temporary differences	18	—
Adjustments in respect of prior years	(7)	1
Total deferred tax	11	1
Total tax charge	19	1

The standard rate of corporation tax reduced from 24% to 23% with effect from 1 April 2013 in accordance with the Finance Act 2012. In addition, the Finance Act 2013 was substantively enacted on 2 July 2013, further reducing the standard rate of UK corporation tax from 23% to 21% with effect from 1 April 2014, and from 21% to 20% from 1 April 2015. The reduced rates have been reflected in the calculation of deferred tax.

Notes to the Group financial statements continued**7 CORPORATION TAX** continued**b) RECONCILIATION OF EFFECTIVE TAX RATE**

The Group's effective rate of tax before non-Headline items for the year ended 29 March 2014 is 20%. The principal differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax of 23% (2013: 24%) to profit (loss) before taxation are as follows:

	Headline 2014 £m	Non- Headline 2014 £m	Statutory 2014 £m	Restated Headline 2013 £m	Restated Non- Headline 2013 £m	Restated Statutory 2013 £m
Profit (loss) before taxation	127	(60)	67	53	(50)	3
Income tax expense at 23% (2013: 24%)	29	(14)	15	13	(12)	1
Adjustments in respect of prior years	(9)	(3)	(12)	1	—	1
Items attracting no tax relief or liability	2	11	13	(13)	12	(1)
Movement in unprovided deferred tax	(1)	—	(1)	—	—	—
Exceptional write-off of tax assets and liabilities	—	1	1	—	—	—
Change in tax rate	4	(1)	3	—	—	—
Total tax charge (credit)	25	(6)	19	1	—	1

Items attracting no tax relief or liability in the current year relate primarily to French operations, while items attracting no relief or liability in the prior year relate primarily to results of joint ventures, the Group's share of which is reported within profit before taxation on a post-tax basis.

c) MOVEMENTS ON DEFERRED TAX BALANCES

Deferred tax balances recognised by the Group and movements thereon during the year are as follows:

	Opening balance £m	CPW Europe Acquisition £m	Recognised directly in equity £m	Recognised in profit or loss £m	Closing balance £m
2014					
Temporary differences on capitalised costs	—	27	—	(6)	21
Carried forward tax losses	—	3	—	—	3
Other temporary differences	1	14	2	(5)	12
Deferred tax assets (liabilities)	1	44	2	(11)	36

	Opening balance £m	Recognised in profit or loss £m	Closing balance £m
2013			
Temporary differences on capitalised costs	—	—	—
Carried forward tax losses	—	—	—
Other temporary differences	2	(1)	1
Deferred tax assets (liabilities)	2	(1)	1

Deferred tax comprises the following balances:

	2014 £m	2013 £m
Deferred tax assets	54	1
Deferred tax liabilities	(18)	—
	36	1

d) UNRECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

At 29 March 2014, the Group had approximately £69m (2013: £24m) of unused tax losses available for offset against future taxable profits. The majority of these losses are within CPW Europe, which were acquired through the CPW Europe Acquisition. A deferred tax asset of £3m (2013: nil) has been recognised in respect of these unused losses. No deferred tax asset has been recognised in respect of the remaining losses due to lack of certainty regarding the availability of future taxable profits. Such losses are only recognised in the financial statements to the extent that it is considered more likely than not that sufficient future taxable profits will be available for offset.

There were no temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities had not been recognised at the end of either year.

8 RECONCILIATION OF HEADLINE RESULTS TO STATUTORY RESULTS

2014	Profit (loss) before interest and taxation £m	Profit (loss) before taxation £m	Profit (loss) from continuing operations £m	Profit (loss) from discontinued operations £m	Net profit (loss) for the year £m
Headline results	136	127	102	—	102
Exceptional items*	(15)	(15)	(12)	—	(12)
Amortisation of acquisition intangibles*	(16)	(16)	(13)	—	(13)
French operations (in process of closure)*	(29)	(29)	(29)	—	(29)
Statutory results	76	67	48	—	48

* See note 4 for further details.

2013 (restated)	Profit (loss) before interest and taxation £m	Profit (loss) before taxation £m	Profit (loss) from continuing operations £m	Profit (loss) from discontinued operations £m	Net profit (loss) for the year £m
Headline results	51	53	52	3	55
Share of joint venture exceptional items (post-tax)*	(5)	(5)	(5)	—	(5)
French operations (in process of closure)*	(45)	(45)	(45)	—	(45)
Share of discontinued joint venture amortisation of acquisition intangibles*	—	—	—	(1)	(1)
Statutory results	1	3	2	2	4

* See note 4 for further details.

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

9 EARNINGS PER SHARE

a) PROFIT ATTRIBUTABLE TO ORDINARY SHAREHOLDERS

The calculation of both basic and diluted earnings per share is based on the following profit attributable to ordinary shareholders:

	2014 £m	Restated 2013 £m
Headline earnings		
Continuing operations	102	52
Discontinued operations	—	3
Total	102	55
Statutory earnings		
Continuing operations	48	2
Discontinued operations	—	2
Total	48	4

b) WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES

The calculation of basic and diluted earnings per share is based on the following weighted average number of ordinary shares, with the number of shares used for the diluted calculation being adjusted for the dilutive effect of share options and other incentive schemes:

	2014 million	2013 million
Weighted average number of shares		
Average shares in issue	558	473
Less average holding by Group ESOT	(3)	—
For basic earnings per share	555	473
Dilutive effect of share options and other incentive schemes	7	6
For diluted earnings per share	562	479

The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options was based on quoted market prices for the year during which the options were outstanding.

The number of shares in issue at 29 March 2014 was 576m, of which 5m were held by the Group's ESOT.

Notes to the Group financial statements continued**9 EARNINGS PER SHARE** continued**c) BASIC AND DILUTED EARNINGS PER SHARE**

	Basic earnings per share (pence)		Diluted earnings per share (pence)	
	2014	2013	2014	2013
Headline earnings				
Continuing operations	18.4p	10.9p	18.1p	10.8p
Discontinued operations	0.0p	0.7p	0.0p	0.7p
Total	18.4p	11.6p	18.1p	11.5p
Statutory earnings				
Continuing operations	8.6p	0.3p	8.5p	0.3p
Discontinued operations	0.0p	0.6p	0.0p	0.6p
Total	8.6p	0.9p	8.5p	0.9p

10 GOODWILL AND INTANGIBLE ASSETS

Cost	Software and licences £m	Customer relationships £m	Brands £m	Intangible assets £m	Goodwill £m
Balance at 1 April 2013	—	—	—	—	—
CPW Europe Acquisition	54	56	10	120	484
Additions	48	—	—	48	—
Foreign exchange	—	—	—	—	(3)
Balance at 29 March 2014	102	56	10	168	481

Accumulated amortisation and impairment losses	Software and licences £m	Customer relationships £m	Brands £m	Intangible assets £m	Goodwill £m
Balance at 1 April 2013	—	—	—	—	—
Amortisation	(16)	(14)	(2)	(32)	—
Balance at 29 March 2014	(16)	(14)	(2)	(32)	—

Carrying amounts	Software and licences £m	Customer relationships £m	Brands £m	Intangible assets £m	Goodwill £m
At 31 March 2013	—	—	—	—	—
At 29 March 2014	86	42	8	136	481

Software and licences include assets with a cost of £14m (2013: nil) on which amortisation has not been charged as the assets have not yet been brought into use.

i) ALLOCATION OF GOODWILL TO CGUs

The goodwill arising on the CPW Europe Acquisition was allocated to the Group's cash generating units ("CGUs") which were expected to benefit from the acquisition, based on value in use calculations. At 29 March 2014 goodwill was allocated to CGUs as follows:

	£m
UK	406
Netherlands	36
Spain	31
Ireland	8
	481

10 GOODWILL AND INTANGIBLE ASSETS continued**ii) GOODWILL IMPAIRMENT TESTING**

The recoverable amounts of the CGUs are determined from value in use calculations or fair market value as appropriate. The Group prepared cash flow forecasts derived from the most recent financial budgets and long-term plans approved by management and extrapolated cash flows in perpetuity based on country-specific growth rates. The cash flow forecasts reflect management's expectations of EBITDA, capital expenditure and working capital, all of which are based on historical patterns and expectations of future market developments.

