**This document comprises a prospectus relating to the New Dixons Carphone Shares and has been prepared in accordance with the Prospectus Rules made under section 73A of the Financial Services and Markets Act 2000 (as amended) (the ''FSMA'') and has been approved by the Financial Conduct Authority (the ''FCA'') under the FSMA. This document has been made available to the public in accordance with Prospectus Rule 3.2.**

Carphone, the Carphone Directors and the Proposed Directors whose names appear on page 43 of this document accept responsibility for the information contained in this document. To the best of the knowledge of Carphone, the Carphone Directors and the Proposed Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

**Investors should read the whole of this document carefully. In particular, investors should take account of the section entitled Risk Factors on pages 21 to 36 of this document for a discussion of the risks which might affect the value of an investment in Carphone, the Combined Group, the Carphone Shares and the New Dixons Carphone Shares.**

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# Carphone Warehouse Group plc

**(proposed to be renamed Dixons Carphone plc)**

*(Incorporated in England and Wales under the Companies Act 2006 with registered number 07105905)*

## Proposed issue of up to 576,067,769 new ordinary shares in connection with the proposed recommended all-share merger of Carphone Warehouse Group plc and Dixons Retail plc to be implemented by way of a scheme of arrangement of Dixons Retail plc under Part 26 of the Companies Act 2006

## and

## Application for admission of up to 576,067,769 new ordinary shares to the premium listing segment of the Official List and to trading on the main market for listed securities of the London Stock Exchange

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The Existing Carphone Shares are currently listed on the premium listing segment of the Official List and traded on the London Stock Exchange's main market for listed securities. Applications will be made to the FCA for the New Dixons Carphone Shares to be issued pursuant to the Merger to be admitted to the premium listing segment of the Official List and to the London Stock Exchange for the New Dixons Carphone Shares to be admitted to trading on its main market for listed securities. It is expected that Admission will become effective and that dealings in the New Dixons Carphone Shares will commence at 8.00 a.m. on the business day following the Effective Date which, subject to the satisfaction or waiver (if capable of waiver) of certain Conditions, including the sanction of the Scheme by the Court, is expected to occur on 6 August 2014. The New Dixons Carphone Shares will, when issued, rank *pari passu* in all respects with the Existing Carphone Shares. No application has been made for the New Dixons Carphone Shares to be admitted to listing or dealt with on any other exchange.

Investors should only rely on the information contained in this document. No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representation must not be relied upon as having been so authorised by Carphone, the Carphone Directors, the Proposed Directors or the Joint Sponsors. No representation or warranty, express or implied, is made by the Joint Sponsors as to the accuracy or completeness of such information, and nothing contained in this document is, or shall be relied upon as, a promise or representation by the Joint Sponsors as to the past, present or future. In particular, the contents of Carphone's and Dixons' websites do not form part of this document and investors should not rely on them. Without prejudice to any legal or regulatory obligation on Carphone to publish a supplementary prospectus pursuant to section 87G of the FSMA and Prospectus Rule 3.4, neither the delivery of this document nor Admission shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Combined Group taken as a whole since the date of this document or that the information in it is correct as of any time after the date of this document.

Persons who come into possession of this document should inform themselves about and observe any applicable restrictions and legal, exchange control or regulatory requirements in relation to the distribution of this document and the Merger. Any failure to comply with such restrictions or requirements may constitute a violation of the securities laws of any such jurisdiction. The contents of this document should not be construed as legal, business or tax advice.

Deutsche Bank AG is authorised under German Banking Law (competent authority: BaFIN – Federal Financial Supervisory Authority). Deutsche Bank AG, London Branch is further authorised in the United Kingdom by the Prudential Regulation Authority and is subject to limited regulation by the FCA and the Prudential Regulation Authority. Deutsche Bank is acting as lead financial adviser and joint sponsor for Carphone and no-one else in connection with the Merger and Admission and will not regard any other person (whether or not a recipient of this document) as its client in relation to the Merger and Admission and will not be responsible to anyone other than Carphone for providing the protections afforded to its clients nor for the giving of advice in relation to the Merger or Admission or any other matter or arrangement referred to in this document. Apart from the responsibilities and liabilities, if any, which may be imposed on Deutsche Bank by the FSMA or the regulatory regime established thereunder, Deutsche Bank accepts no responsibility whatsoever for the contents of this document, including its accuracy, completeness or for any other statement made or purported to be made by it, or on its behalf, in connection with Carphone, the New Dixons Carphone Shares or the Merger. Deutsche Bank, its subsidiaries, branches and affiliates accordingly disclaim all and any duty, liability and responsibility whether arising in tort, contract or otherwise (save as referred to above) in respect of this document or any such statement or otherwise. Nothing in this document excludes, or attempts to exclude, Deutsche Bank's liability for fraud or fraudulent misrepresentation.

UBS Limited, which is authorised in the United Kingdom by the Prudential Regulation Authority and regulated by the FCA and the Prudential Regulation Authority, is acting as joint financial adviser and joint sponsor for Carphone and no-one else in connection with the Merger and Admission and will not regard any other person (whether or not a recipient of this document) as its client in relation to the Merger and Admission and will not be responsible to anyone other than Carphone for providing the protections afforded to its clients nor for the giving of advice in relation to the Merger or Admission or any other matter or arrangement referred to in this document. Apart from the responsibilities and liabilities, if any, which may be imposed on UBS by the FSMA or the regulatory regime established thereunder, UBS accepts no responsibility whatsoever for the contents of this document, including its accuracy, completeness or for any other statement made or purported to be made by it, or on its behalf, in connection with Carphone, the New Dixons Carphone Shares or the Merger. UBS, its subsidiaries, branches and affiliates accordingly disclaim all and any duty, liability and responsibility whether arising in tort, contract or otherwise (save as referred to above) in respect of this document or any such statement or otherwise. Nothing in this document excludes or attempts to exclude, UBS's liability for fraud or fraudulent misrepresentation.

**Notice to overseas shareholders**

***General***

The release, publication or distribution of this document in certain jurisdictions may be restricted by law. Persons who are not resident in the United Kingdom or who are subject to other jurisdictions should inform themselves of, and should observe, any applicable requirements. Any failure to comply with these requirements may constitute a violation of the securities laws of any such jurisdiction. To the fullest extent permitted by applicable law, the companies and persons involved in the Merger disclaim any responsibility or liability for the violation of such requirements by any person.

Unless otherwise determined by Carphone or required by the Code, and permitted by applicable law and regulation, the Merger will not be made, directly or indirectly, in, into or from a jurisdiction where to do so would violate the laws in that jurisdiction and no person may vote in favour of the Merger by any such use, means, instrumentality or form within any jurisdiction if to do so would constitute a violation of the laws of that jurisdiction. Accordingly, copies of this document and all documents relating to the Merger are not being, and must not be, directly or indirectly, mailed or otherwise forwarded, distributed or sent in, into or from a jurisdiction where to do so would violate the laws in that jurisdiction, and persons receiving this document and all documents relating to the Merger (including custodians, nominees and trustees) must not mail or otherwise distribute or send them in, into or from such jurisdictions where to do so would violate the laws in that jurisdiction.

The availability of the New Dixons Carphone Shares to Dixons Shareholders who are not resident in the United Kingdom may be affected by the laws of the relevant jurisdictions in which they are located. Persons who are not resident in the United Kingdom should inform themselves of, and observe, any applicable requirements.

***Notice to Dixons Shareholders in the US***

The Merger relates to the shares of a UK company and is to be made by means of a scheme of arrangement provided for under the laws of England and Wales. A transaction effected by means of a scheme of arrangement is not subject to the proxy solicitation or tender offer rules under the US Exchange Act. Accordingly, the Merger is subject to the disclosure requirements, rules and practices applicable in the UK to schemes of arrangement which differ from the requirements of US proxy solicitation or tender offer rules. However, if Carphone exercises its right to implement the Merger by means of a Merger Offer, such Merger Offer will be made in compliance with all applicable laws and regulations, including section 14(e) of the US Exchange Act and Regulation 14E thereunder. Such a Merger Offer would be made in the United States by Carphone and no one else. In addition to any such Merger Offer, Carphone, certain affiliated companies and the nominees or brokers (acting as agents) may make certain purchases of, or arrangements to purchase, Dixons Shares outside such Merger Offer during the period in which such Merger Offer would remain open for acceptance. If such purchases or arrangements to purchase were to be made they would be made outside of the United States and would comply with applicable law, including the US Exchange Act. Any information about such purchases will be disclosed as required in the UK, will be reported to a Regulatory Information Service and will be available on the London Stock Exchange website www.londonstockexchange.com.

The financial information included in this document relating to Dixons has been prepared in accordance with IFRS and therefore may not be comparable to the financial information of US companies or companies whose financial statements are prepared in accordance with US generally accepted accounting principles (**"US GAAP"**). US GAAP differs in certain significant respects from IFRS. None of the financial information in this document has been audited in accordance with auditing standards generally accepted in the United States or the auditing standards of the Public Company Accounting Oversight Board (United States).

The New Dixons Carphone Shares have not been, and will not be, registered under the US Securities Act or under the securities laws of any state or other jurisdiction of the United States. Accordingly, the New Dixons Carphone Shares may not be offered, sold, resold, delivered, distributed or otherwise transferred, directly or indirectly, in or into or from the United States absent registration under the US Securities Act or an exemption therefrom. The New Dixons Carphone Shares are expected to be issued in reliance upon the exemption from the registration requirements of the US Securities Act provided by section 3(a)(10) thereof. Dixons Shareholders who are or will be affiliates of Dixons or Carphone prior to, or Dixons Carphone after, the Effective Date will be subject to certain US transfer restrictions relating to the New Dixons Carphone Shares received pursuant to the Scheme. For a description of these and certain other restrictions on offers, sales and transfers of the New Dixons Carphone Shares and the distribution of this document, see paragraph 19 of Part I of this document.

**None of the securities referred to in this document have been approved or disapproved by the SEC, any state securities commission in the United States or any other US regulatory authority, nor have such authorities passed upon or determined the adequacy or accuracy of the information contained in this document. Any representation to the contrary is a criminal offence in the United States.**

## Table of Contents

# SUMMARY

*Summaries are made up of disclosure requirements known as "Elements". These Elements are numbered in Sections A – E (A.1 – E.7).*

*This summary contains all the Elements required to be included in a summary for this type of security and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.*

*Even though an Element may be required to be inserted in the summary because of the type of security and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of the words "not applicable".*

**Section A – Introduction and warnings**

| Element | | |
|---|---|---|
| **A.1** | **Warning to investors** | This summary should be read as an introduction to this document.<br>Any decision to invest in the New Dixons Carphone Shares should be based on consideration of this document as a whole by the investor.<br>Where a claim relating to the information contained in this document is brought before a court, the plaintiff investor might, under the national legislation of the EEA States, have to bear the costs of translating the prospectus before the legal proceedings are initiated.<br>Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this document or it does not provide, when read together with the other parts of this document, key information in order to aid investors when considering whether to invest in the New Dixons Carphone Shares. |
| **A.2** | **Subsequent resale or final placement of securities by financial intermediaries** | Not applicable: The Company is not engaging any financial intermediaries for subsequent resale or final placement of the New Dixons Carphone Shares after publication of this document. |

**Section B – Issuer**

| Element | | |
|---|---|---|
| **B.1** | **Legal and commercial name** | The Company's legal name is Carphone Warehouse Group Public Limited Company. |
| **B.2** | **Domicile / legal form / legislation / country of incorporation** | The Company is domiciled in England and Wales. The Company was incorporated and registered in England and Wales on 15 December 2009 with registered number 07105905 as a public company limited by shares. The principal legislation under which the Company operates is the Act and regulations made thereunder. |
| **B.3** | **Current operations and principal activities and markets** | CPW is one of the largest, independent, multi-channel telecommunications retailers in Europe, operating in seven European countries (Germany, Ireland, the Netherlands, Portugal, Spain, Sweden and the UK) principally under the Carphone Warehouse and Phone House brands. CPW specialises in mobile handsets, tablets and other connected devices, combining hardware with connections to service providers to create subsidised propositions. The business has highly-trained consultants who provide specialist and independent advice in areas of product and service complexity, and offers ongoing customer support beyond the point of sale, including a comprehensive range of insurance and technical support services. |

| | | |
|---|---|---|
| | | Its Connected World Services division 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 solutions. |
| **B.4a** | **Significant recent trends affecting the Combined Group and its industry** | ***Carphone***<br>CPW has benefited from the rapid development of smartphones, tablets and other connected devices, which use mobile and other networks to connect to the internet. Increasing choice, and product and service complexity, is supported well by CPW's proposition of expert, impartial advice. Product innovation is expected to continue. CPW is also affected by the performance of MNOs, from whom significant revenues are derived. Regulatory intervention, weakened consumer spending and competition have combined to put downward pressure on ARPUs in recent years. However, MNOs in CPW's markets are investing to develop 4G infrastructure, which facilitates much faster downloads, and to date has encouraged a significant increase in data usage, providing opportunities for MNOs to increase customer ARPU.<br>A large majority of customers research online before making a purchase. However, unlike many multi-channel retailers, where online sales have become a significant portion of sales, mobile online sales continue to represent between 10 per cent. and 15 per cent. of total retail sales for CPW.<br>***Dixons***<br>Dixons has benefited from the innovation of consumer electronics such as televisions, personal computers, tablets, domestic appliances, photographic equipment and communications products. Product pricing is influenced by competition from other retailers (including the internet), consumer demand, as well as by the cost of products and distribution. The primary significant trend affecting many retailers is online consumer behaviour. The internet delivers enhanced product information and facilitates price comparability for consumers. Whilst this has created new challenges for Dixons, it also provides a significant opportunity to develop a true multi-channel proposition.<br>Suppliers recognise the value of having the features and benefits of their products explained and demonstrated to customers. This is a service for which they increasingly reward retailers, particularly those with a multi-channel offering. |
| **B.5** | **Description of the Combined Group** | The Company is currently the ultimate holding company of the Carphone Group. If the Scheme becomes Effective, the Company will become the ultimate holding company of the Combined Group. |
| **B.6** | **Major shareholders** | As at 25 June 2014 (being the latest practicable date prior to the publication of this document), insofar as it is known to the Company, the following persons are interested directly or indirectly in 3 per cent. or more of the voting rights in respect of the issued ordinary share capital of the Company: |

| Name | Number of Carphone Shares | Percentage of issued Carphone Shares |
|---|---|---|
| Sir Charles Dunstone | 135,083,481 | 23.45 |
| David 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 |

None of the Company's major shareholders has different voting rights attached to the shares they hold in the Company.