Other key assumptions for the value in use calculations are growth rates and discount rates. Growth rates used were between 1.0% to 1.9% (2013: 1.5% to 4.5%) and are determined based on third party long-term growth rate forecasts for the regions in which the CGUs operate. This rate does not exceed the average long-term growth rate for the relevant markets. The pre-tax rates used to discount the forecast cash flows reflect current market assessments of the time value of money and the risks specific to the CGUs, and ranged between 9.3% and 11.9% (2013: 7.7% to 10.2%).

The carrying value of goodwill is tested for impairment on an annual basis, or more frequently if there are indicators that goodwill might be impaired, in accordance with the requirements of IFRS.

As explained in note 1u, expected future cash flows are inherently uncertain and may differ from the cash flows that ultimately arise which may affect the recoverable value of the CGU. The Group conducted a sensitivity analysis on the impairment tests of CGUs. The directors consider that the Netherlands is the only CGU for which a reasonably possible change in key assumptions during the next year would cause the recoverable amount of the CGU to fall below its carrying amount. At 29 March 2014, the recoverable amount exceeded the carrying value by £7m in the Netherlands, incorporating a long-term growth rate of 1.2% and a pre-tax discount rate of 9.3% as key assumptions. If the pre-tax discount rate increased above 10.1% or forecast EBITDA reduced by more than 7%, the recoverable amount in the Netherlands would fall below its carrying amount.

iii) INTANGIBLES ACQUIRED DURING THE YEAR AS PART OF CPW EUROPE ACQUISITION

- Acquisition intangibles included customer relationships and brands. Each class of intangible asset was independently valued by experts using appropriate valuation techniques.
- Software and licences were independently valued using an amortised replacement cost method. Amortisation commences from the point at which the software comes into use.

11 PROPERTY, PLANT AND EQUIPMENT

Cost	Freehold land and buildings £m	Short leasehold costs £m	Fixtures and fittings £m	Computer hardware £m	Total £m
Balance at 1 April 2012	72	—	—	—	72
Disposals	(42)	—	—	—	(42)
Balance at 31 March 2013	30	—	—	—	30
CPW Europe Acquisition	—	27	24	21	72
Additions	—	2	11	7	20
Disposals	(12)	—	—	—	(12)
Foreign exchange	—	—	(1)	—	(1)
Balance at 29 March 2014	18	29	34	28	109

Accumulated depreciation and impairment losses	Freehold land and buildings £m	Short leasehold costs £m	Fixtures and fittings £m	Computer hardware £m	Total £m
Balance at 1 April 2012	(6)	—	—	—	(6)
Depreciation	(1)	—	—	—	(1)
Impairment	(1)	—	—	—	(1)
Disposals	5	—	—	—	5
Balance at 31 March 2013	(3)	—	—	—	(3)
Disposals	2	—	—	—	2
Depreciation	(1)	(5)	(7)	(5)	(18)
Balance at 29 March 2014	(2)	(5)	(7)	(5)	(19)

Notes to the Group financial statements continued**11 PROPERTY, PLANT AND EQUIPMENT** continued

Carrying amounts	Freehold land and buildings £m	Short leasehold costs £m	Fixtures and fittings £m	Computer hardware £m	Total £m
At 31 March 2013	27	—	—	—	27
At 29 March 2014	16	24	27	23	90

Freehold land and buildings comprise the Group's investment property. The fair value of investment property as at 29 March 2014 was determined by an external, independent property valuation expert as £22m (2013: £31m). The valuation expert has appropriate recognised professional qualifications as well as recent experience in the location and category of the properties being valued. The valuation of properties was performed by reference to appropriate yield rates and market evidence of recent transactions.

Future minimum lease payments in respect of the Group's investment properties are detailed in note 28.

12 PRINCIPAL COMPANY INVESTMENTS

The Company has investments in the following subsidiary undertakings, which, alongside joint ventures, 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 Spain S.L.U	Spain	Distribution
The Phone House Deutschland GmbH	Germany	Distribution
The Phone House Telecom GmbH	Germany	Distribution
The Phone House Netherlands B.V.	Netherlands	Distribution
GEAB The Phone House AB	Sweden	Distribution
The Carphone Warehouse Limited	Ireland	Distribution
The Phone House Comercio e Aluguer de bens e Serviços Lda	Portugal	Distribution
New Technology Insurance	Ireland	Insurance
ISE-Net Solutions Limited	England and Wales	IT
New CPW Limited*	England and Wales	Holding company
Carphone Warehouse Europe Limited	England and Wales	Holding company

* Held directly by the Company.

The following subsidiaries, all of which are incorporated in England and Wales, are exempt from the requirements of the UK Companies Act 2006 relating to the audit of individual accounts by virtue of section 479A of that Act:

Name	Company registration number
CPW Tulketh Mill Limited	06585719
CPW Irlam Limited	05825842
CPW Brands 2 Limited	07135355
The Carphone Warehouse (Digital) Limited	03966947
CPW Acton Five Limited	05738735
CPW Consultancy Limited	07881879
CWIAB Limited	02441554
The Carphone Warehouse UK Limited	03827277
CPW CP Limited	06585457

13 STOCK

	2014 £m	2013 £m
Finished goods and goods for resale	240	—
	240	—

14 TRADE AND OTHER RECEIVABLES

	2014 £m	2013 £m
Trade receivables	935	—
Less provision for impairment	(20)	—
Trade receivables net of provision for impairment	915	—
Prepayments and other receivables	90	3
Accrued income	5	—
Derivative financial assets	2	—
	1,012	3
Non-current	191	—
Current	821	3
	1,012	3

Non-current receivables represents commission receivable on sales which is due after more than one year. Trade and other receivables are discounted using discount rates which reflect the relevant costs of financing when the receivable is recognised, where the time value of money is considered to be material.

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

	2014 £m	2013 £m
Sterling	698	—
Euro	229	—
Other	8	—
	935	—

The ageing of gross trade receivables is as follows:

	2014 £m	2013 £m
Not yet due	795	—
Under 2 months	49	—
2 to 4 months	39	—
Over 4 months	52	—
	935	—

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

	2014 £m	2013 £m
Not yet due	(2)	—
Under 2 months	(3)	—
2 to 4 months	(1)	—
Over 4 months	(14)	—
	(20)	—

Notes to the Group financial statements continued**14 TRADE AND OTHER RECEIVABLES** continued

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

	2014 £m	2013 £m
Opening balance	—	—
CPW Europe Acquisition	(23)	—
Charged to the income statement	(19)	—
Receivables written off as irrecoverable	22	—
Closing balance	(20)	—

As at 29 March 2014, trade receivables of £122m (2013: nil) were past due but not impaired. The Group made provision based on historical rates of recoverability and all unprovided amounts are considered to be recoverable. The ageing analysis of these trade receivables is as follows:

	2014 £m	2013 £m
Under 2 months	46	—
2 to 4 months	38	—
Over 4 months	38	—
	122	—

15 CASH AND CASH EQUIVALENTS

	2014 £m	2013 £m
Cash at bank and on deposit	283	117

Cash and cash equivalents include short-term bank deposits which are available on demand. Within cash and cash equivalents, £25m (2013: nil) is held by the Group's insurance business to cover regulatory reserve requirements. As such, these funds are not available to offset against other Group borrowings. A further £1m is held to cover obligations on third party insurance accounts.

Loans and other borrowings are set out in note 19.

16 TRADE AND OTHER PAYABLES

	2014 £m	2013 £m
Current		
Trade payables	565	1
Accruals	166	15
Deferred income	11	1
Other taxes and social security amounts payable	127	—
	869	17
Non-current		
Trade and other payables	113	—
Total trade and other payables	982	17

Non-current trade and other payables relate principally to property leases that are deemed to be over-rented. These liabilities are unwound over the period of the relevant lease, of up to 22 years.

16 TRADE AND OTHER PAYABLES continued

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

	2014 £m	2013 £m
Sterling	655	17
Euro	313	—
Other	14	—
	982	17

17 DEFERRED CONSIDERATION

	2014 £m	2013 £m
Current	25	—
Non-current	25	—
	50	—

Deferred consideration arose on the CPW Europe Acquisition and is payable to Best Buy in two equal instalments of £25m due in June 2014 and June 2015. These amounts bear interest at 2.5% per annum.

18 PROVISIONS

	Reorganisation £m	Sales £m	Other £m	Total £m
Balance at 1 April 2012	—	—	9	9
Released in the year	—	—	(2)	(2)
Balance at 31 March 2013	—	—	7	7
CPW Europe Acquisition	35	11	17	63
Charge in profit or loss	—	3	4	7
Released in the year	—	—	(3)	(3)
Utilised in the year	(13)	(4)	(7)	(24)
Balance at 29 March 2014	22	10	18	50

19 LOANS AND OTHER BORROWINGS AND FINANCE LEASE OBLIGATIONS

	2014 £m	2013 £m
Current liabilities		
Finance lease obligations	(1)	—
Non-current liabilities		
Loans and other borrowings	(290)	—
	(291)	—

Notes to the Group financial statements continued**19 LOANS AND OTHER BORROWINGS AND FINANCE LEASE OBLIGATIONS** continued**a) LOANS AND OTHER BORROWINGS****i) COMMITTED FACILITIES**

The Group has a £650m multi-currency term and revolving credit facility which matures in April 2017. This facility is split into two tranches: a £400m revolving tranche and a term loan tranche of £250m, which amortises by £25m on 30 June 2015 and by a further £50m on 30 June 2016.

The rate of interest payable on borrowings is the aggregate of the applicable margin which depends on performance against one of the facility's financial covenants and LIBOR (or an equivalent benchmark rate for other currencies). Commitment and utilisation fees are also payable under the terms of the facility.

ii) BANK OVERDRAFTS AND UNCOMMITTED FACILITIES

The Group has overdraft and uncommitted money market facilities totalling approximately £95m (2013: £3m).

b) FINANCE LEASE OBLIGATIONS

Finance lease liabilities are payable as follows:

	Future minimum lease payments		Interest		Present value of minimum lease payments	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
Less than one year	1	—	—	—	1	—
	1	—	—	—	1	—

c) ANALYSIS OF CHANGES IN FUNDS (DEBT)

	At 1 April 2013 £m	CPW Europe Acquisition £m	Cash flows £m	At 29 March 2014 £m
Cash and cash equivalents	117	—	166	283
	117	—	166	283
Loans and other borrowings	—	(271)	(19)	(290)
Finance lease obligations	—	(3)	2	(1)
	—	(274)	(17)	(291)
Net funds (debt)	117	(274)	149	(8)

19 LOANS AND OTHER BORROWINGS AND FINANCE LEASE OBLIGATIONS continued
c) ANALYSIS OF CHANGES IN FUNDS (DEBT) continued

	At 1 April 2012 £m	Cash flows £m	At 31 March 2013 £m
Cash and cash equivalents	103	14	117
Net funds	103	14	117

20 SHARE CAPITAL

	2014 million	2013 million	2014 £m	2013 £m
Allotted, called-up and fully paid ordinary shares of 0.1p each	576	473	1	1
	2014 million	2013 million	2014 £m	2013 £m
Ordinary shares in issue at the beginning of the year	473	473	1	1
Issued for cash	47	—	—	—
Exercise of share options	14	—	—	—
Issue of Consideration Shares	42	—	—	—
Ordinary shares in issue at the end of the year	576	473	1	1

Holders of ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company. On 30 April 2013 the Group placed 47.2m ordinary shares at 222 pence per share, raising net proceeds of £103m which were used to fund part of the consideration for the CPW Europe Acquisition. On 25 June 2013 the Group issued 42.1m Consideration Shares to Best Buy. Best Buy agreed to waive rights to dividends payable on these shares for the period in which they were in their ownership. The Consideration Shares were placed by the Group in July 2013 and from this point held the same rights as other ordinary shares.

Notes to the Group financial statements continued**21 RESERVES AND ACCUMULATED PROFITS**

	Share capital £m	Share premium reserve £m	Accumulated profits £m	Translation reserve £m	Demerger reserve £m	Capital redemption reserve £m	Total £m
2014							
At the beginning of the year	1	170	1,238	2	(750)	—	661
Net profit for the year	—	—	48	—	—	—	48
Other comprehensive income (expense)	—	—	2	(11)	—	—	(9)
Issue of shares	—	113	103	—	—	—	216
Net purchase of own shares	—	—	(12)	—	—	—	(12)
Equity dividends	—	—	(30)	—	—	—	(30)
Tax on items recognised directly through reserves	—	—	6	—	—	—	6
At the end of the year	1	283	1,355	(9)	(750)	—	880
2013							
At the beginning of the year	34	170	697	—	(750)	557	708
Net profit for the year	—	—	4	—	—	—	4
Other comprehensive income	—	—	—	2	—	—	2
Redemption of shares	(33)	—	(33)	—	—	33	(33)
Equity dividends	—	—	(23)	—	—	—	(23)
Capital reduction	—	—	590	—	—	(590)	—
Share of other reserve movements of joint ventures	—	—	3	—	—	—	3
At the end of the year	1	170	1,238	2	(750)	—	661

22 EQUITY DIVIDENDS AND OTHER DISTRIBUTIONS

The following dividends and distributions were paid during the year:

	2014 £m	2013 £m
Redemption of 172p per B share through the B/C Share Scheme	—	33
Final dividend for the year ended 31 March 2012 of 3.25p per ordinary share	—	15
Interim dividend for the year ended 31 March 2013 of 1.75p per ordinary share	—	8
Final dividend for the year ended 31 March 2013 of 3.25p per ordinary share	19	—
Interim dividend for the year ended 29 March 2014 of 2.00p per ordinary share	11	—
	30	56

The following distribution is proposed but had not been effected at 29 March 2014:

	£m
Final dividend for the year ended 29 March 2014 of 4.00p per ordinary share	23

The proposed final dividend for the year ended 29 March 2014 is subject to shareholders' approval at the forthcoming annual general meeting and has not been included as a liability in these financial statements.