As at 25 June 2014 (being the latest practicable date prior to the publication of this document), the Company was not aware of any person or persons who, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.

**B.7** **Selected historical key financial information**

**FINANCIAL INFORMATION ON THE CARPHONE GROUP**

**Summarised Consolidated Income Statement**

| | | Restated[1] | As disclosed | As disclosed |
|---|---|---|---|---|
| | Financial year ended 29 March 2014 £million | Financial year ended 31 March 2013 £million | Financial year ended 31 March 2013 £million | Financial year ended 31 March 2012 £million |
| Headline results | | | | |
| Continuing operations | | | | |
| Revenue | 2,505 | 11 | 11 | 6 |
| Cost of sales | (1,864) | — | — | — |
| Gross margin | 641 | 11 | 11 | 6 |
| Operating expenses | (508) | (8) | (8) | (5) |
| Share of results of joint ventures | | | | |
| – Carphone Europe Group | 3 | 48 | 51 | 48 |
| – Virgin Mobile France | — | — | 3 | 6 |
| EBIT | 136 | 51 | 57 | 55 |
| Net interest (expense) income and investment income | (9) | 2 | 2 | 3 |
| Taxation | (25) | (1) | (1) | (1) |
| Profit from continuing operations | 102 | 52 | 58 | 57 |
| Profit from discontinued operations | — | 3 | — | — |
| Net profit for the year | 102 | 55 | 58 | 57 |
| Statutory results | | | | |
| Headline profit for the year | 102 | 55 | 58 | 57 |
| Non-headline items | (54) | (51) | (54) | 705 |
| Profit after taxation | 48 | 4 | 4 | 762 |

1 The income statement for the financial year ended 31 March 2013 has been restated to exclude the results of the French operations of the Carphone Europe Group from Headline earnings and to classify the results of Virgin Mobile France as discontinued operations in order to provide visibility of the performance of the continuing business.

**Summarised Consolidated Balance Sheet**

| | 29 March 2014 £million | 31 March 2013 £million | 31 March 2012 £million |
|---|---|---|---|
| Non-current assets | 952 | 565 | 603 |
| Current assets | 1,355 | 120 | 124 |
| Total assets | 2,307 | 685 | 727 |
| Total liabilities | (1,427) | (24) | (19) |
| Net assets | 880 | 661 | 708 |
| Total equity | 880 | 661 | 708 |

**Summarised Consolidated Cash Flow Statement**

| | Financial year ended 29 March 2014 £million | Financial year ended 31 March 2013 £million | Financial year ended 31 March 2012 £million |
|---|---|---|---|
| Operating cash flows | 442 | 24 | (12) |
| Cash flows from investing activities | (358) | 46 | 825 |
| Cash flows from financing activities | 82 | (56) | (831) |
| Net increase (decrease) in cash and cash equivalents | 166 | 14 | (18) |
| Cash and cash equivalents at the start of the year | 117 | 103 | 121 |
| Cash and cash equivalents at the end of the year | 283 | 117 | 103 |

The following significant changes to the financial condition and operating results of the Carphone Group occurred during these periods:

- In the year ended 31 March 2012, the Carphone Group disposed of its interest in Best Buy Mobile, for an initial consideration of £813 million, as a result of which the Group's rights to the profit share from Best Buy Mobile ceased from October 2011. Distributions of £813 million to Shareholders in relation to the Best Buy Mobile Disposal were made in February and April 2012.
- In the year ended 29 March 2014, the Carphone Group completed the Best Buy Acquisition for gross consideration of £500 million, as a result of which the Carphone Group now owns 100 per cent. of the Carphone Europe Group and has consolidated the results of this business from 26 June 2013.

There has been no significant change in the financial condition or operating results of the Carphone Group since 29 March 2014, being the end of the period for which the Carphone Group's last audited consolidated accounts were published.

## FINANCIAL INFORMATION ON THE DIXONS GROUP

### Summarised Consolidated Income Statement

| | Financial Year 2013/14 | | |
|---|---|---|---|
| | Underlying £million | Non-underlying £million | Total £million |
| **Continuing operations** | | | |
| **Revenue** | 7,217.6 | 0.1 | 7,217.7 |
| **Operating profit** | 202.8 | (13.5) | 189.3 |
| Net Finance costs | (36.6) | (19.8) | (56.4) |
| **Profit before tax** | 166.2 | (33.3) | 132.9 |
| Income tax (expense) / credit | (50.5) | 5.4 | (45.1) |
| **Profit / (loss) after tax – continuing operations** | 115.7 | (27.9) | 87.8 |
| Loss after tax – discontinued operations | — | (158.1) | (158.1) |
| **Profit / (loss) after tax for the period** | 115.7 | (186.0) | (70.3) |

| | Financial Year 2012/13 As originally presented | | | Financial Year 2012/13 (Re-presented) | | |
|---|---|---|---|---|---|---|
| | Underlying £million | Underlying £million | Non-underlying £million | Total £million | Non-underlying £million | Total £million |
| **Continuing operations** | | | | | | |
| **Revenue** | 8,213.9 | 225.4 | 8,439.3 | 7,026.6 | 82.6 | 7,109.2 |
| **Operating (loss) / profit** | 136.0 | (186.9) | (50.9) | 186.4 | (35.8) | 150.6 |
| Loss on sale of business | — | (9.6) | (9.6) | — | (9.6) | (9.6) |
| Net Finance costs | (41.5) | (13.3) | (54.8) | (35.4) | (19.0) | (54.4) |
| **Profit / (loss) before tax** | 94.5 | (209.8) | (115.3) | 151.0 | (64.4) | 86.6 |
| Income tax (expense) / credit | (49.2) | (3.6) | (52.8) | (54.0) | 10.3 | (43.7) |
| **Profit / (loss) after tax – continuing operations** | 45.3 | (213.4) | (168.1) | 97.0 | (54.1) | 42.9 |
| Loss after tax – discontinued operations | — | — | — | — | (215.3) | (215.3) |
| **(Loss) / profit after tax for the period** | 45.3 | (213.4) | (168.1) | 97.0 | (269.4) | (172.4) |

| | Financial Year 2011/12 As originally presented | | | Financial Year 2011/12 (Re-presented) | | |
|---|---|---|---|---|---|---|
| | Underlying £million | Underlying £million | Non-underlying £million | Total £million | Non-underlying £million | Total £million |
| **Continuing operations** | | | | | | |
| **Revenue** | 8,186.7 | 6.5 | 8,193.2 | 6,521.4 | 109.4 | 6,630.8 |
| Profit / (loss) from operations before associates | 114.5 | (184.0) | (69.5) | 157.5 | (16.2) | 141.3 |
| Share of post tax results of associates | 0.6 | — | 0.6 | 0.6 | — | 0.6 |
| **Operating (loss) / profit** | 115.1 | (184.0) | (68.9) | 158.1 | (16.2) | 141.9 |
| Loss on sale of business | — | — | — | — | — | — |
| Net Finance costs | (44.3) | (5.6) | (49.9) | (33.4) | (11.3) | (44.7) |
| **Profit / (loss) before tax** | 70.8 | (189.6) | (118.8) | 124.7 | (27.5) | 97.2 |
| Income tax (expense) / credit | (36.4) | (7.7) | (44.1) | (45.1) | (9.5) | (54.6) |
| **Profit / (loss) after tax – continuing operations** | 34.4 | (197.3) | (162.9) | 79.6 | (37.0) | 42.6 |
| Loss after tax – discontinued operations | — | — | — | — | (205.5) | (205.5) |
| **(Loss) / profit after tax for the period** | 34.4 | (197.3) | (162.9) | 79.6 | (242.5) | (162.9) |

## Summarised Consolidated Balance Sheet

| | 30 April 2014 £million | 30 April 2013 £million | 28 April 2012 £million |
|---|---|---|---|
| Non-current assets | 1,124.1 | 1,376.6 | 1,501.5 |
| Current assets | 1,360.2 | 1,613.0 | 1,544.9 |
| Assets held for sale | 30.8 | 15.1 | — |
| Total assets | 2,515.1 | 3,004.7 | 3,046.4 |
| Total liabilities | (2,501.7) | (2,857.4) | (2,642.4) |
| Net assets | 13.4 | 147.3 | 404.0 |
| Total equity | 13.4 | 147.3 | 404.0 |

**Summarised Consolidated Cash Flow Statement**

| | Financial Year 2013/14 £million | Financial Year 2012/13 As originally presented £million | Financial Year 2011/12 As originally presented £million |
|---|---|---|---|
| Net cash inflow / (outflow) from operating activities | 298.0 | 333.4 | 188.5 |
| Net cash inflow / (outflow) from investing activities | (74.4) | (74.8) | (16.8) |
| Net cash inflow / (outflow) from financing activities | (36.5) | (180.4) | (187.1) |
| **Increase / (decrease) in cash and cash equivalents** | | | |
| Continuing operations | 187.1 | 78.2 | (15.4) |
| Discontinued operations | (163.9) | (0.9) | (1.5) |
| | 23.2 | 77.3 | (16.9) |
| Cash and cash equivalents at beginning of period | 387.6 | 301.0 | 329.1 |
| Currency translation differences | (0.8) | 9.3 | (11.2) |
| **Cash and cash equivalents at end of period** | 410.0 | 387.6 | 301.0 |
| **Free Cash Flow** | 200.5 | 153.4 | 130.3 |

| | Financial Year 2013/14 £million | Financial Year 2012/13 Re-presented £million | Financial Year 2011/12 Re-presented £million |
|---|---|---|---|
| Net cash inflow / (outflow) from operating activities | 298.0 | 367.0 | 206.0 |
| Net cash inflow / (outflow) from investing activities | (74.4) | (50.2) | 3.7 |
| Net cash inflow / (outflow) from financing activities | (36.5) | (181.8) | (184.8) |
| **Increase / (decrease) in cash and cash equivalents** | | | |
| Continuing operations | 187.1 | 135.0 | 24.9 |
| Discontinued operations | (163.9) | (57.7) | (41.8) |
| | 23.2 | 77.3 | (16.9) |
| Cash and cash equivalents at beginning of period | 387.6 | 301.0 | 329.1 |
| Currency translation differences | (0.8) | 9.3 | (11.2) |
| **Cash and cash equivalents at end of period** | 410.0 | 387.6 | 301.0 |
| **Free Cash Flow** | 200.5 | 207.8 | 171.1 |

| | | |
|---|---|---|
| | | The following significant changes to the financial condition and operating results of the Dixons Group occurred during and subsequent to these periods:<br>● PC City Spain was closed in June 2011 although small residual activity remains in the form of the unexpired customer support agreement contracts sold in the period prior to closure with income comprising the unwinding of residual deferred income and related costs.<br>● On 20 September 2012, the Dixons Group repurchased £49.4 million in nominal amount of its 8.75 per cent. Guaranteed Notes 2015. This repurchase was funded by part of a new issue of £150 million 8.75 per cent. Guaranteed Notes 2017 and for which the proceeds were received on 19 September 2012.<br>● On 28 March 2013, the Dixons Group completed the disposal of its Equanet B2B operations to Kelway (UK) Limited for consideration of £4.2 million.<br>● On 5 September 2013, the Dixons Group announced the sale of its Electroworld Turkey operations to Bimeks, one of the leading electrical retailer specialists in Turkey. The sale was completed on 31 October 2013.<br>● On 10 October 2013, the Dixons Group announced the sale of its Unieuro operations ("**Unieuro**"), which completed on 29 November 2013. The Dixons Group together with the shareholders of SGM Distribuzione s.r.l. ("**SGM**") (which trades as Marco Polo in Italy ("**Marco Polo**")) formed a new entity, Italian Electronics Holdings s.r.l. ("**IEH**") that now indirectly owns both Unieuro and Marco Polo. Rhône Capital was the controlling shareholder of Marco Polo and is now the controlling shareholder of IEH. Under the terms of the agreement, the Dixons Group left Unieuro with €25 million of cash and has invested €7.5 million in the form of a loan note. The Dixons Group now owns a 15 per cent. share in IEH with the shareholders of SGM holding the remaining 85 per cent.<br>● On 27 September 2013, the Dixons Group announced the sale of its PIXmania operations to mutares A.G. ("**mutares**"), a German listed industrial holding company, which completed on 31 December 2013. As part of its purchase, mutares has developed a robust plan to build on PIXmania's pure play e-commerce operations as well as further develop its market leading software platform. In order to support this plan, and to provide ongoing funding for PIXmania, the Dixons Group provided £59 million (€69 million) of ring-fenced capital.<br>● On 19 May 2014, the Dixons Group announced that it had entered into an agreement to dispose of its Electroworld businesses in the Czech Republic and Slovakia.<br>There has been no significant change in the financial condition or operating results of the Dixons Group since 30 April 2014, being the end of the period for which the Dixons Group's last audited consolidated accounts were published. |
| **B.8** | **Selected key *pro forma* financial information** | The unaudited consolidated *pro forma* income statement and statement of net assets of the Combined Group have been prepared in a manner consistent with the audited accounting policies adopted by the Carphone Group in preparing the historical consolidated financial information for the financial year ended 29 March 2014, on the basis set out in the notes to the *pro forma* income statement and statement of net assets and in accordance with Annex II to the Prospectus Directive Regulation. |

The unaudited consolidated *pro forma* income statement of the Combined Group has been prepared based on the consolidated income statement of the Carphone Group for the year ended 29 March 2014 and the consolidated income statement of the Dixons Group for the year ended 30 April 2014 to illustrate the effect on the income statement of the Carphone Group of the Merger as if it had taken place as at 1 April 2013. The unaudited *pro forma* statement of net assets of the Combined Group has been prepared based on the consolidated balance sheet of the Carphone Group as at 29 March 2014 and the consolidated balance sheet of the Dixons Group as at 30 April 2014 to illustrate the effect on the balance sheet of the Carphone Group of the Merger as if it had taken place as at 29 March 2014.

The unaudited consolidated *pro forma* income statement and statement of net assets have been prepared for illustrative purposes only and, by their nature, address a hypothetical situation and, therefore, do not represent the Carphone Group's or the Combined Group's actual financial position or results.

## UNAUDITED PRO FORMA INCOME STATEMENT

| | | Adjustments | | |
|---|---|---|---|---|
| | Carphone Group income statement for the financial year ended 29 March 2014[1] £million | Dixons Group income statement for the financial year ended 30 April 2014[2] £million | Transaction adjust-ments[3] £million | Pro forma income statement of the Combined Group £million |
| **Continuing operations** | | | | |
| Revenue | 2,576 | 7,218 | | 9,794 |
| Profit from operations before share of results of joint ventures | 96 | 189 | (33) | 252 |
| Share of results of joint ventures | (20) | — | | (20) |
| Profit before interest and taxation | 76 | 189 | (33) | 232 |
| Interest income | 8 | 3 | | 11 |
| Interest expense | (17) | (59) | | (76) |
| Profit before taxation | 67 | 133 | (33) | 167 |
| Taxation | (19) | (45) | | (64) |
| Profit from continuing operations | 48 | 88 | (33) | 103 |
| Loss from discontinued operations | — | (158) | | (158) |
| Net profit (loss) for the year | 48 | (70) | (33) | (55) |

Notes:

1. The consolidated income statement of the Carphone Group has been extracted without material adjustment from the audited financial information of the Carphone Group for the financial year ended 29 March 2014.
2. The consolidated income statement of the Dixons Group has been extracted without material adjustment from the audited financial information of the Dixons Group for the financial year ended 30 April 2014.
3. Transaction costs of approximately £23 million and costs of approximately £10 million associated with employee incentive schemes of the Dixons Group are expected to be incurred as a result of the Merger and have been recognised as an operating expense in this unaudited consolidated *pro forma* income statement. These costs will not have a continuing impact on the Combined Group.
4. As detailed in note 3a to the unaudited consolidated *pro forma* statement of net assets below, fair value adjustments to the acquired assets and liabilities of the Dixons Group have not yet been determined as the fair value measurement of these items will be performed subsequent to the Merger. Such fair value adjustments may be material, and may have a continuing impact on the results of the Combined Group in years subsequent to the Merger.
5. No adjustment has been made to the unaudited *pro forma* income statement to reflect any changes in finance or tax charges which may arise as a result of the Merger in years subsequent to the Merger.

## UNAUDITED PRO FORMA STATEMENT OF NET ASSETS

| | Carphone Group net assets at 29 March 2014(1) £million | Dixons Group net assets at 30 April 2014(2) £million | Adjustments: Transaction adjust-ments(3) £million | Pro forma net assets of the Combined Group £million |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Goodwill | 481 | 607 | 1,793 | 2,881 |
| Intangible assets | 136 | 51 | | 187 |
| Property, plant and equipment | 90 | 331 | | 421 |
| Trade and other receivables | 191 | 14 | | 205 |
| Interests in joint ventures and associates | — | 1 | | 1 |
| Deferred tax assets | 54 | 121 | | 175 |
| | **952** | **1,125** | **1,793** | **3,870** |
| **Current assets** | | | | |
| Stock | 240 | 684 | | 924 |
| Trade and other receivables | 821 | 267 | | 1,088 |
| Corporation tax receivable | — | 6 | | 6 |
| Short-term investments | — | 1 | | 1 |
| Cash and cash equivalents | 283 | 401 | (55) | 629 |
| Assets held for sale | 11 | 31 | | 42 |
| | **1,355** | **1,390** | **(55)** | **2,690** |
| **Total assets** | **2,307** | **2,515** | **1,738** | **6,560** |
| **Current liabilities** | | | | |
| Trade and other payables | (869) | (1,382) | 15 | (2,236) |
| Deferred consideration | (25) | — | | (25) |
| Provisions | (50) | (24) | (11) | (85) |
| Corporation tax liabilities | (36) | (52) | | (88) |
| Finance lease obligations | (1) | (2) | | (3) |
| Liabilities associated with assets held for sale | — | (31) | | (31) |
| | **(981)** | **(1,491)** | 4 | **(2,468)** |
| **Non-current liabilities** | | | | |
| Trade and other payables | (113) | (239) | 13 | (339) |
| Deferred consideration | (25) | — | | (25) |
| Deferred tax liabilities | (18) | (15) | | (33) |
| Provisions | — | (16) | (13) | (29) |
| Loans and other borrowings | (290) | (247) | | (537) |
| Retirement benefit obligations | — | (402) | | (402) |
| Finance lease obligations | — | (92) | | (92) |
| | (446) | (1,011) | — | (1,457) |
| **Total liabilities** | **(1,427)** | **(2,502)** | **4** | **(3,925)** |
| **Net assets** | **880** | **13** | **1,742** | **2,635** |

Notes:

1. The net assets of the Carphone Group have been extracted without material adjustment from the audited financial information of the Carphone Group for the financial year ended 29 March 2014.
2. The net assets of the Dixons Group have been extracted without material adjustment from the audited financial information of the Dixons Group for the financial year ended 30 April 2014.
3. Acquisition accounting adjustments are as follows:
   a. The unaudited consolidated *pro forma* statement of net assets has been prepared on the basis that the Merger will be treated as an acquisition of the Dixons Group by the Carphone Group in accordance with IFRS 3 'Business Combinations'. The unaudited consolidated *pro forma* statement of net assets does not reflect fair value adjustments to the acquired assets and liabilities of the Dixons Group as the fair value measurement of these items will be performed subsequent to the Merger. Such fair value adjustments may be material, although they will have no effect on the Combined Group's *pro forma* net assets. For the purposes of the unaudited consolidated *pro forma* statement of net assets, the excess consideration over the book value of the net assets acquired has been attributed to goodwill. The preliminary goodwill arising has been calculated as follows:

| | £ million |
|---|---|
| Total consideration transferred | 1,806 |
| less book value of net assets acquired | (13) |
| Goodwill recognised | 1,793 |

Total consideration transferred is the fair value of the shares to be issued by Carphone to acquire the entire issued and to be issued ordinary share capital of Dixons. The total consideration value is based on Carphone having a closing middle market share price of 313.50 pence per Carphone Share on 25 June 2014 (being the latest practicable date prior to publication of this document) and there being 576,067,769 New Dixons Carphone Shares issued pursuant to the Merger.

b. The total transaction costs of approximately £23 million and cash costs of approximately £32 million associated with employee incentive schemes of the Dixons Group (of which £4 million is already accrued for in current trade and other payables and net £18 million recognised against reserves) are expected to be incurred as a result of the Merger and have been deducted from cash and cash equivalents in this unaudited consolidated *pro forma* statement of net assets.

c. At 29 March 2014, the Carphone Group recognised certain liabilities within provisions whilst the Dixons Group disclosed such liabilities at 30 April 2014 as trade and other payables. To ensure consistency of presentation, these liabilities recognised by the Dixons Group in trade and other payables have been reclassified to provisions in this unaudited consolidated *pro forma* statement of net assets.

4. No adjustment has been made to reflect the trading results of the Carphone Group since 29 March 2014 or the Dixons Group since 30 April 2014.

5. The anticipated impact on the Combined Group's *pro forma* net funds (debt) of the Merger is summarised from the unaudited consolidated *pro forma* statement of net assets as follows:

| | | Adjustments | | |
|---|---|---|---|---|
| | Carphone Group net assets at 29 March 2014 £million | Dixons Group net assets at 30 April 2014 £million | Transaction adjustments £million | Pro forma net funds (debt) of the Combined Group £million |
| Cash and cash equivalents* | 283 | 410 | (55) | 638 |
| Short-term investments | — | 1 | — | 1 |
| Current liabilities – Finance lease obligations | (1) | (2) | — | (3) |
| Non-current liabilities – Loans and other borrowings | (290) | (247) | — | (537) |
| Non-current liabilities – Finance lease obligations | — | (92) | — | (92) |
| | (8) | 70 | (55) | 7 |

* Cash and cash equivalents of Dixons Group in this table of *pro forma* net funds (debt) includes £9 million of cash and cash equivalents within assets held for sale.

| | | |
|---|---|---|
| **B.9** | **Profit forecast or estimate** | Not applicable. Neither Carphone nor Dixons has made a profit forecast or estimate. |
| **B.10** | **Audit report on the historical financial information – qualifications** | Not applicable. There are no qualifications included in any audit report on the historical financial information included in this document. |
| **B.11** | **Insufficient working capital** | Not applicable.<br>In the opinion of Carphone, the working capital available to the Carphone Group is sufficient for its present requirements, that is for at least the next 12 months following the date of this document.<br>In the opinion of Carphone, the working capital available to the Combined Group is sufficient for its present requirements, that is for at least the next 12 months following the date of this document. |

| Section C – Securities | | |
|---|---|---|

**Element**

| | | |
|---|---|---|
| **C.1** | **Type and class of securities being offered** | Up to 576,067,769 New Dixons Carphone Shares to be issued pursuant to the Merger.<br>When admitted to trading, the International Securities Identification Number (ISIN) for the New Dixons Carphone Shares will be GB00B4Y7R145. |
| **C.2** | **Currency of the securities issue** | The New Dixons Carphone Shares are denominated in sterling. |
| **C.3** | **Number of issued and fully paid Carphone Shares and par value** | As at the date of this document, there are 576,067,769 Carphone Shares in issue (all of which are fully paid).<br>The Carphone Shares have a par value of 0.1 pence each. |
| **C.4** | **Rights attached to the Carphone Shares** | The Carphone Shares rank equally for voting purposes. On a show of hands, each Carphone Shareholder has one vote and on a poll each Carphone Shareholder has one vote for every Carphone Share held.<br>Each Carphone Share ranks equally for any dividend declared or any distributions made on a winding up of the Company.<br>Each Carphone Share ranks equally in the right to receive a relative proportion of shares in the case of a capitalisation of reserves. |
| **C.5** | **Restrictions on transfer** | The Carphone Shares are freely transferable and there are no restrictions on transfer in the UK. |
| **C.6** | **Application for admission to trading on regulated market** | The Existing Carphone Shares are currently admitted to trading on the London Stock Exchange's main market for listed securities. Application will be made to the London Stock Exchange for the New Dixons Carphone Shares to be admitted to trading on its main market for listed securities.<br>The London Stock Exchange's main market is a regulated market. |
| **C.7** | **Dividend policy** | Dixons Carphone intends to adopt a dividend policy in line with Carphone's current dividend policy of 3.0x dividend cover based on Headline earnings. The exchange ratio of the Merger has been determined on the basis that no dividend will be payable by either of Carphone or Dixons prior to Completion, other than an ordinary course Carphone final dividend of 4 pence per Carphone Share in respect of the financial year ended 29 March 2014. |

| Section D – Risks | | |
|---|---|---|

**Element**

| | | |
|---|---|---|
| **D.1** | **Key information on key risks relating to the Combined Group or its industry** | Key risks related to the Carphone Group, the Dixons Group, and in the event of the Merger, the Combined Group are:<br>● The Carphone Group and the Dixons Group operate in highly competitive environments. Increased competition in key markets may materially and adversely impact business performance and financial condition.<br>● The Carphone Group is reliant upon selling products and services of MNOs. The termination of any of these arrangements, whether through a change in distribution strategy of the MNOs or otherwise, could materially impact the revenues generated by the Carphone |

| | | |
|---|---|---|
| | | Group's businesses. Similar risks would exist for the Combined Group.<br>● A significant proportion of the Carphone Group's revenues is based on the level of customer spend with MNOs and other service providers. Any change in market ARPUs as a result of competition, new market entrants, changes in MNO or other service provider strategies or consumer behaviour may therefore have an impact on the revenues received by the Carphone Group.<br>● The Carphone Group and the Dixons Group are both exposed to distribution risks and other strategies of product manufacturers. Similarly, these risks would affect the Combined Group, in the event of the Merger.<br>● The Combined Group may fail to realise the business growth opportunities, margin benefits and other synergies anticipated from, or may incur unanticipated costs associated with, the Merger.<br>● The completion of the Merger is subject to the satisfaction (or waiver, where applicable) of a number of conditions on or before 31 December 2014 or such later date as Carphone and Dixons agree (with, if required, the consent of the Panel and the Court).<br>There is no guarantee that these (or any other) Conditions will be satisfied (or waived, if applicable). Failure to satisfy any of the Conditions may result in the Merger not being completed.<br>● The Combined Group's future prospects will, in part, be dependent on its ability to integrate the Carphone Group and the Dixons Group effectively, including the successful integration and motivation of certain Carphone and Dixons key employees and IT and operational systems. It is possible that failure to retain certain individuals during the integration period will affect the ability to integrate the Carphone Group and the Dixons Group successfully into the Combined Group and could have a material adverse effect on the Combined Group's results of operations, financial conditions and/or prospects.<br>● The Dixons Group has funding risks relating to its UK defined benefit pension scheme. The scheme is subject to risks that the value of its assets (which move in line with markets) may not fully cover the amount of its defined benefit liabilities, potentially requiring the Dixons Group to recognise an increased funding deficit on its balance sheet.<br>● The Dixons Group and (albeit to a lesser extent) the Carphone Group businesses are highly seasonal, with significant dependence on the revenue and operating profit generated during the third financial quarter (the Christmas trading period). |
| **D.3** | **Key information on key risks relating to the Carphone Shares** | Key information on the key risks specific to the Carphone Shares/New Dixons Carphone Shares is:<br>● The price of Carphone Shares/New Dixons Carphone Shares may be volatile and may be affected by a number of factors, some of which are beyond Carphone's control, which could cause the value of an investment in the New Dixons Carphone Shares to decline.<br>● The sale of Carphone Shares/New Dixons Carphone Shares by substantial Carphone Shareholders could depress the price of the shares.<br>● Any change in current tax law or practice could adversely affect holders of Carphone Shares/New Dixons Carphone Shares. |

| | | |
|---|---|---|
| | | • Holders of Carphone Shares/New Dixons Carphone Shares in the United States and other overseas jurisdictions may not be able to participate in future equity offerings of the Combined Group. |