23 CPW EUROPE ACQUISITION

On 26 June 2013 the Group completed the CPW Europe Acquisition for a gross consideration of £500m, bringing the Group's ownership interest to 100%. CPW Europe is one of the largest independent telecommunications specialists in Europe, operating retail stores, principally under the Carphone Warehouse and Phone House brands, together with well-developed online propositions. CPW Europe is also increasingly focused on leveraging its assets and expertise to provide services to third parties through its Connected World Services business.

The primary reasons for the acquisition were to bring a simplified ownership structure, making day-to-day management easier and the strategic decision-making process more streamlined, and enabling the Group to better leverage CPW Europe's asset base and know-how.

The fair values of the identifiable assets and liabilities of CPW Europe as at the acquisition date were as follows:

	Notes	£m
Intangible assets		120
Property, plant and equipment		72
Deferred tax assets		44
Stock		343
Trade and other receivables	a) i)	1,112
Net cash and cash equivalents		53
Current asset investments		5
Trade and other payables		(836)
Corporation tax liabilities		(48)
Provisions	a) ii)	(63)
Loans and other borrowings		(271)
Finance lease obligations		(3)
Identifiable net assets		528
Goodwill	a) iii)	484
Total consideration		1,012

Satisfied by:

Fair value of existing joint venture investment	b) i)	500
Cash	b) ii)	370
Deferred consideration	b) iii)	50
Equity	b) iv)	113
Derivative asset	b) iv)	(21)
		1,012

Net cash outflow arising on acquisition:

Cash consideration	370
Less net cash and cash equivalents acquired	(53)
	317

a) NET ASSETS ACQUIRED

- i) The fair value of trade and other receivables represents gross contractual amounts receivable of £1,135m, less amounts not considered collectable of £23m.
- ii) Provisions include the recognition of contingent liabilities of £8m in relation to legal claims and other potential exposures. It is expected that any costs associated with these contingent liabilities will be incurred over the next four years.
- iii) The goodwill of £484m arising on the acquisition reflects the fact that CPW Europe's value is based on its cash generating potential rather than its existing assets, and the fact that many of its key strengths, such as its scale and expertise, do not represent intangible assets as defined by IFRS. None of the goodwill is expected to be deductible for income tax purposes.

Notes to the Group financial statements continued**23 CPW EUROPE ACQUISITION** continued**b) CONSIDERATION**

- i) IFRS 3 'Business Combinations' requires that the Group's existing 50% interest in CPW Europe be revalued to its fair value as part of the acquisition accounting process. The fair value of this interest is considered to be equal to the gross consideration of £500m paid by the Group to acquire Best Buy's 50% interest in CPW Europe. As the carrying value of the Group's investment in CPW Europe was £499m at the acquisition date, a gain of £1m was recognised in non-Headline operating expenses in respect of this revaluation.
- ii) Gross cash consideration of £370m was settled on completion, offset by payments from Best Buy of £29m in respect of the prepayment or termination of the Group's other interests with Best Buy.
- iii) The £50m of deferred cash consideration, which bears interest at 2.5% per annum, is payable to Best Buy in two equal instalments of £25m in June 2014 and June 2015.
- iv) A further £80m of consideration was provided through the issue on completion of 42.1m shares to Best Buy, at a price of £1.90 per share. The Group had the right to place the Consideration Shares on Best Buy's behalf during the 12 month period to June 2014, and to retain any upside on disposal. The value of the Consideration Shares on completion was £101m, based on a share price at that date of £2.38, and this value is recorded as consideration, with the value associated with the right to place the Consideration Shares recognised as a derivative financial asset of £21m. The Consideration Shares were placed in July 2013 at an average price of £2.44, resulting in a net cash gain of £23m for the Group. The difference between the disposal proceeds and the value of the derivative financial asset has been recognised as a gain of £2m in non-Headline operating expenses.

As part of the transaction, the Group agreed to satisfy Best Buy's obligations in relation to certain incentive schemes. Shares with a value of £12m were issued in respect of Best Buy's obligations and have been included in consideration.

c) OTHER INFORMATION

The results of CPW Europe have been consolidated into the Group's income statement from 26 June 2013, contributing £2,561m of revenue and a profit before tax of £61m in the period to 29 March 2014. If the acquisition had completed on 1 April 2013, being the first day of the financial year, the Group's revenue would have been £3,402m and the Group's profit before tax would have been £46m.

Transaction-related charges of £18m, comprising banking and professional fees of £7m and cash and non-cash charges relating to incentive schemes of £11m have been included in non-Headline operating expenses.

24 INTERESTS IN JOINT VENTURES AND ASSETS HELD FOR SALE

Interests in joint ventures are as follows:

Business	Principal activities	Country of incorporation	2014 interest	2013 interest
CPW Europe	Retail, distribution, insurance, telecoms services	England and Wales	n/a	50.0%
Virgin Mobile France	MVNO	England and Wales	46.3%	46.3%

The Group acquired Best Buy's 50% interest in CPW Europe on 26 June 2013, following which the Group's joint venture interest in CPW Europe was derecognised and the Group consolidated the results of CPW Europe. Refer to note 23 for further details.

Management of Virgin Mobile France hold share options in the business as explained in note 5b. In addition to share options, management of Virgin Mobile France hold warrants that give them the right to acquire new shares at a price based on the value of existing shareholder funding and an additional amount which increases with the quantity of shares being acquired. The maximum potential dilution to the Group's stake if all existing share options and warrants were exercised is approximately 5.0%, although the value of this dilution would be partially offset by cash inflows in relation to the proceeds on exercise.

On 16 May 2014 the Group announced that it had entered into an exclusivity agreement for the sale of Virgin Mobile France (see note 29). The results of Virgin Mobile France are therefore presented within discontinued operations and the Group's interest in that business is presented as an asset held for sale.

24 INTERESTS IN JOINT VENTURES AND ASSETS HELD FOR SALE continued

a) GROUP BALANCE SHEET INTERESTS

The Group's interests in joint ventures are analysed as follows:

	Net assets (liabilities) £m	Goodwill £m	Loans £m	Total £m
2014				
Opening balance	414	103	20	537
Share of results	(20)	—	—	(20)
Loans repaid (net)	—	—	(2)	(2)
Revaluation of interest in CPW Europe	1	—	—	1
Disposal of interest in CPW Europe	(397)	(103)	—	(500)
Reclassification of Virgin Mobile France to assets held for sale	7	—	(18)	(11)
Foreign exchange	(5)	—	—	(5)
Closing balance	—	—	—	—
CPW Europe	—	—	—	—
Virgin Mobile France	—	—	—	—
Closing balance	—	—	—	—
	Net assets (liabilities) £m	Goodwill £m	Loans £m	Total £m
2013				
Opening balance	409	103	24	536
Share of results	—	—	—	—
Loans repaid (net)	—	—	(4)	(4)
Share of other reserve movements	3	—	—	3
Foreign exchange	2	—	—	2
Closing balance	414	103	20	537
CPW Europe	421	103	—	524
Virgin Mobile France	(7)	—	20	13
Closing balance	414	103	20	537

b) ASSETS HELD FOR SALE

The Group's assets held for sale are analysed as follows:

	2014 £m	2013 £m
Virgin Mobile France		
Share of net liabilities	(7)	—
Loans	18	—
Assets held for sale	11	—

Loans are provided to Virgin Mobile France under a shareholder agreement; funding requirements are agreed between the shareholders on a regular basis and are provided in proportion to each party's shareholding. Virgin Mobile France also has an overdraft facility and a third party three-year financing arrangement to provide funding up to €25m in respect of capital expenditure.