**Section E – Offer**

**Element**

| | | |
|---|---|---|
| **E.1** | **Total net proceeds and estimated total expenses** | There is no offer of the Company's securities so there are no net proceeds receivable by the Company.<br><br>The total costs and expenses relating to the issue of this document, the Circular and to the negotiation, preparation and implementation of the Merger are estimated to amount to approximately £11 million and are payable by the Company. |
| **E.2a** | **Reasons for the offer, use of proceeds, estimated net amount of the proceeds** | Not applicable. There is no offer of the Company's securities. This document and the Merger does not constitute an offer or invitation to any person to subscribe for or purchase any shares in Carphone or Dixons. Carphone and Dixons will not receive any proceeds as a result of the Merger.<br><br>The Merger will be effected by way of a Court-sanctioned scheme of arrangement of Dixons under Part 26 of the Act pursuant to which Carphone will acquire the entire issued and to be issued ordinary share capital of Dixons. It is proposed that the Combined Group will be called "Dixons Carphone plc".<br><br>The Merger will enable Dixons Carphone to provide customers with an integrated offering across a broad range of technology, connectivity and services beyond the point of sale, enhancing the lifetime value of the Combined Group's customers and improving the offering to existing and new service partners. The Carphone Board and the Dixons Board both believe that this will provide the opportunity to increase the value of the core combined retail operation, the Combined Group's service proposition and its business capability. |
| **E.3** | **Terms and conditions of the offer** | Not applicable. There is no offer of the Company's securities.<br><br>This document and the Merger does not constitute an offer or invitation to any person to subscribe for or purchase any shares in Carphone or Dixons. Carphone and Dixons will not receive any proceeds as a result of the Merger.<br><br>On 15 May 2014, the boards of Carphone and Dixons announced that they had agreed the terms of a recommended all-share merger of Carphone and Dixons.<br><br>The terms of the Merger will provide Dixons Shareholders with 0.155 of a New Dixons Carphone Share in exchange for each Dixons Share held.<br><br>The Merger is subject to the Conditions and certain further terms and will only become Effective if, among other things, the following events occur on or before 31 December 2014 or such later date as Carphone and Dixons may agree and (if required) the Court and the Panel may allow:<br><br>(a) a resolution to approve the Scheme being passed by a majority in number of the Dixons Shareholders who are present and voting at the Court Meeting, either in person or by proxy, representing 75 per cent. or more in value of the Dixons Shares voted by those Dixons Shareholders; |

(b) the special resolutions necessary to implement the Scheme and to approve the related Capital Reduction being passed by the requisite majority of Dixons Shareholders at the Dixons General Meeting;

(c) the Scheme being sanctioned (with or without modification, on terms agreed by Carphone and Dixons) and the related Capital Reduction being confirmed by the Court;

(d) a copy of each of the Court Orders (together with the Statement of Capital) being delivered to the Registrar of Companies and, if so ordered by the Court, the Reduction Court Order being registered by the Registrar of Companies, together with the Statement of Capital;

(e) relevant anti-trust clearances being received on terms satisfactory to Carphone and Dixons (acting reasonably);

(f) the resolution to be proposed at the Carphone General Meeting to approve, effect and implement the Merger and to grant authority to the Carphone Directors to allot the New Dixons Carphone Shares, being passed by the requisite majority of Carphone Shareholders (but, for the avoidance of doubt, not the other resolutions to be proposed at the Carphone General Meeting which shall not be conditions to the Merger); and

(g) the UK Listing Authority having acknowledged to Carphone or its agent (and such acknowledgement not having been withdrawn) that the application for the admission of the New Dixons Carphone Shares to listing on the premium segment of the Official List has been approved and (subject to satisfaction of any conditions to which such approval is expressed) will become effective as soon as a dealing notice has been issued by the UK Listing Authority and such conditions have been satisfied and the London Stock Exchange having acknowledged to Carphone or its agent (and such acknowledgement not having been withdrawn) that the New Dixons Carphone Shares will be admitted to trading on the London Stock Exchange's main market for listed securities.

**E.4** **Material interests**

Immediately following Admission, the following persons will be interested directly or indirectly in 3 per cent. or more of the voting rights in respect of the issued ordinary share capital of the Company and based on the assumption that the holdings of such persons in Carphone or Dixons (as relevant) as at 25 June 2014 (being the latest practicable date prior to the publication of this document) do not change, up to 576,067,769 New Dixons Carphone Shares are issued in connection with the Merger and that no other issues of Carphone Shares occur between the date of this document and Admission:

| **Name** | **Number of Dixons Carphone Shares** | **Percentage of issued shares in Dixons Carphone** |
|---|---:|---:|
| Sir Charles Dunstone | 135,083,481 | 11.72 |
| David P J Ross | 56,388,699 | 4.89 |
| Standard Life Asset Management | 52,549,921 | 4.56 |
| BlackRock, Inc. | 46,075,022 | 4.00 |
| M&G Investment Management Ltd | 38,408,065 | 3.33 |
| Newton Investment Management Ltd | 37,981,175 | 3.30 |

There are no conflicting interests that are material to the Merger.

| | | |
|---|---|---|
| **E.5** | **Selling shareholders and lock-up agreements** | Not applicable. There is no offer of the Company's securities and there are no selling shareholders.<br><br>As part of the Merger, each of the proposed members of the Dixons Carphone Board has given a binding undertaking not to dispose of any of his or her beneficial holdings in shares of Dixons Carphone (or any interest therein), which he or she holds on Admission or subsequently acquires during the lock-in period, subject to certain limited exceptions. Certain other Carphone Group and Dixons Group senior executives have given similar commitments. All of the proposed members of the Dixons Carphone Board have given this undertaking for a period of 24 months following Completion, with the exception of Katie Bickerstaffe and Graham Stapleton who have given this same undertaking for a period of 12 months, in line with undertakings received from other senior executives. |
| **E.6** | **Dilution** | Following the issue of the up to 576,067,769 New Dixons Carphone Shares pursuant to the Merger, the Existing Carphone Shares will represent 50 per cent. of the total issued Dixons Carphone Shares immediately following Admission. |
| **E.7** | **Estimated expenses charged to investor** | Not applicable. There are no commissions, fees or expenses to be charged to investors by the Company because there is no offer of the Company's securities. |

# RISK FACTORS

*Investing in and holding the New Dixons Carphone Shares involves financial and other risks. Prior to investing in the New Dixons Carphone Shares, investors should carefully consider all of the information contained in this document, paying particular attention to the risks factors set out below. Investors should note that the risk factors set out below do not purport to be a complete list or explanation of all risk factors which may affect the Carphone Group, the Combined Group, the New Dixons Carphone Shares or the Merger. Additional risks and uncertainties not currently known to Carphone or which Carphone currently deems immaterial may arise or become material in the future. The occurrence of any of these risks may have a material adverse effect on Carphone's, Dixons' and, following the Scheme becoming Effective, the Combined Group's, business, results of operations, financial condition and/or prospects and/or the price of the Dixons Carphone Shares to the detriment of Carphone, the Combined Group, Carphone Shareholders and/or holders of the New Dixons Carphone Shares and investors could lose all of their investment. Investors should consider carefully whether an investment in the New Dixons Carphone Shares is suitable for them in light of the information contained in this document and their personal circumstances.*

*Prospective investors should note that the risks relating to the Carphone Group, the Dixons Group, the Combined Group, their respective industries and the New Dixons Carphone Shares summarised in the section of this document headed "Summary" are the risks that Carphone, the Carphone Directors and the Proposed Directors believe to be the most essential to an assessment by a prospective investor of whether to consider an investment in the New Dixons Carphone Shares. However, as the risks which the Carphone Group, the Dixons Group and the Combined Group face relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in the section of this document headed "Summary" but also, among other things, the risks and uncertainties described below.*

*You should consult a legal adviser, an independent financial adviser duly authorised under the FSMA or a tax adviser for legal, financial or tax advice.*

## PART A: RISKS RELATING TO THE CARPHONE GROUP AND/OR THE DIXONS GROUP, AND, IF THE MERGER BECOMES EFFECTIVE, THE COMBINED GROUP

### 1. External risks

The Carphone Group and the Dixons Group are subject to a number of external risks. External risks are deemed to be those that stem from factors that would be mainly outside the control of the separate groups. These risks could arise from the nature of business activities and the industries in which they operate. Where applicable, the same would apply for the Combined Group.

#### 1.1 *Legal, regulatory, political and societal risks*

**The Carphone Group's and the Dixons Group's businesses are, and following the Merger becoming Effective, the Combined Group's businesses will be, at risk from significant and rapid change in the legal systems, regulatory controls, and customs and practices in the countries in which they and/or their suppliers operate**

The Carphone Group and the Dixons Group are subject to a range of legal and regulatory requirements originating from the UK, the other countries where they operate and the European Union, particularly in the areas of consumer protection; product safety; competition; bribery and corruption; health and safety; taxation; environment; labour and employment practices (including pensions and trade unions); transportation; extended warranties; copyright royalties and levies; supplier pricing; infrastructure investment; property rights and planning laws; the ability to transfer funds and assets externally; data protection and the selling of insurance and similar products governed by the FCA or similar authorities in other countries; accounting; taxation and stock exchange regulation.

Furthermore, certain areas such as the sale of extended product warranties have previously been the subject of regulatory investigation and may be subject to further investigations in the future which could impact on the ability of the Carphone Group, the Dixons Group or the Combined Group to offer customer support agreements to its customers and therefore have a material adverse effect on the respective businesses, results of operations and overall financial condition.

Accordingly, changes to, or violation of, these systems, controls, customs or practices could increase the Carphone Group's, the Dixons Group's or the Combined Group's administrative or regulatory compliance costs, restrict its operations, require other sanctions and have material and adverse impacts on their reputation, performance and financial condition respectively. There can be no assurance that Carphone's, Dixons' or the Combined Group's businesses will be able to comply with any new regulations or law to which they might become subject.

Political developments and changes within and outside the UK in society, including increased scrutiny of Carphone's and Dixons' businesses or their industries or their suppliers in the countries in which they operate, for example within and outside the UK by lobby groups or the media, may result in or increase the rate of material legal and regulatory change and changes to customs and practices that could have a material adverse effect on Carphone's, Dixons' and following the Merger becoming Effective, the Combined Group's businesses respectively.

The Carphone Group and the Dixons Group may decide to appeal and/or challenge any changes to laws or regulations that may be material to their businesses and this may increase costs and/or distract managements' time from day-to-day business matters respectively.

**The Carphone Group, the Dixons Group and, in the event of the Merger, the Combined Group, may be at risk of being accused of infringing others' intellectual property rights and be liable for significant damages**

The Carphone Group's and the Dixons Group's products could be subject to intellectual property rights owned by others. The Carphone Group and the Dixons Group are, from time to time, subject to claims that its products infringe intellectual property owned by others (e.g. technologies contained within products). Such claims might require the Carphone Group, the Dixons Group and/or the Combined Group to enter into settlement or licence agreements, to pay significant damage awards, and/or to face a temporary or permanent injunction prohibiting them from marketing or selling certain of their products, which could have a material adverse effect on business, results of operations, financial condition and reputation respectively.

**The Carphone Group, the Dixons Group, and following the proposed Merger, the Combined Group may continue to be negatively affected by the uncertainty surrounding the future of the Eurozone and, in particular, the potential that one or more countries may exit the Euro**

Changing political conditions are leading to further uncertainty impacting the macro-economic environment, such as the uncertain future of the Euro currency. The Carphone Group and the Dixons Group may feel exposure to markets potentially exiting the Euro. If a Eurozone member state were to exit from the Euro, this may lead to a deterioration of that member state's economy and challenge the sustainability of the Carphone Group or the Dixons Group business in operation there. It may also have a contagion effect on other countries in which the Carphone Group and the Dixons Group transacts business, which in turn could impact the potential Combined Group, having a material impact on the business, financial condition and results of operations.

**The Dixons Group has funding risks relating to its UK defined benefit pension scheme. These risks would apply to the Combined Group in the event of the Merger**

The principal pension scheme operated by the Dixons Group is the DSG Retirement and Employee Security Scheme, which provides both defined benefit and money purchase benefits. The defined benefit section was closed to new entrants on 1 September 2002 and to future accrual for existing members on 30 April 2010.

The scheme is subject to risks that the value of its assets (which move in line with markets) may not fully cover the amount of its defined benefit liabilities (which are affected by changes in life expectancy, inflation and the discount factor used by the scheme actuary to calculate the present value of future benefit payments), potentially requiring the Dixons Group to recognise an increased funding deficit on its balance sheet.

The last triennial actuarial valuation of the scheme was carried out as at 31 March 2010 and showed a funding deficit of £239 million. A 'recovery plan' based on this valuation was agreed between Dixons and the scheme trustee to make good this deficit by paying additional contributions which commenced in the financial year ended 30 April 2011 with contributions of £12 million, rising to £20 million in the financial year ended 30 April 2013 and the financial year ended 30 April 2014. Contributions will rise to £25 million in the financial year ending 30 April 2015 and will then rise approximately annually thereafter to £35 million by the financial year ending 30 April 2021.

A valuation as at 31 March 2013 is currently underway and its results are expected in the first half of the financial year ending 30 April 2015. This valuation could show a further deficit, which may require the Dixons Group to contribute additional amounts to the scheme. In addition, actions by the UK Pensions Regulator or the scheme trustee, or changes to existing pension law, could result in additional funding obligations, which could have a material adverse effect on the overall financial position of the Dixons Group, and in the event of the Merger, the Combined Group.

**The Carphone Group, the Dixons Group, and in the event of the Merger, the Combined Group may be adversely affected by differences between anticipated and actual tax liabilities (whether as a result of a change in law or otherwise) and by disputes with tax authorities over tax payments**

Judgement is required in determining the appropriate provision for transactions where the ultimate tax determination is uncertain. In such circumstances, liabilities for anticipated taxes due are recognised based on information available and where the anticipated liability is probable and estimable. The final outcome of such matters may differ from the amounts initially recorded and any differences will impact the income tax and deferred tax provisions in the period to which such determination is made and could have a material adverse effect on Carphone's, Dixons' and the Combined Group's business, results of operations and overall financial condition respectively. Where the potential liabilities are not considered probable, the amount at risk is disclosed where material unless an adverse outcome is considered remote.

In addition, from time to time, the Carphone Group and the Dixons Group may be involved in discussions or disputes with tax authorities regarding the tax liabilities, which may lead to a revision of tax liabilities, and therefore impact their financial positions respectively. The same risk could apply to the Combined Group in the event of the Merger.

Tax legislation and/or the published guidance relating thereto and interpretation thereof is subject to change. Any such change may adversely affect the Carphone Group's, the Dixons Group's, and in the event of the Merger, the Combined Group's financial position.

1.2 ***Business continuity and incident management***

**Carphone's and Dixons' businesses could be at risk from disruption of key systems and assets on which they depend. These risks would apply to the Combined Group in the event of the Merger**

The functioning of the IT systems (some of which are outsourced to third parties' control) within Carphone's and Dixons' businesses could be disrupted for reasons either within or beyond their control, including but not limited to: accidental damage; disruption to the supply of utilities or services; extreme weather events; safety issues; systems failure; workforce actions; or environmental contamination. There is a risk that such disruption may materially and adversely affect Carphone's or Dixons' and, in the event of the Merger, the Combined Group's businesses' ability to sell products or services to customers and therefore materially and adversely affect their reputation, performance or financial condition respectively.

**Loss of, or disruption to, Carphone's, Dixons', and in the event of the Merger, the Combined Group's distribution and administrative sites may have a material adverse effect on business and operations**

The Carphone Group and the Dixons Group operate from a small number of distribution and administrative sites, all of which are subject to the risks of fire, weather and water damage, including flooding, and, in some cases, earthquakes. Carphone's and Dixons' businesses' ability to distribute merchandise to stores and to sell and distribute merchandise to customers is reliant on operational infrastructure, particularly the efficient functioning of distribution centres and distribution networks. Failures or unavailability of such infrastructures (caused, for example, by fire, structural damage, natural disaster, industrial action or terrorist activity) could result in disruptions to the Carphone Group's, the Dixons Group's and/or the Combined Group's ability to deliver products to stores or customers respectively.

Although the Carphone Group and the Dixons Group have established disaster recovery procedures designed to minimise the impact of any such disruption, there can be no assurance that those procedures will be adequate or effective. The Carphone Group and the Dixons Group maintain insurance to cover material exposures, however there can be no assurance that the insurance coverage will be sufficient, or that insurance proceeds will be paid on a timely basis to either group if any distribution centre or administrative site is unavailable for any period of time respectively. As a result, any loss or disruption to any of the Carphone Group's and/or the Dixons Group's distribution centres or administrative sites may have a material adverse effect on their businesses, results of operations and financial conditions respectively.

1.3 ***Seasonal nature of retail industry***

**The Dixons Group and (albeit to a lesser extent) the Carphone Group businesses are highly seasonal, with significant dependence on the revenue and operating profit generated during the third financial quarter (the Christmas trading period)**

The Dixons Group's business, and to a lesser extent, the Carphone Group's business, is highly seasonal, with a substantial proportion of its revenue and operating profit generated during its third financial quarter, which includes the Christmas and New Year season. In connection with this peak trading season, the Dixons Group increases advertising spend, hires additional staff and sources additional products. Procurement of stock for this period is done well in advance and must anticipate trends in consumer preferences and the level of likely demand for products in this period to avoid an excess or a shortage of stock. As a result of this seasonality, results during any interim financial period cannot be used as an accurate indicator of the annual results.

In respect of the Dixons Group, secondary seasonal peaks can occur in regional markets, notably in Greece, where hot summer periods encourage sales of air conditioning units and cooler summers may limit sales of these types of products.

These factors could have an adverse effect on the financial performance or results of operations of the Carphone Group or the Dixons Group where applicable and in the event of the Merger, of the Combined Group.

1.4 ***Competition***

**The Carphone Group and the Dixons Group operate in highly competitive environments. Increased competition in key markets may materially and adversely impact business performance and financial condition**

The Carphone Group's and the Dixons Group's businesses already operate in highly competitive markets. This level of competition may increase, which may further limit the future ability of the businesses to maintain their respective market share and revenue levels.

Both groups compete with competitor retailers, both in-town and out-of-town store based retailers (including specialists, generalists, independents and supermarkets) as well as internet retailers, for customers, employees, locations, products and other important aspects of their business. Businesses join and leave the market and/or expand or reduce their product ranges in response to competitive forces. Some competitors may have access to greater resources or use strategies such as lower pricing, wider selection of products, exclusive products, larger store size, better located stores, higher promotional and advertising intensity, better store design and more efficient sales methods.

Increasing competitive pressures may cause the Carphone Group and the Dixons Group to make certain pricing, service or marketing decisions that could have a material adverse effect on revenues, costs, financial condition and results of operations.

**Failure of certain elements within the multi-channel service-led business model which are critical for delivery of a seamless experience for customers**

The Carphone Group and the Dixons Group operate in competitive markets with customers making purchases through different sales channels. Customers increasingly expect a seamless experience when accessing sales channels and want to interact with retailers in a variety of ways. In order to deliver such a service, the Carphone Group and the Dixons Group rely on a number of different internal systems and operating models across distribution channels. If a significant element fails this may have a material adverse effect on both groups' businesses, results of operations and financial condition. The same risks would apply for the Combined Group, in the event of the Merger.

### 1.5 *Deteriorating markets and/or consumer demand*

**Economic conditions and other factors outside of the Carphone Group's, the Dixons Group's and in the event of the Merger, the Combined Group's control may adversely affect consumer confidence and/or consumer spending decisions**

The Carphone Group's and the Dixons Group's operating and financial performance is influenced by the economic conditions in each of the countries in which they operate. The economic environment impacts on consumer spending on mobile phones, electrical and computing goods in many ways. Consumer confidence is an important influence on spending on electrical and computing goods, which is largely discretionary. Sovereign debt levels, unemployment levels, interest rates, consumer debt levels, availability of credit, costs of food, fuel and energy, taxation and many other factors influence consumer confidence and customer spending decisions. The default, or a significant decline in the credit rating, of one or more sovereigns or financial institutions could cause severe stress in the financial system generally and could adversely affect the markets in which the Carphone Group, the Dixons Group and in the event of the Merger, the Combined Group operates and the businesses and economic condition and prospects of their respective counterparties, customers, suppliers or creditors, directly or indirectly, in ways which it is difficult to predict. In addition, house moves and home improvements, which are influenced by the economic environment, impact on consumer spending on domestic appliances. Adverse economic conditions or sustained uncertainty in the markets in which the Carphone Group, the Dixons Group, and in the event of the Merger, the Combined Group operate, could adversely affect consumer confidence and spending, which could have a material adverse effect on earnings and financial position.

**If the Carphone Group or the Dixons Group do not anticipate and respond quickly enough to capitalise on changing technology, content, service delivery, or consumer preferences, or fail to manage inventory levels effectively, operating results could materially suffer**

The Carphone Group's and the Dixons Group's success largely depends on their ability to anticipate and introduce new products, content, services and technologies to consumers, as well as on the frequency of such introductions, the level of consumer acceptance in relation to them, and the related impact on the demand for existing products, content, services and technologies. Some electrical and computing products sold by the Carphone Group and the Dixons Group are subject to rapid technological change, which shortens their life cycle and may negatively impact sales of existing stock by the Carphone Group and the Dixons Group as consumers may elect to purchase newer products or defer their decision to purchase once technological changes have been announced.

There can be no assurance that the Carphone Group or the Dixons Group will successfully anticipate technological changes and consumer demands in the future or that they will be able to obtain adequate supplies of popular new products. Failure to adequately manage product stock or predict accurately the constant changing of technology, consumer tastes, preferences, spending patterns and other lifestyle decisions could have a material adverse effect on the Carphone Group's, the Dixons Group's, and in the event of the Merger, the Combined Group's business, results of operations and financial condition.

**Deteriorating markets could result in the impairment of goodwill, intangible assets and property, plant and equipment, which may adversely affect the Carphone Group's, the Dixons Group's and in the event of the Merger, the Combined Group's financial position**

Under IFRS, goodwill is not amortised but is subject to annual impairment tests or more frequent tests if there are indications of impairment. Other intangible assets and property, plant and equipment are amortised and depreciated, respectively and are also assessed on an ongoing basis to determine whether there are indications of impairment. To the extent that any of the economies in which the Carphone Group and the Dixons Group operates become depressed and do not recover, or to the extent that business performance in these economies is below expectations, the respective groups may need to record additional impairment charges relating to their businesses, and such charges, whilst not directly affecting cash flows, could have an adverse effect on the financial position of the Carphone Group, the Dixons Group or in the event of the Merger, the Combined Group respectively.

In respect of intangible assets and property, plant and equipment, if the Carphone Group's, the Dixons Group's, or in the event of the Merger, the Combined Group's businesses were to underperform against expectations, the groups may need to record impairment charges relating to such assets which could have an adverse effect on their respective financial positions. The nature and circumstances of such impairment charges would determine whether or not they formed part of non-underlying items.

1.6 ***Dependence on suppliers and customers***

**The Carphone Group is exposed to the distribution and actions of MNOs. Similar risks would exist for the Combined Group in the event of the Merger**

The Carphone Group is reliant upon selling products and services of MNOs. The termination of any of these arrangements, whether through a change in distribution strategy of the MNOs or otherwise, could materially impact the revenues generated by the Carphone Group's businesses. Suitable alternative products or services from MNOs may not be available on commercially reasonable terms or may not be available at all. Also, the terms available from MNOs may become materially different in the future and this may have an adverse impact on the Carphone Group's businesses.

Virgin Mobile France operates a mobile virtual network that is dependent primarily upon Orange, SFR and Bouygues Telecom to deliver the underlying mobile network service. The termination of these arrangements by Orange, SFR, Bouygues Telecom or Virgin Mobile France for whatever reason could materially and adversely affect delivery and/or the performance of Virgin Mobile France's business. Suitable alternative services from other MNOs may not be available on similar or alternative reasonable commercial terms or may not be available at all. Similar risks would exist for the Combined Group.

**A significant proportion of the Carphone Group's revenues is based on the level of customer spend with MNOs and other service providers**

The Carphone Group receives revenue from MNOs and other service providers for delivering new customers and upgrades. This revenue is generally based on the ultimate value of the customer it acquires, commonly involving a share of customer revenues. Any change in market ARPUs as a result of competition, new market entrants, changes in MNO or other service provider strategies or consumer behaviour may therefore have an impact on the revenues received by the Carphone Group.

**The Carphone Group and the Dixons Group are both exposed to distribution risks and other strategies of product manufacturers. Similarly, these risks would affect the Combined Group, in the event of the Merger**

Both of the Carphone Group and the Dixons Group purchase products from a wide variety of domestic and international third party product suppliers, including a limited number of large global manufacturers whose products account for a substantial proportion of sales. Interruptions in the availability or flow of stock from third party product suppliers could have a material adverse effect on business operations. Relationships between the Carphone Group, the Dixons Group and their suppliers are not necessarily based on long-term supply contracts and, in some instances, are not set out in written agreement. As a consequence, relationships may be varied or terminated with little or no notice. Operations may be adversely affected by the interruption or restriction of the supply of stock whether through supplier choice, or external factors (e.g. natural disasters), significant changes in terms imposed by these suppliers (e.g. credit terms) or the termination of any key product supplier arrangement. Any breakdown or change in relationships with product suppliers could materially adversely affect business, results of operations and financial condition for the Carphone Group, the Dixons Group and the Combined Group.

**The Carphone Group's, the Dixons Group's, and in the event of the Merger, the Combined Group's businesses may be affected by the default of counterparties, including customers, in respect of monies owed**

The Carphone Group and the Dixons Group have exposure to credit risk on liquid funds, investments, derivative financial instruments, consumer credit and other parties. There is a risk of default of counterparties.

Investments mainly comprise bank deposits, floating rate notes and commercial paper. It is Carphone's and Dixons' policy to limit counterparty exposures. However, there can be no assurance that Carphone's and Dixons' policy to limit counterparty exposures will effectively eliminate such exposures, and any such counterparty default may have a material adverse effect on Carphone's and Dixons' business, results of operations and overall financial condition respectively.

Consumer credit is offered to customers in most markets in which the Dixons Group operates, provided by a number of third party financial institutions. In the majority of cases, the commissions due are paid in full by the financial institution immediately. However, in some instances, such as in Greece, the Dixons Group is paid the commissions over the term of the customers' payment plan. In addition, in Greece, in some circumstances, the Dixons Group also has potential liabilities to financial institutions in respect of certain consumer loans. These are actively managed and pursued as part of normal debt collection activity.