Notes to the Group financial statements continued**24 INTERESTS IN JOINT VENTURES AND ASSETS HELD FOR SALE** continued**c) ANALYSIS OF PROFITS AND LOSSES**

The Group's share of the results of its joint ventures within continuing operations is as follows:

	Period ended 26 June 2013 £m	Restated 2013* £m
CPW Europe		
Headline revenue*	777	3,337
Headline EBIT**	12	129
Net interest expense	(2)	(9)
Taxation on Headline results	(5)	(25)
Headline profit after taxation	5	95
Group share of Headline profit after taxation	3	48
Group share of French operations (in process of closure) (post-tax)	(23)	(45)
Group share of exceptional items (post-tax)	—	(5)
Group share of loss after taxation	(20)	(2)

* Prior year comparatives have been restated to classify the results of the Group's operations in France as non-Headline. Revenue associated with this business prior to the CPW Europe Acquisition was £49m (2013: £357m). Reported revenue on a statutory basis is £826m (2013: £3,694m).

** Headline EBIT includes the unwinding of discounts for the time value of money on network commissions receivable over the life of the customer. This unwind has a value of £3m for the period ended 26 June 2013 (year ended 31 March 2013: £9m) and is treated as interest income in the joint venture's statutory results.

The Group's share of the results of its joint ventures within discontinued operations is analysed as follows:

	2014 £m	2013 £m
Virgin Mobile France		
Revenue*	346	385
Headline EBIT	3	12
Net interest expense	(1)	(1)
Taxation on Headline results	(1)	(4)
Headline profit after taxation	1	7
Group share of Headline profit after taxation	—	3
Group share of amortisation of acquisition intangibles (post-tax)	—	(1)
Group share of profit after taxation	—	2

* Revenue excludes contributions towards subscriber acquisition costs from network operators and customers, as the directors consider that this provides a better representation of underlying performance. These items, which have a value of £48m in the year ended 29 March 2014 (2013: £74m), are netted off against acquisition costs within Headline EBIT. Reported revenue on a statutory basis for the year ended 29 March 2014 is £394m (2013: £459m).

d) ANALYSIS OF ASSETS AND LIABILITIES

The Group's share of the assets and liabilities of CPW Europe is as follows:

	2014 £m	2013 £m
Non-current assets	—	548
Cash and overdrafts (net)	—	124
Other borrowings	—	(3)
Other assets and liabilities (net)	—	172
Net assets	—	841
Group share of net assets	—	421

24 INTERESTS IN JOINT VENTURES AND ASSETS HELD FOR SALE continued**d) ANALYSIS OF ASSETS AND LIABILITIES** continued

The Group's share of the assets and liabilities of Virgin Mobile France is as follows:

	2014 £m	2013 £m
Non-current assets	98	100
Cash and overdrafts (net)	2	2
Loans from the Group	(18)	(20)
Other borrowings	(34)	(22)
Other assets and liabilities (net)	(62)	(75)
Net liabilities	(14)	(15)
Group share of net liabilities	(7)	(7)

There are no material contingent liabilities in relation to Virgin Mobile France, which had no capital commitments at the end of either year.

	2014 £m	2013 £m
Total Group share of net (liabilities) assets of joint ventures	(7)	414

25 FINANCIAL RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS

Financial instruments that are measured at fair value in the financial statements require disclosure of fair value measurements by level based on the following fair value measurement hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The significant inputs required to fair value all of the Group's financial instruments are observable. The Group only holds Level 2 financial instruments. There have also been no transfers of assets or liabilities between levels of the fair value hierarchy.

Fair values have been arrived at by discounting future cash flows, assuming no early redemption, or by revaluing forward currency contracts to year-end market rates as appropriate to the instrument.

The directors consider that the book value of financial assets and liabilities recorded at amortised cost and their fair value are approximately equal.

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

	2014 £m	2013 £m
Cash and cash equivalents	283	117
Trade and other receivables excluding derivative financial assets	1,010	3
Derivative financial assets	2	—
Loans to Virgin Mobile France (see note 24)	18	20
Trade and other payables	(869)	(17)
Finance leases	(1)	—
Deferred consideration	(50)	—
Loans and other borrowings	(290)	—

a) FINANCIAL RISK MANAGEMENT POLICIES

The Group's activities expose it to certain financial risks including market risk (such as foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's 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 consist of bank loans and deposits, spot and forward foreign exchange contracts, foreign exchange swaps and interest rate swaps.

b) FOREIGN EXCHANGE RISK

The Group undertakes certain transactions that are denominated in foreign currencies and as a consequence has exposure to exchange rate fluctuations. These exposures primarily arise from stock purchases, with most of the Group's exposure being to Euro fluctuations. The Group uses spot and forward currency contracts to mitigate these exposures. 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 year. Hedge accounting is not applied to other outstanding currency contracts and gains and losses are therefore recognised directly in profit or loss.

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

Notes to the Group financial statements continued**25 FINANCIAL RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS** continued**b) FOREIGN EXCHANGE RISK** continued

At 29 March 2014, the total notional principal amount of outstanding currency contracts was £68m (2013: £20m). Currency loans and foreign exchange contracts are sensitive to movements in foreign exchange rates. This sensitivity can be analysed in comparison to year-end rates (assuming all other variables remain constant) as follows:

	2014 Income statement movement £m	2013 Income statement movement £m
10% movement in the Sterling/Euro exchange rate	6	—
10% movement in the Sterling/Swedish Krona exchange rate	1	—

c) INTEREST RATE RISK

The Group's interest rate risk arises primarily on cash, cash equivalents and loans and other borrowings, all of which are at floating rates of interest and which therefore 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 rates and 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.

The effect on the income statement and equity of 1% movements in the interest rate for the currencies in which most Group cash, cash equivalents, loans and other borrowings are denominated and on which the valuation of most derivative financial instruments is based is as follows, assuming that the year-end positions prevail throughout the year:

	2014 Income statement movement £m	2013 Income statement movement £m
1% movement in the Sterling interest rate	4	1
1% movement in the Euro interest rate	—	—

d) LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group manages its exposure to liquidity risk by regularly reviewing the long-term and short-term cash flow projections for the business against the resources available to it.

In order to ensure that sufficient funds are available for ongoing and future developments, the Group has committed bank facilities, excluding overdrafts repayable on demand, totalling £650m (2013: nil). In the prior year, CPW Europe had a committed £400m revolving credit facility which was due to expire in July 2015 and which was replaced as part of the CPW Europe Acquisition by the £650m term and revolving credit facility described in note 19.

The table below analyses the Group's financial assets and 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.

2014	<1 year £m	1-2 years £m	2-3 years £m	>3 years £m	Total £m
Finance leases	(1)	—	—	—	(1)
Derivative financial instruments – payable:					
Forward foreign exchange contracts	(68)	—	—	—	(68)
Interest rate swaps	(1)	—	—	—	(1)
Derivative financial instruments – receivable:					
Forward foreign exchange contracts	68	—	—	—	68
Interest rate swaps	—	1	3	—	4
Loans and other borrowings	(8)	(32)	(56)	(215)	(311)
Deferred consideration	(25)	(25)	—	—	(50)
Trade and other payables	(869)	—	—	—	(869)

25 FINANCIAL RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS continued**d) LIQUIDITY RISK** continued

2013	<1 year £m	1–2 years £m	2–3 years £m	>3 years £m	Total £m
Trade and other payables	[17]	—	—	—	[17]

e) CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The Group's exposure to credit risk is regularly monitored and the Group's policy is updated as appropriate.

The large majority of the Group's trade receivables are balances due from MNOs, which 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. The Group's trade receivables also include balances due from equipment manufacturers, dealer customers and Connected World Services customers. Where it is considered appropriate, the Group obtains credit insurance on accounts receivable. Provision is made for any receivables that are considered to be irrecoverable. Details of trade receivables which are past due but not impaired are provided in note 14.

The credit risks on cash and cash equivalents and derivative financial instruments are closely monitored and credit ratings are used in determining maximum counterparty credit risk.

The Group's funding is reliant on its £650m bank facilities, which are provided by nine banks; these institutions are considered to be adequately capitalised to continue to meet their obligations under the facility.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

f) CAPITAL RISK

The Group manages its capital to ensure that entities within the Group will be able to continue as going concerns, whilst maximising the return to shareholders through a suitable mix of debt and equity. The capital structure of the Group consists of cash and cash equivalents, loans and other borrowings and equity attributable to equity holders of the Company, comprising issued capital, reserves and accumulated profits. Except in relation to minimum capital requirements in its insurance business, the Group is not subject to any externally imposed capital requirements. The Group monitors its capital structure on an ongoing basis, including assessing the risks associated with each class of capital.

26 RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions and balances requiring disclosure with its joint ventures (see also note 24):

	CPW Europe 2014 £m	Virgin Mobile France 2014 £m	CPW Europe 2013 £m	Virgin Mobile France 2013 £m
Revenue for services provided	—	1	4	—
Net interest and other finance income	—	1	—	1
Loans owed to the Group	—	18	—	20
Other amounts owed to the Group	—	—	1	—
Other amounts owed by the Group	—	—	[6]	—

Revenue for services provided in the prior year relates to investment property rental income.

Revenue for services provided to Virgin Mobile France in the current year relates to commissions on sales of Virgin Mobile France connections by the Group's wholly owned operations in France.

All transactions entered into with related parties were completed on an arm's length basis.

27 CAPITAL COMMITMENTS

	2014 £m	2013 £m
Expenditure contracted, but not provided for in the financial statements	—	—

Notes to the Group financial statements continued**28 OPERATING LEASES****a) LEASES AS LESSEE**

The Group leases a number of retail units and offices under operating leases. The leases have varying terms, purchase options, escalation clauses and renewal rights.

i) FUTURE MINIMUM LEASE PAYMENTS

At 29 March 2014, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due over the following periods:

	2014 £m	2013 £m
Less than one year	93	—
Between one and five years	249	—
More than five years	130	—
	472	—

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 component.

The total amount of future minimum sub-lease payments expected to be received under non-cancellable sub-leases is £39m (2013: nil).

ii) AMOUNTS RECOGNISED IN PROFIT OR LOSS

	2014 £m	2013 £m
Fixed rent expense	89	—
Sub-lease income	(1)	—
	88	—

b) LEASES AS LESSOR

The Group has investment properties which are let to third parties on long-term leases.

i) FUTURE MINIMUM LEASE RECEIPTS

At 29 March 2014, the Group had non-cancellable operating leases which provided for receipts over the following periods:

	2014 £m	2013 £m
Within one year	2	2
In two to five years	8	8
After five years	12	14
	22	24

ii) AMOUNTS RECOGNISED IN PROFIT OR LOSS

During the year ended 29 March 2014, the Group recorded £2m (2013: £6m) of investment property rental income within revenue.

29 POST BALANCE SHEET EVENTS

On 15 May 2014, the Company announced that it had reached agreement on the terms for an all-share merger with Dixons Retail plc (the "Merger"). Under the terms of the Merger, ordinary shareholders in Dixons Retail plc will for each of their shares in Dixons Retail plc receive 0.155 shares in the Company, which will be renamed Dixons Carphone plc. The Board considers that the Merger will deliver significant value to Carphone shareholders through a combination of enhanced commercial opportunities and operating synergies, which are expected to deliver recurring annual benefits of at least £80m by the 2017–18 financial year. The Merger is expected to be effected by way of a scheme of arrangement and is conditional on the approval of the ordinary shareholders of both the Company and Dixons Retail plc and the sanction of the court.

On 16 May 2014, the Company announced that, alongside the other shareholders in the business, it had entered into an exclusivity agreement in respect of the proposed sale of Virgin Mobile France to Numericable Group for an enterprise value of €325m. During the exclusivity period the parties have carried out the necessary consultations with employee work councils, and the transaction is subject to the approval of the French competition authority.

Five-year record (unaudited)

HEADLINE RESULTS – CONTINUING OPERATIONS

	2014 £m	Restated 2013 £m	Restated 2012 £m	Restated 2011 £m	Restated 2010 £m
Group					
Revenue	2,505	11	6	6	6
Share of results of CPW Europe	3	48	46	43	36
Other	99	4	3	(1)	(2)
Net profit	102	52	49	42	34
Earnings per share					
– Basic	18.4	10.9	10.7	9.3	7.5
– Diluted	18.1	10.8	10.2	8.9	7.4
CPW pro forma results*					
Revenue	3,282	3,348	2,983	3,227	3,269
EBITDA	201	208	208	198	193
EBIT	151	132	128	118	106
Interest	(18)	(7)	(14)	(11)	(18)
Taxation	(30)	(26)	(19)	(22)	(19)
Profit after taxation	103	99	95	85	69

* Results are shown on a pro forma basis, as though CPW Europe had been 100% owned by the Group throughout the current and preceding periods.

The financial results for the periods prior to the Demerger have been prepared on the basis that the structure of the Group at Demerger had been in place for the duration of all periods reported.

Company balance sheet

as at 29 March 2014 and 31 March 2013

	Notes	2014 £m	2013 £m
Fixed assets			
Investments	4	753	741
Current assets			
Cash and cash equivalents		28	137
Debtors: due within one year	5	644	26
		672	163
Creditors: amounts falling due within one year	6	(54)	(22)
Net current assets		618	141
Total assets less current liabilities		1,371	882
Provisions	7	(2)	(6)
Loans payable	8	(290)	—
Net assets		1,079	876
Equity			
Share capital	9	1	1
Share premium reserve	9	283	170
Profit and loss account	9	795	705
Capital redemption reserve	9	—	—
Total capital employed		1,079	876

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

The financial statements of the Company on pages 98 to 103 were approved by the Board on 25 June 2014 and signed on its behalf by:

Andrew Harrison Chief Executive Officer

Nigel Langstaff Chief Financial Officer

Notes to the Company financial statements

1 ACCOUNTING POLICIES

a) BASIS OF PREPARATION

The Company is incorporated in the United Kingdom. The financial statements have been prepared on a going concern basis (see note 1 to the Group financial statements) and in accordance with applicable United Kingdom accounting standards under the historical cost convention, as modified by FRS 26 'Financial Instruments: Measurement'.