The Carphone Group and the Dixons Group are also exposed to counterparty risk in relation to MNOs, product suppliers, franchisees, dealers, business-to-business customers and other parties. The most material exposures are to MNOs and product suppliers, which are typically large businesses with strong balance sheets. Where it is considered appropriate, credit insurance may be used in respect of counterparties.

When considering receivables, both the Carphone Group and the Dixons Group consider that the carrying value of any receivables, net of any provisions, is appropriate. Although both groups regularly review the current payment experience and the adequacy of provisions against such receivables, there can be no assurance that they will be sufficient.

**Changes to, or withdrawals of, credit insurance provided to suppliers to the Carphone Group, the Dixons Group, and in the event of the Merger, the Combined Group could have a material adverse effect on business, financial condition and results of operations respectively**

The Carphone Group's and the Dixons Group's business is dependent on the sale of mobile, electrical and computing goods supplied by third parties. Working capital funding is typically a balance of funding through credit facilities and credit from suppliers and in the case of the Carphone Group, prepayments from MNOs.

Carphone and Dixons believe that third party suppliers in the mobile, electrical goods and computing products market have traditionally taken out credit insurance to protect these receivables against the risk of bad debt, insolvency or protracted default of their buyers, including the Carphone Group and the Dixons Group respectively. Credit levels remain dependent on the general economic environment and the Carphone Group's and the Dixons Group's financial position respectively.

If there is a significant decrease in the availability, or the withdrawal in its entirety, of credit insurance to the Carphone Group's and/or the Dixons Group's suppliers, and the suppliers are unwilling or unable to take credit risk themselves or find alternative credit sources, they may choose to take actions to reduce their credit exposure to the Carphone Group and/or the Dixons Group and the Combined Group respectively, including seeking to change their credit terms. Any of these actions could have a material adverse impact on the Carphone Group's and/or the Dixons Group's, and in the event of the Merger, the Combined Group's cash position and lead to an increase in indebtedness, which could have a material adverse effect on business, trading, reputation, financial condition and results of operations respectively.

**The Carphone Group and the Dixons Group operate in markets which have historically been predominantly price deflationary, which can put pressure on their margins**

Price deflation has been a common feature across most electrical goods categories for a number of years, primarily driven by improving efficiencies in production throughout the life cycle of a product as well as product development and new ranges. While price deflation may drive increased sales volume, there can be no guarantee that this will occur, which may make it harder for the Carphone Group, the Dixons Group, and in the event of the Merger, the Combined Group to maintain or grow their margins over a product's life cycle. Where the effect of price deflation is not countered by an increase in sales volumes, the importance of strong cost and expense management, as well as stock management, in maintaining or growing margins, is increased. If the Carphone Group, the Dixons Group, and in the event of the Merger, the Combined Group are unable to maintain or grow their margins, manage their stock levels, and increase their sales volumes, this could have a material adverse impact on their results of operations.

2. **Internal risks**

Internal risks are those arising from factors primarily within the control of Carphone or Dixons and their businesses where applicable.

2.1 ***Data Protection***

**Confidential information breaches or service disruptions could significantly impact the Carphone Group's, the Dixons Group's, and in the event of the Merger, the Combined Group's reputation, exposing the respective groups to litigation**

The Carphone Group and the Dixons Group must comply with restrictions on the use of customer data and ensure that confidential information (including financial and personal data) is transmitted in a secure manner over public networks. Despite controls to ensure the confidentiality, availability and integrity of customer data, the Carphone Group and the Dixons Group may breach restrictions or may be subject to attack from computer programs that attempt to penetrate the network security and misappropriate confidential information and/ or interfere with the Carphone Group's and the Dixons Group's ability to connect with their users. In addition, the Carphone Group and the Dixons Group may be subject to denial of service or other coordinated attacks that may cause company websites or other systems to experience service outages or other interruptions.

The Carphone Group and the Dixons Group hold and process other confidential and sensitive data, such as financial, intellectual property, employee and supplier data. There is a risk that, as a result of a breach in security, such data becomes public.

Due to the increasing sophistication and proliferation of cyber criminality and both internal and external threats there is no guarantee that the Carphone Group's and the Dixons Group's security measures will be sufficient to prevent breaches. Any such breach or compromise of security could adversely impact the Carphone Group's, the Dixons Group's and/or the Combined Group's reputations with current and potential customers, lead to litigation, fines or the loss of competitive advantage, and as a result, have a material adverse effect on their respective business, results of operations and overall financial condition.

2.2 ***Retail property portfolio management***

**The Carphone Group's, the Dixons Group's and, in the event of the Merger, the Combined Group's performance may be affected by the quality of their store portfolios**

The quality and location of either group's store portfolio is a key contributor to performance. The location of stores, their design (both internally and externally), store surroundings and the type of other retailers adjacent to the store locations are among the variety of factors that impact the quality of the store portfolio in the eyes of their customers and thus their performance. Both the Carphone Group and the Dixons Group have dedicated property management teams who continually review their relative store portfolios in the UK and overseas and their businesses are dependent on identifying and securing favourable new sites, reformatting existing stores at an acceptable return on investment and assigning, sub-leasing or terminating lease obligations at an acceptable cost where they no longer wish to operate. Their ability to secure new sites for stores is affected by the level of competition from other retailers, local land use and zoning regulations, environmental regulations and the cost of leasing stores. If the Carphone Group or the Dixons Group (or in the event of the

Merger, the Combined Group), are unable to obtain appropriate locations for their stores as well as maintain their quality, this could have a material adverse effect on either of their businesses, results of operations and financial condition respectively.

**The Carphone Group, the Dixons Group, and in the event of the Merger, the Combined Group's lease obligations could limit operating flexibility**

It is general practice for the Carphone Group and the Dixons Group to lease rather than own stores. In the event of a significant reduction in the profitability of stores, a significant shift in sales to other distribution channels or as part of a restructuring of either business, the ability to reduce costs through the negotiation of lease terminations or modifications on acceptable terms or at all may be limited. To the extent that the Carphone Group or the Dixons Group or the Combined Group remain obligated under leases for unprofitable or vacant stores, or to the extent that the termination or modification of leases results in significant costs, their ability to manage costs and margins will be impacted and business and operating results may be adversely affected.

**The Carphone Group and the Dixons Group may remain liable in relation to stores they have sub-let or for which leases have been assigned**

In the past, the Carphone Group and the Dixons Group have sub-leased, or assigned to third parties, the leases of a number of stores that they no longer wish to occupy. The Combined Group may enter into sub-lease or assignment arrangements with third parties in the future. The Carphone Group and the Dixons Group may remain directly or contingently liable for the performance of related leasehold and other obligations under their lease arrangements in respect of stores which are sub-leased or where leases are assigned, including the payment of rent, which could crystallise in the event of insolvency or other default by the sub-lessees or assignees of those properties. In the event of any sub-lessees or assignees failing to meet their obligations under the sub-leases or assigned leases, the Carphone Group or the Dixons Group may become responsible for such obligations respectively, which could have a material adverse effect on their business, results of operations and financial condition.

2.3 ***Indebtedness***

**Failure by the Carphone Group or the Dixons Group to meet debt obligations or comply with the terms of credit facilities could harm their business, financial condition and results of operations. The same risks would apply to the Combined Group**

The Carphone Group and the Dixons Group rely on external funding sources to finance a portion of operations and growth. The availability of funds from borrowings under committed bank and other facilities maintained in order to meet anticipated short-term and long-term financial requirements are subject to compliance with certain covenants.

The Carphone Group and the Dixons Group must dedicate a portion of their respective cash flows to pay the interest due under their debt, which reduces funds available for other business purposes.

To the extent that there is an unforeseen significant adverse change in performance, such that either the Carphone Group and/or the Dixons Group is not, in the longer term, able to continue to pay its debt obligations or meet the covenants in respect of their credit facilities, they may be required to refinance or renegotiate the terms of those facilities, including the covenants, and may have to incur significant costs in doing so. This could also result in default on other debt obligations, an acceleration of debt repayment obligations, an inability to refinance debt and, in the case of the Dixons Group, a reduction in credit rating, all of which could increase the costs of funding, harm the ability to incur additional indebtedness on acceptable terms and affect relationships with key suppliers.

The Carphone Group's and the Dixons Group's debt obligations and banking covenants could therefore affect their ability to react effectively to changes in consumer demand or to increased competition in the longer term. As a result of this debt, the Carphone Group and the Dixons Group may be placed at a competitive disadvantage compared to competitors that have less debt and may be or become more vulnerable to general adverse economic and industry conditions.

2.4 ***Contracts with third parties, joint ventures and business partners***

**Contractual disputes may have a material adverse effect on the Carphone Group's, the Dixons Group's, and in the event of the Merger, the Combined Group's business**

Contractual disputes, whether with third parties, joint venture partners or other business partners may have a material adverse effect on business, results of operations and overall financial condition.

2.5 ***IT***

**The Carphone Group's and the Dixons Group's businesses depend on key software applications and hardware, some of which are supplied by third parties, for the provision of services. The Combined Group would be exposed to the same risks upon the Merger**

Any disruption caused by failings in key software applications, of underlying equipment or of communication networks could delay or otherwise affect the Carphone Group's and the Dixons Group's businesses' ability to take and fulfil orders; to provide customer support; to monitor stock levels; or otherwise impact on day-to-day decision-making and have a material and adverse effect on business continuity and the performance of the Carphone Group's and the Dixons Group's businesses respectively. Notwithstanding efforts to prevent information technology failure or disruption, systems may be vulnerable to damage or interruption from fire, telecommunications failures, floods, physical or electronic break-ins, computer viruses, power outages and other malfunctions or disruptions.

**The Carphone Group, the Dixons Group, and in the event of the Merger, the Combined Group may fail to invest adequately and appropriately in operational systems and processes to keep pace with technological changes, consumer trends and behaviour**

To achieve strategic priorities and remain competitive, the Carphone Group and the Dixons Group must continue to develop and enhance their operating systems and processes. This may require the acquisition and development of new software, knowledge or expertise. No assurance can be given that the Carphone Group and the Dixons Group can continue to successfully design, develop, implement and utilise new information systems and processes that will allow them to compete effectively in their chosen markets respectively. Failure to adapt quickly may adversely impact the Carphone Group's, the Dixons Group's, and in the event of the Merger, the Combined Group's competitive advantage, businesses, financial condition and results of operations respectively.

**Information technology systems failure or disruption could impact the Carphone Group's, the Dixons Group's, and in the event of the Merger, the Combined Group's day-to-day operations**

The Carphone Group and the Dixons Group rely heavily on information technology systems to enable customers to purchase products in-store, online and over the phone as well as record and process transactions and manage operations. These systems provide information regarding most aspects of financial and operational performance, including sales and stock information and, given the number of transactions that are completed and the importance of the efficient management of stock, it is vital to maintain continuous operation of the computer hardware and software systems. Notwithstanding efforts to prevent information technology failure or disruption, the Carphone Group's and the Dixons Group's systems may be vulnerable to damage or interruption from fire, telecommunications failures, floods, physical or electronic break-ins, computer viruses, power outages and other malfunctions or disruptions. Any of these events could cause system interruption, delays or loss of critical data and could prevent the Carphone Group and the Dixons Group from accepting and fulfilling customer orders as well as disrupt operations and management of the businesses respectively. There can be no certainty that the Carphone Group's and the Dixons Group's recovery and contingency plans will be effective or sufficient in the event that they need to be activated. Significant disruption to systems could have a material adverse effect on the Carphone Group's, the Dixons Group's, and in the event of the Merger, the Combined Group's reputation, business, results of operations and overall financial condition.

2.6 ***Outsourcing***

**The Carphone Group and the Dixons Group currently have a number of outsourcing arrangements and are at risk of third parties not delivering on their contractual agreements. Similar risks would be applicable for the Combined Group in the event of the Merger**

The Carphone Group has outsourcing arrangements with a number of third parties, notably in respect of IT, customer service, finance and human resources operations. Similarly, the Dixons Group currently outsources certain of its functions, including its IT development, certain logistics functions and UK facilities maintenance.

These services may cease to be provided, for example due to a contract period expiring or a contract being terminated, and there can be no guarantee that the chosen suppliers will be able to provide the functions for which they have contracted. Any failure of the counterparties to deliver the contracted services could have a material adverse effect on the Carphone Group's, the Dixons Group's or the Combined Group's business, results of operations and overall financial condition respectively.

2.7 ***Employees***

**The Carphone Group and the Dixons Group are, and in the event of the Merger, the Combined Group will be, dependent on their senior management and skilled employees**

The Carphone Group and the Dixons Group are dependent on their senior management teams to operate their businesses and execute strategies respectively.

Both Carphone and Dixons have decentralised management structures with many high-level management responsibilities devolved to regional or country management respectively.

If members of senior management depart, both groups may not be able to find effective replacements in a timely manner, or at all, and business may be disrupted. In addition, the loss of key members of senior management to competitors could have a material adverse effect on the Carphone Group's, the Dixons Group's and/or the Combined Group's competitive position respectively.

The Carphone Group and the Dixons Group also face the challenge of attracting, developing and retaining the right calibre of staff while controlling labour costs. The turnover rate in the retail industry is relatively high, and individuals of the required quality to fill positions may be in short supply in some areas. The Carphone Group's and the Dixons Group's ability to support their strategic priorities may be limited by their abilities to employ, train, motivate and retain sufficient skilled personnel respectively. The failure of the Carphone Group and the Dixons Group and in the event of the Merger, the Combined Group to recruit and retain senior management and skilled employees could adversely impact sales performance, increase wage costs, and adversely affect the Carphone Group's and the Dixons Group's business, results of operations and financial conditions respectively.

2.8 ***FCA compliance***

**Non-compliance by the Carphone Group with applicable financial regulations could have a material impact on the Carphone Group, and in the event of the Merger, the Combined Group**

The Carphone Group is authorised in the UK by the FCA to sell certain types of insurance products, including cover for the loss or theft of, or damage to, customers' devices. Similar authorisations and/or regulations and regulators apply in other territories. Carphone intends that all of its businesses should remain compliant with such regulations although compliance cannot be guaranteed. Any non-compliance or regulatory changes could have a material and adverse effect on the ability to sell insurance products and/or the pricing of and cover provided by such products. This could therefore materially and adversely affect the revenues and earnings that the Carphone Group derives from such products, and consequently the financial performance of each business.