The Group's financial statements for the year ended 29 March 2014 contain a consolidated cash flow statement. Consequently, the Company has applied the exemption in FRS 1 'Cash Flow Statements' not to present its own cash flow statement.

The following principal accounting policies have been applied consistently throughout both years.

b) INVESTMENTS

Investments held in subsidiaries and joint ventures 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 where the Company does not have control or significant influence 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.

c) SHARE-BASED PAYMENTS

Equity settled share-based payments are measured at fair value at the date of grant and expensed over the vesting period, based on an 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 EPS targets) and a Monte Carlo model for those with external performance criteria (such as TSR 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 date 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 date is recognised in the profit and loss account, with a corresponding entry in reserves.

If a share-based payment scheme is cancelled, any remaining part of the fair value of the scheme is expensed through the profit and loss account. If a share-based payment scheme is forfeited, no further expense is recognised and any charges previously recognised through the profit and loss account are reversed.

Charges also arise on loans that are provided to employees to fund the purchase of shares in the Group as part of long-term incentive plans, to the extent to which the loans are not, in certain circumstances, repayable; the cost of the relevant part of such loans is expensed over the course of the relevant incentive plans.

d) 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 year in which they are approved by the Company's shareholders. Interim and other dividends are recognised in the year in which they are paid.

e) 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 FRS 26 has been applied in the both years.

f) LOANS AND OTHER BORROWINGS

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 profit and loss account in the period in which they are incurred.

g) PROVISIONS

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

Notes to the Company financial statements continued**2 PROFIT AND LOSS ACCOUNT**

In accordance with the exemption permitted by section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented separately. The profit recognised for the year to 29 March 2014 was £19m (2013: loss of £4m). Information regarding the audit fees for the Group is provided in note 3 to the Group financial statements.

3 EQUITY DIVIDENDS AND OTHER DISTRIBUTIONS

The following dividends and distributions were paid during the year:

	2014 £m	2013 £m
Redemption of 172p per B share through the B/C Share Scheme	—	33
Final dividend for the year ended 31 March 2012 of 3.25p per ordinary share	—	15
Interim dividend for the year ended 31 March 2013 of 1.75p per ordinary share	—	8
Final dividend for the year ended 31 March 2013 of 3.25p per ordinary share	19	—
Interim dividend for the year ended 29 March 2014 of 2.00p per ordinary share	11	—
	30	56

The following distribution is proposed but had not been effected at 29 March 2014:

	£m
Final dividend for the year ended 29 March 2014 of 4.00p per ordinary share	23

The proposed final dividend for the year ended 29 March 2014 is subject to shareholders' approval at the forthcoming annual general meeting and has not been included as a liability in these financial statements.

4 FIXED ASSET INVESTMENTS

	2014 £m	2013 £m
Opening balance	741	750
Additions	12	—
Impairments	—	[9]
Closing balance	753	741
Cost	851	839
Accumulated impairments	(98)	[98]
Net carrying amount	753	741

Fixed asset investments comprise investments in subsidiary undertakings, joint venture investments and other minority investments. Details of the Company's investments in material subsidiary undertakings are provided in note 12 to the Group financial statements.

Additions during the year ended 29 March 2014 primarily reflect the cost of shares issued to satisfy Best Buy's obligations in relation to incentive schemes (see note 23 to the Group financial statements).

In the prior year, CPW Acton One Limited disposed of its investment property in Acton, London, for £40.5m in cash. Following this transaction the net assets of CPW Acton One Limited fell below the value of the Company's investment in that company, resulting in an impairment.

5 DEBTORS: DUE WITHIN ONE YEAR

	2014 £m	2013 £m
Amounts owed by Group undertakings	614	4
Loans to joint ventures	18	20
Deferred tax asset	2	1
Prepayments	5	—
Other debtors	5	1
	644	26

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

Other debtors include loans of £1m to senior employees of the Group in relation to the Carphone Warehouse Share Plan as explained in note 5b to the Group financial statements.

6 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2014 £m	2013 £m
Amounts owed to Group undertakings	21	1
Other creditors	5	1
Accruals and deferred income	28	20
	54	22

7 PROVISIONS

	2014 £m	2013 £m
Opening balance	6	9
Utilised in the year	(4)	—
Released in the year	—	(3)
Closing balance	2	6

8 LOANS PAYABLE

	2014 £m	2013 £m
Loans payable	290	—
	290	—

Details of loans payable are provided in note 19 to the Group financial statements.

Notes to the Company financial statements continued**9 SHARE CAPITAL, RESERVES AND ACCUMULATED PROFITS****a) SHARE CAPITAL**

	2014 million	2013 million	2014 £m	2013 £m
Allotted, called-up and fully paid ordinary shares of 0.1p each	576	473	1	1

	Share capital £m	Share premium reserve £m	Profit and loss account £m	Capital redemption reserve £m	Total £m
2014					
Opening balance	1	170	705	—	876
Net profit for the year	—	—	19	—	19
Other comprehensive income	—	—	2	—	2
Issue of shares	—	113	103	—	216
Equity dividends	—	—	(30)	—	(30)
Net movement in relation to share schemes	—	—	(4)	—	(4)
Closing balance	1	283	795	—	1,079

	Share capital £m	Share premium reserve £m	Profit and loss account £m	Capital redemption reserve £m	Total £m
2013					
Opening balance	34	170	175	557	936
Net loss for the year	—	—	(4)	—	(4)
Redemption of shares	(33)	—	(33)	33	(33)
Equity dividends	—	—	(23)	—	(23)
Capital reduction	—	—	590	(590)	—
Net movement in relation to share schemes	—	—	—	—	—
Closing balance	1	170	705	—	876

Note 20 to the Group financial statements provides further details of the issue of shares.

For details of the Company's equity dividends and other distributions see note 3.

10 FINANCIAL INSTRUMENTS

The Company has applied the exemption under FRS 25 'Financial Instruments: Presentation' not to disclose details of financial instruments held by the Company. Full disclosure of the Group's financial instruments under FRS 29 (IFRS 7) 'Financial Instruments: Disclosures' and IAS 39 'Financial Instruments: Recognition and Measurement' is provided in note 25 to the Group financial statements.

11 POST BALANCE SHEET EVENTS

On 15 May 2014, the Company announced that it had reached agreement on the terms for an all-share merger with Dixons Retail plc (the "Merger"). Under the terms of the Merger, ordinary shareholders in Dixons Retail plc will for each of their shares in Dixons Retail plc receive 0.155 shares in the Company, which will be renamed Dixons Carphone plc. The Board considers that the Merger will deliver significant value to Carphone shareholders through a combination of enhanced commercial opportunities and operating synergies, which are expected to deliver recurring annual benefits of at least £80m by the 2017-18 financial year. The Merger is expected to be effected by way of a scheme of arrangement and is conditional on the approval of the ordinary shareholders of both the Company and Dixons Retail plc and the sanction of the court.

On 16 May 2014, the Company announced that, alongside the other shareholders in the business, it had entered into an exclusivity agreement in respect of the proposed sale of Virgin Mobile France to Numericable Group for an enterprise value of €325m. During the exclusivity period the parties have carried out the necessary consultations with employee work councils, and the transaction is subject to the approval of the French competition authority.

12 RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption under FRS 8 'Related Party Disclosures' not to provide details of related party transactions with other Group companies, as the Company's financial statements are presented together with the consolidated Group financial statements.

During the year, the Company had the following disclosable transactions and balances with its joint ventures:

	2014		2013	
	CPW Europe £m	Virgin Mobile France £m	CPW Europe £m	Virgin Mobile France £m
Net interest and other finance income	—	1	—	1
Loans owed to the Company	—	18	—	20
Other amounts owed to the Company	—	—	—	—
Other amounts owed by the Company	—	—	(6)	—

Shareholder and corporate information

Carphone Warehouse is listed on the main market of the London Stock Exchange (stock symbol: CPW). It became eligible for FTSE UK index series inclusion during December 2013 and is a constituent of the FTSE 250.

REGISTRAR

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You can manage your shareholdings via an electronic communications service called Shareview - www.shareview.co.uk. To register, you will need your shareholder reference number, which can be found on your share certificate, dividend tax voucher or proxy card. Registration is free.

UK CAPITAL GAINS TAX

Please refer to the corporate website for guidance on the apportionment of the tax cost base of Carphone Warehouse shares for UK capital gains tax purposes.

www.cpwplc.com/investor-relations/shareholder-information/capital-gains-tax/.

FINANCIAL CALENDAR 2014

Financial year end	29 March
Preliminary results 2013–14	26 June
Ex-dividend date (final dividend 2013–14)	9 July
Record date (final dividend 2013–14)	11 July
Annual general meeting	23 July
Intended dividend payment date (final dividend 2013–14)	1 August

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Glossary and definitions

The following definitions apply throughout this annual report unless the context otherwise requires:

ACQUISITION INTANGIBLES	Acquired intangible assets such as customer bases, brands and other intangible assets acquired through a business combination capitalised separately from goodwill.	HMRC	Her Majesty's Revenue and Customs.
ARPU	Average revenue per user.	IFRS	International Financial Reporting Standards as adopted by the European Union.
B/C SHARE SCHEME	The scheme used to return the initial proceeds from the Best Buy Mobile Disposal to shareholders.	MERGER	The proposed merger of Dixons Retail plc and Carphone.
BEST BUY	Best Buy Co., Inc. (incorporated in the United States) and its subsidiaries and interests in joint ventures and associates.	MNO	Mobile network operator.
BEST BUY EUROPE	Best Buy Europe Distributions Limited and its subsidiaries and interests in joint ventures and associates (incorporated in England and Wales).	MVNO	Mobile virtual network operator.
BEST BUY JOINT VENTURE TRANSACTION	Old Carphone Warehouse's disposal of a 50% interest in its mobile retail and distribution business (Best Buy Europe), including its economic interests in Best Buy Mobile, in June 2008.	MTR	Mobile termination rates.
BEST BUY MOBILE	Best Buy's retail operations in respect of mobile phones and other connected devices in which Best Buy Europe had a profit share arrangement.	NEW CPW	New CPW Limited (incorporated in England and Wales).
BEST BUY MOBILE DISPOSAL	The disposal of the Group's interest in Best Buy Mobile to Best Buy.	NON-HEADLINE RESULTS	Items which have been excluded from Headline results to avoid distortion of underlying performance. Comprises exceptional items which are considered to be one-off and so material that they require separate disclosure to avoid distortion of underlying performance, the results of businesses which have been discontinued and amortisation of acquisition intangibles.
BEST BUY UK	Best Buy Europe's Best Buy branded Big Box stores and online business.	NPS	Net promoter score, a rating used by the Group to measure customers' likelihood to recommend CPW.
BOARD	The Board of directors of the Company.	OLD CARPHONE WAREHOUSE	TalkTalk Telecom Holdings Limited (formerly "The Carphone Warehouse Group PLC") (incorporated in England and Wales).
CARPHONE OR THE COMPANY	Carphone Warehouse Group Public Limited Company (incorporated in England and Wales under the Act, with registered number 07105905), whose registered office is at 1 Portal Way, London W3 6RS.	OLD CARPHONE WAREHOUSE GROUP	Old Carphone Warehouse and its subsidiaries and interests in joint ventures prior to the Demerger.
CARPHONE GROUP OR GROUP	The Company, its subsidiaries, interests in joint ventures and other investments.	OPERATING FREE CASH FLOW	EBITDA, less capital expenditure and operating cash flows in respect of working capital, used as a measure of operating cash generation.
CGU	Cash generating unit.	PARTICIPATION PLAN	The Carphone Warehouse Group plc Participation Plan 2011.
CIRCULAR	The circular being sent to shareholders in respect of the Merger.	PAT	Profit after taxation.
CONSIDERATION SHARES	The 42.1m ordinary shares in the Company issued to Best Buy on 25 June 2013 at a price of £1.90 per share, in connection with the CPW Europe Acquisition.	PBT	Profit before taxation.
CPW OR CARPHONE WAREHOUSE	The continuing business of the Carphone Group, excluding its interest in Virgin Mobile France.	PRO FORMA	Results aggregating CPW Europe and the Group's wholly owned businesses, as though CPW Europe had been 100% owned by the Group in the relevant period.
CPW EUROPE	Best Buy Europe's core continuing operations.	PROSPECTUS	The prospectus being sent to shareholders in respect of the Merger.
CPW EUROPE ACQUISITION	The Company's acquisition of Best Buy's interest in CPW Europe, which completed on 26 June 2013.	ROCE	Return on capital employed. Net profit as a percentage of capital employed, calculated using Headline earnings and with capital employed defined as average equity and average non-current debt. Averages are calculated based on the opening and closing positions for the relevant year.
DEMERGER	The demerger of Old Carphone Warehouse into the Group and TalkTalk Group, effective on 26 March 2010.	RCF	Revolving credit facility.
EARNINGS	Profit or loss after taxation, unless the context otherwise requires.	TALKTALK OR TALKTALK GROUP	TalkTalk Telecom Group PLC and its subsidiaries and other investments.
EBIT	Earnings before investment income, interest and taxation.	TSR	Total shareholder return.
EBITDA	Earnings before investment income, interest, taxation, depreciation and amortisation.	UK GAAP	United Kingdom Accounting Standards and applicable law.
EPS	Earnings per share (basic unless otherwise indicated).	VES	Value enhancement scheme.
ESOT	Employee share ownership trust.	VIRGIN MOBILE FRANCE	Omer Telecom Limited (incorporated in England and Wales) and its subsidiaries, operating an MVNO in France as a joint venture between the Company, Bluebottle UK Limited and Financom S.A.S.
HEADLINE RESULTS	Results before non-Headline results. The phrases "Headline earnings", "Headline EBIT", "Headline EBITDA" and "Headline EPS" should be interpreted in the same way. The Headline results of the Group's joint ventures also include certain reclassifications, as detailed in note 24 to the Group financial statements, to aid understanding of underlying performance.		



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