3. **Execution risks**

Execution risks arise from the implementation of the strategies of the Carphone Group's, the Dixons Group's and in the event of the Merger, the Combined Group's businesses and their change and restructuring programmes which aim to enhance long-term shareholder value.

3.1 ***Future growth prospects***

**The Carphone Group's, the Dixons Group's, and in the event of the Merger, the Combined Group's stated strategic priorities may not be met in their entirety**

The successful delivery of the stated strategic priorities and realisation of benefits arising therefrom are based on a variety of assumptions and variables, including among other things, future economic conditions and the trading performance of the Carphone Group, the Dixons Group and/or the Combined Group. There can be no guarantee that the Carphone Group's, the Dixons Group's, and in the event of the Merger, the Combined Group's assumptions underpinning plans for the future will prove correct, that benefits will be realised or that strategic goals will be achieved within the estimated costs. Moreover, a challenging economic climate may make it more difficult than expected for the Carphone Group, the Dixons Group and/or the Combined Group to implement plans effectively or to achieve expected financial and operational benefits even if they are implemented effectively. If the Carphone Group, the Dixons Group, and, in the event of the Merger, the Combined Group fail fully to implement their plans, or if the estimated and expected future financial and operational benefits are not achieved, the businesses' financial conditions and results of operations may be materially adversely affected.

**Failure in pursuit or execution of new business ventures, strategic alliances and acquisitions could have a material adverse impact on the Carphone Group, the Dixons Group, and in the event of the Merger, the Combined Group**

The Carphone Group and the Dixons Group businesses' growth strategies may include expansion through new business ventures, strategic alliances and acquisitions. Assessing a potential growth opportunity involves extensive due diligence; however, the amount of information the Carphone Group and the Dixons Group businesses can obtain may be limited, which means they can give little assurance that new business ventures, strategic alliances and acquisitions will positively affect financial performance or will perform as planned.

Cultural differences in some markets into which the Carphone and Dixons businesses may expand or into which the Carphone Group or the Dixons Group businesses introduce new retail concepts may result in customers in those markets being less receptive than anticipated. Acquisitions may divert the Carphone Group or the Dixons Group businesses' capital and management's attention from other business issues and opportunities. The Carphone Group or the Dixons Group businesses may not be able successfully to assimilate or integrate companies that they may acquire, including their personnel, financial systems, distribution, operations and general operating procedures. The Carphone Group or the Dixons Group businesses may also encounter challenges in achieving appropriate internal control over financial reporting in connection with the integration of an acquired company. If the Carphone Group or the Dixons Group businesses fail to assimilate or integrate acquired companies successfully, their business and operating results could suffer materially.

4. **Financial risks**

4.1 ***Market risks***

**The Carphone Group, the Dixons Group, and in the event of the Merger, the Combined Group could be exposed to fluctuations in foreign currency**

The Carphone Group's principal translation currency exposure is to the Euro. The Dixons Group's principal translation currency exposures are to the Norwegian Krone, the Swedish Krona and the Euro. The Dixons Group, and to a lesser extent, the Carphone Group, are also subject to certain transactional currency exposures, principally to the US Dollar and the Euro as a result of purchases of products from Asia which are denominated in US Dollars and purchases from Europe which are denominated in Euro. In addition, the revaluation of the assets and liabilities of overseas subsidiaries at the balance sheet date results in the recognition of foreign exchange translation gains or losses in equity. Changes in the relevant exchange rates between pounds sterling and the other currencies to which either group is exposed, which have been volatile recently due to the global financial downturn, have affected and will continue to affect the value of assets and liabilities denominated in currencies other than pounds sterling and the cost of goods purchased, each of which could have an adverse effect on results of operations respectively.

Although it is the policy of both groups to reduce their currency exposures through the use of hedging instruments such as forward exchange contracts, there can be no assurance that such hedging arrangements will be effective or that all such currency exposure will be hedged.

The above mentioned currency risks and continued uncertainty regarding the world economy and, in particular, the economy in Europe may have a material adverse effect on the Carphone Group's, the Dixons Group's, and in the event of the Merger, the Combined Group's businesses and operating results.

**The Carphone Group, the Dixons Group, and in the event of the Merger, the Combined Group could be exposed to interest rate rises**

Both the Carphone Group and the Dixons Group have borrowings that are subject to variable interest rates, and are therefore exposed to movements in interest rates. In addition, interest rate fluctuations will affect returns on cash investments.

The Carphone Group and the Dixons Group are able to use interest rate based hedging instruments to manage interest rate exposures on their borrowings. However, there can be no assurance that such hedging arrangements will be effective or that all interest rate exposures will be hedged. Movements in interest rates could have a material adverse effect on any unhedged borrowing exposure or on the returns generated by the Carphone Group's and the Dixons Group's cash investments, either of which could adversely affect the Carphone Group's or the Dixons Group's, and in the event of the Merger, the Combined Group's business, results of operations and financial condition.

Interest rate risks may have a material adverse effect on the Carphone Group's, Dixons Group's, and in the event of the Merger, the Combined Group's results.

## PART B: RISKS RELATING TO NEW DIXONS CARPHONE SHARES

1. **Price of Carphone Shares/New Dixons Carphone Shares could be volatile**

**The price of Carphone Shares/New Dixons Carphone Shares may be volatile and may be affected by a number of factors, some of which are beyond Carphone's control, which could cause the value of an investment in the New Dixons Carphone Shares to decline**

The price of the Carphone Shares/New Dixons Carphone Shares could be subject to significant fluctuations because of the volatility of the stock market in general and a variety of other factors, some of which are beyond Carphone's and the Combined Group's control, including the other risks relating to an investment in Carphone or Dixons Carphone described in this section.

Completion of the Merger is subject to approval of the Scheme and related resolutions by Dixons Shareholders at the Court Meeting and the Dixons General Meeting, approval of the Merger by Carphone Shareholders and relevant anti-trust clearances. Until such time, the price of Carphone Shares and Dixons Shares could be subject to fluctuations because of speculation, volatility of the stock market in general and a variety of other factors, some of which are beyond Carphone's control.

2. **Major shareholders**

**The sale of Carphone Shares/New Dixons Carphone Shares by substantial Carphone Shareholders could depress the price of New Dixons Carphone Shares**

Following Admission, sales of Dixons Carphone Shares by substantial Carphone Shareholders of a substantial number of Dixons Carphone Shares may significantly reduce the price of Dixons Carphone Shares. Also, any perceived view that any such shareholder might sell substantial numbers of Dixons Carphone Shares could depress the price of Dixons Carphone Shares for an unknown period of time.

3. **Tax risk**

**Any change in current tax law or practice could adversely affect holders of Carphone Shares/New Dixons Carphone Shares**

Statements in this document concerning the taxation of holders of Carphone Shares are based on current UK tax law and published HMRC practice as at the date of this document, either of which is subject to change, possibly with retrospective effect.

The taxation of an investment in Carphone Shares and New Dixons Carphone Shares depends on the individual circumstances of Carphone Shareholders or investors in New Dixons Carphone Shares and the summary of the UK taxation treatment of an investment in the Carphone Shares or New Dixons Carphone Shares set out in Part X of this document is intended as a general guide only. It does not address the specific tax position of every investor and only deals with rules of UK taxation of general application. Therefore, any investors who are in any doubt as to their tax position regarding the Carphone Shares or New Dixons Carphone Shares and any investors subject to tax in a jurisdiction other than the UK should consult their own independent tax advisers.

4. **Risk for overseas shareholders**

**Holders of Carphone Shares and New Dixons Carphone Shares in the United States and other overseas jurisdictions may not be able to participate in future equity offerings of the Combined Group**

The Act provides for pre-emption rights to be granted to Carphone Shareholders, unless such rights are disapplied by shareholder resolution. However, US shareholders may not be entitled to exercise these rights unless the rights, and the Carphone Shares or shares in Dixons Carphone issued pursuant to such rights, are registered under the US Securities Act or an exemption from the registration requirements of the US Securities Act is available. Carphone has no current intention to seek such registration and would evaluate, at the time of any proposed rights issue, whether the offer would qualify for an exemption, as well as the indirect benefits to Carphone or the Combined Group of enabling US shareholders to exercise rights and any other factors it considers to be appropriate at the time, prior to making a decision on whether to utilise an exemption, if available, from the registration requirements of the US Securities Act. Similar issues may arise in relation to other overseas jurisdictions.

## PART C: RISKS RELATING TO THE MERGER

1. **The completion of the Merger is subject to the satisfaction (or waiver, where applicable) of a number of conditions**

The completion of the Merger is subject to the satisfaction (or waiver, where applicable) of a number of conditions on or before 31 December 2014 or such later date as Carphone and Dixons agree (with, if required, the consent of the Panel and the Court), including:

(a) approval of the Scheme and related resolutions by Dixons Shareholders at the Court Meeting and the Dixons General Meeting;

(b) approval of the Merger by Carphone Shareholders at the Carphone General Meeting;

(c) relevant anti-trust clearances;

(d) sanction of the Scheme and confirmation of the Reduction of Capital by the Court; and

(e) Admission becoming effective.

There is no guarantee that these (or any other) Conditions will be satisfied (or waived, if applicable). Failure to satisfy any of the Conditions may result in the Merger not being completed.

2. **Even if a material adverse change to Dixons' business or prospects was to occur, in certain circumstances, Carphone may not be able to invoke the Conditions and terminate the Merger, which could reduce the value of Carphone Shares**

Completion of the Merger is subject to a number of Conditions, including that there is no material adverse change affecting Dixons before the Scheme is sanctioned by the Court. Under the Code, and except for certain antitrust clearance and Scheme-related conditions, Carphone may invoke a condition to the Merger to cause the Merger not to proceed only if the Panel is satisfied that the circumstances giving rise to that condition not being satisfied are of material significance to Carphone in the context of the Merger.

If a material adverse change affecting Dixons were to occur and the Panel did not allow Carphone to invoke a condition to cause the Merger not to proceed, the market price of Carphone Shares or the Combined Group's results of operations, financial condition and/or prospects may be materially adversely affected.

3. **The Combined Group may fail to realise the business growth opportunities, margin benefits and other synergies anticipated from, or may incur unanticipated costs associated with, the Merger**

Carphone believes that the Merger is justified in part by the business growth opportunities, margin benefits and other synergies it expects to achieve by combining its operations with Dixons. However, these expected business growth opportunities, margin benefits and other synergies may not materialise and other assumptions upon which the terms of the Merger were determined may prove to be incorrect.

The Combined Group may also face challenges with the following: redeploying resources in different areas of operations to improve efficiency; minimising the diversion of management attention from ongoing business concerns; and addressing possible differences between Carphone's business culture, processes, controls, procedures and systems and those of Dixons. Additionally, the Merger might affect the relationship that Carphone and/or Dixons have with suppliers and business partners, and affect business performance and/or potential growth opportunities.

Under any of these circumstances, the business growth opportunities, margin benefits and other synergies anticipated by Carphone and Dixons to result from the Merger may not be achieved as expected, or at all, or may be delayed materially. To the extent that the Combined Group incurs higher integration costs or achieves lower margin benefits than expected, its and the Combined Group's results of operations, financial condition and/or prospects, and the price of New Dixons Carphone Shares, may be adversely affected.

4. **The Combined Group's future prospects will, in part, be dependent on its ability to integrate the Carphone Group and the Dixons Group effectively, including the successful integration and motivation of certain Carphone and Dixons key employees and IT and operational systems**

The Combined Group's future prospects may, in part, be dependent upon the Combined Group's ability to integrate the Carphone Group and the Dixons Group successfully and any other businesses that it may acquire in the future without material disruption to the existing business including as a result of the integration of IT and operational systems. The performance of the Combined Group in the future will, amongst other things, also depend on the successful integration and motivation of key employees from both the Carphone Group and the Dixons Group. It is possible that failure to retain certain individuals during the integration period will affect the ability to integrate the Carphone Group and the Dixons Group successfully into the Combined Group and could have a material adverse effect on the Combined Group's results of operations, financial conditions and/or prospects.

5. **Carphone Shareholders and Dixons Shareholders will own a smaller percentage of the Combined Group than they currently own of Carphone and Dixons, respectively**

After the Merger becomes Effective, Carphone Shareholders and Dixons Shareholders will own a smaller percentage of the Combined Group than they currently own of Carphone and Dixons, respectively. Based on the number of Dixons Shares in issue as at the close of business on 25 June 2014 (being the latest practicable date prior to the publication of this document) and assuming that: (i) all vested share options under the Dixons Share Schemes are exercised in full and the resulting Dixons Shares are exchanged for New Dixons Carphone Shares under the Merger, and; (ii) there are no other issues of Dixons Shares or Carphone Shares (including under the Carphone Share Schemes) between 25 June 2014 (being the latest practicable date prior to the publication of this document) and the Effective Date, Carphone Shareholders and former Dixons Shareholders will own approximately 50 per cent. and approximately 50 per cent. respectively of the outstanding shares of the Combined Group. As a consequence, the number of voting rights which can be exercised and the influence which may be exerted by shareholders in respect of the Combined Group will be reduced.

6. **Risks of executing the Merger could cause the market price of New Dixons Carphone Shares to decline**

The market price of New Dixons Carphone Shares may decline as a result of the Merger, among other reasons, if:

(a) the integration of Dixons' business with Carphone's business is delayed or unsuccessful;

(b) the Combined Group does not achieve the expected benefits of the Merger as rapidly or to the extent anticipated by analysts or investors or at all;

(c) the effect of the Merger on Dixons Carphone's financial results is not consistent with the expectations of analysts or investors; or

(d) Carphone Shareholders or former Dixons Shareholders sell a significant number of New Dixons Carphone Shares after completion of the Merger.

# PRESENTATION OF INFORMATION

1. **General**

**Investors should only rely on the information contained in this document. No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representation must not be relied upon as having been so authorised by Carphone, the Carphone Directors, the Proposed Directors or the Joint Sponsors. No representation or warranty, express or implied, is made by the Joint Sponsors as to the accuracy or completeness of such information, and nothing contained in this document is, or shall be relied upon as, a promise or representation by the Joint Sponsors as to the past, present or future. Without prejudice to any legal or regulatory obligation on Carphone to publish a supplementary prospectus pursuant to section 87G of the FSMA and Prospectus Rule 3.4, neither the delivery of this document nor Admission shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Carphone Group or the Dixons Group taken as a whole since the date of this document or that the information in it is correct as of any time after the date of this document.**

The Company will update the information provided in this document by means of a supplementary prospectus if a significant new factor, material mistake or inaccuracy arises or is noted relating to the information included in this document. Any supplementary prospectus will be subject to approval by the FCA and will be made public in accordance with the Prospectus Rules.

Carphone will comply with its obligation to publish supplementary prospectuses containing further updated information required by law or by any regulatory authority but assumes no further obligation to publish additional information.

The contents of this document are not to be construed as legal, financial or tax advice. Each prospective investor should consult a legal adviser, an independent financial adviser duly authorised under the FSMA or a tax adviser for legal, financial or tax advice in relation to any investment in or holding of Carphone Shares or New Dixons Carphone Shares. Each prospective investor should consult with such advisers as needed to make its investment decision and to determine whether it is legally permitted to hold shares under applicable legal investment or similar laws or regulations. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

Investing in and holding Carphone Shares or New Dixons Carphone Shares involves financial risk. Prior to investing in Carphone Shares or New Dixons Carphone Shares, investors should carefully consider all of the information contained in this document, paying particular attention to the section entitled Risk Factors on pages 21 to 36 of this document. Investors should consider carefully whether an investment in Carphone Shares or New Dixons Carphone Shares is suitable for them in light of the information contained in this document and their personal circumstances.

The Joint Sponsors and their affiliates may have engaged in transactions with, and provided various investment banking, financial advisory and other services to the Company, for which they would have received customary fees. The Joint Sponsors and their affiliates may provide such services to the Company and any of their affiliates in the future.

2. **Presentation of financial information**

The historical consolidated financial information relating to the Carphone Group included in Part VII of this document and the Dixons Group referred to in Part VIII of this document and which is incorporated by reference into this document from the Circular has been prepared in accordance with IFRS. The significant accounting policies are set out within note 1 of the Carphone Group's historical consolidated financial information for the financial year ended 29 March 2014 in Part VII of this document and note 1 of the Dixons Group's historical consolidated financial information referred to in Part VIII of this document and which is incorporated by reference into this document from the Circular.

3. **Rounding**

Percentages and certain amounts included in this document have been rounded for ease of presentation. Accordingly, figures shown as totals in certain tables may not be the precise sum of the figures that precede them.

4. **Currencies**

Unless otherwise indicated in this document, all references to:

- ''sterling'', ''£'' or ''pence'' are to the lawful currency of the UK;
- ''US dollars'', ''dollars'', ''US$'' or ''cents'' are to the lawful currency of the United States;
- ''Euro'' or ''€'' are to the lawful currency of the European Union (as adopted by certain Member States);
- ''Swedish Krona'' is to the lawful currency of Sweden;
- ''Norwegian Krone'' or ''NOK'' is to the lawful currency of Norway; and
- ''Swiss Franc'' is to the lawful currency of Switzerland.

Unless otherwise indicated, the financial information contained in this document has been expressed in sterling. The Carphone Group presents its financial statements in sterling.

5. **Forward-looking statements**

Certain statements contained in this document, including those in the sections headed ''Summary'', ''Risk Factors'', ''Information on Carphone''; ''Information on Dixons''; ''Operating and Financial Review of Carphone''; and ''Operating and Financial Review of Dixons'' constitute ''forward-looking statements''. In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms ''believes'', ''estimates'', ''projects'', ''aims'', ''plans'', ''predicts'', ''prepares'', ''anticipates'', ''expects'', ''intends'', ''may'', ''will'' or ''should'' or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. Investors should specifically consider the factors identified in this document, which could cause actual results to differ before making an investment decision. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Carphone Group, the Dixons Group and/or the Combined Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Carphone Group, the Dixons Group and/or the Combined Group's present and future business strategies and the environment in which the Carphone Group, the Dixons Group and/or the Combined Group will operate in the future. Such risks, uncertainties and other factors are set out more fully in the section of this document headed ''Risk Factors''. These forward-looking statements speak only as at the date of this document. Except as required by the FCA, the London Stock Exchange or applicable law (including as may be required by the UKLA Rules), Carphone expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document to reflect any change in Carphone's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

The statements above relating to forward-looking statements should not be construed as a qualification on the opinion of Carphone as to working capital set out in paragraph 8 of Part XII of this document.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future or are beyond the Carphone Group's, the Dixons Group's and the Combined Group's control. Forward-looking statements are not guarantees of future performance. The Company's, Dixons' and the Combined Group's actual results of operations, financial condition and the development of the business sector in which the Carphone Group, the Dixons Group or the Combined Group operates may differ materially from those suggested by the forward-looking statements contained in this document including, but not limited to, UK domestic and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, the impact of competition, currency changes, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation and other regulations in the jurisdictions in which the Carphone Group, the Dixons Group, the Combined Group and their respective affiliates operate. In addition, even if the Company's or Dixons' actual results of operations, financial condition and the development of the business sector in which the Carphone Group, the Dixons Group or the Combined Group operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods.

Prospective investors are advised to read, in particular, the following parts of this document for a more complete discussion of the factors that could affect the Carphone Group's, the Dixons Group's or the Combined Group's future performance and the industry in which the Carphone Group, the Dixons Group or the Combined Group operates: the section entitled Risk Factors on pages 21 to 36 of this document, Part II (Information on Carphone), Part III (Information on Dixons), Part IV (Operating and Financial Review of Carphone), Part V (Operating and Financial Review of Dixons), Part VII (Historical Consolidated Financial Information relating to Carphone Group), Part VIII (Historical Consolidated Financial Information relating to Dixons Group) and Part X (Unaudited Pro Forma Financial Information on the Combined Group). In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this document may not occur.

The forward-looking statements contained in this document speak only as of the date of this document. The Company, the Carphone Directors, the Proposed Directors and the Joint Sponsors expressly disclaim any obligations or undertaking to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, unless required to do so by applicable law or regulation, the Prospectus Rules, the Listing Rules or the Disclosure and Transparency Rules.

6. **Market, economic and industry data**

This document contains information regarding the Carphone Group's and the Dixons Group's businesses and the industry in which they operate and compete, which the Company has obtained from various third party sources. Where information contained in this document originates from a third party source, it is identified where it appears in this document together with the name of its source. Such third party information has been accurately reproduced and, so far as Carphone is aware and is able to ascertain from information published by the relevant third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. No incorporation of website information

The contents of Carphone's and Dixons' websites or any hyperlinks accessible from those websites do not form part of this document and investors should not rely on them.

7. **Defined terms**

Certain terms used in this document are defined and certain technical and other terms used in this document are set out in Part XIII of this document.

All times referred to in this document are, unless otherwise stated, references to London time.

All references to legislation in this document are to the legislation of England and Wales unless the contrary is indicated. Any reference to any provision of any legislation or regulation shall include any amendment, modification, re-enactment or extension thereof.

Words importing the singular shall include the plural and *vice versa*, and words importing the masculine gender shall include the feminine or neutral gender.

8. **US considerations**

The Company is incorporated under the laws of England and Wales. Service of process upon the Carphone Directors, whom reside outside of the United States, may be difficult to obtain within the United States. Furthermore, since most directly owned assets of the Company are outside of the United States, any judgment obtained in the United States against it may not be collectible within the United States. There is doubt as to the enforceability of certain civil liabilities under US federal securities laws in original actions in English courts, and, subject to certain exceptions and time limitations, English courts will treat a final and conclusive judgment of a US court for a liquidated amount as a debt enforceable by fresh proceedings in the English courts.

# INDICATIVE MERGER STATISTICS

| | |
|---|---|
| Number of Existing Carphone Shares | 576,067,769 |
| Number of New Dixons Carphone Shares to be issued pursuant to the Merger (1) | up to 576,067,769 |
| Number of Dixons Carphone Shares in issue immediately following Admission (1) | up to 1,152,135,538 |
| New Dixons Carphone Shares as a percentage of the Enlarged Issued Share Capital (1) | 50% |
| ISIN | GB00B4Y7R145 |
| SEDOL | B4Y7R14 |

*Notes:*

*(1) Based on the maximum expected number of Dixons Shares in issue as at the Effective Date, being 3,716,566,252 following settlement of those options and awards over Dixons Shares which will vest as a result of the Merger.*

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

| Event | Time and/or date[1, 2] |
|---|---|
| Publication of this document | 26 June 2014 |
| Latest time for receipt of blue Dixons Forms of Proxy/CREST Proxy instructions for the Court Meeting | 10.00 a.m. on 15 July 2014[3] |
| Latest time for receipt of yellow Dixons Forms of Proxy/CREST Proxy instructions for the Dixons General Meeting | 10.15 a.m. on 15 July 2014[3] |
| Latest time for receipt of Carphone Form of Proxy/CREST Proxy instructions for the Carphone General Meeting | 11.00 a.m. on 15 July 2014[4] |
| Voting Record Time | 6.00 p.m. on 15 July 2014[5] |
| Court Meeting | 10.00 a.m. on 17 July 2014 |
| Dixons General Meeting | 10.15 a.m. on 17 July 2014[6] |
| Carphone General Meeting | 11.00 a.m. on 17 July 2014 |
| *The following dates are subject to change (please see note 7 below)* | |
| Scheme Sanction Hearing to sanction the Scheme and date of the Scheme Court Order | 4 August 2014 |
| Filing of Scheme Court Order | 4 August 2014 |
| Last day of dealings in, and for registration of transfers of, and disablement in CREST of, Dixons Shares | 5 August 2014[8] |
| Scheme Record Time | 6.00 p.m. on 5 August 2014 |
| Suspension of Dixons Shares from the Official List and from trading on the London Stock Exchange's main market for listed securities | By 8.00 a.m. on 6 August 2014 |
| Reduction Hearing to confirm the Capital Reduction | 6 August 2014 |
| Filing of Reduction Court Order | 6 August 2014 |
| Effective Date | 6 August 2014 |
| Delisting of Dixons Shares | By no later than 8.00 a.m. on 7 August 2014 |
| Issue of New Dixons Carphone Shares | By no later than 8.00 a.m. on 7 August 2014 |
| Admission and commencement of dealings in New Dixons Carphone Shares | 8.00 a.m. on 7 August 2014 |
| CREST accounts credited | By 8.00 a.m. on 7 August 2014 |
| Despatch of definitive share certificates, where applicable | By 20 August 2014 |
| Long Stop Date | 31 December 2014 |

*Notes:*

1. *All references in this document to times are to London time.*
2. *Each of the above dates is subject to change at the absolute discretion of the Company and Dixons. Any changes will be announced via a Regulatory Information Service.*
3. *If the blue Dixons Form of Proxy for the Court Meeting is not returned by the above time, it may be handed to Capita Asset Services, on behalf of the chairman of the Court Meeting, at the Court Meeting before the taking of the poll. However, the*

*yellow Dixons Form of Proxy for the Dixons General Meeting must be returned by no later than 10.15 a.m. on 15 July 2014 (or in the case of an adjourned meeting, not less than 48 hours prior to the time and date set for the adjourned meeting) to be valid.*

4. *The Carphone Form of Proxy for the Carphone General Meeting must be returned by no later than 11.00 a.m. on 15 July 2014 (or in the case of an adjourned meeting, not less than 48 hours prior to the time and date set for the adjourned meeting) to be valid.*
5. *If either the Court Meeting or the Dixons General Meeting is adjourned, the Voting Record Time for the adjourned meeting will be 6.00 p.m. on the date two days before the date set for the adjourned meeting.*
6. *To commence at 10.15 a.m. or, if later, immediately after the conclusion or adjournment of the Court Meeting.*
7. *These times and dates are indicative only and will depend, among other things, on the date upon which the Court sanctions the Scheme and confirms the associated Capital Reduction and the date on which the Conditions set out in the Scheme Document are satisfied or (if capable of waiver) waived. If any of the expected dates change, Dixons and/or Carphone will, unless the Panel otherwise consents, give notice of the change by issuing an announcement through a Regulatory Information Service.*
8. *Dixons Shares released, transferred or issued under the Dixons Share Schemes may be registered after this date.*

# CARPHONE DIRECTORS, PROPOSED DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

| | |
|---|---|
| Carphone Directors | Sir Charles Dunstone (*Chairman*)<br>Roger Taylor (*Deputy Chairman*)<br>Andrew Harrison (*Chief Executive Officer*)<br>Nigel Langstaff (*Chief Financial Officer*)(1)<br>John Allwood (*Non-executive Director and Senior Independent Director*)(1)<br>John Gildersleeve (*Non-executive Director*)<br>Baroness Morgan of Huyton (*Non-executive Director*)<br>Gerry Murphy (*Non-executive Director*)<br><br>all of whose business address is at 1 Portal Way, London W3 6RS |
| Proposed Directors(2) | John Allan CBE<br>Sebastian James<br>Humphrey Singer<br>Katie Bickerstaffe<br>Graham Stapleton<br>Tim How<br>Jock Lennox<br>Andrea Gisle Joosen<br><br>all of whose business address will, following the Merger becoming Effective, be at 1 Portal Way, London W3 6RS |
| Company Secretary | Tim Morris |
| Registered and Head Office | 1 Portal Way, London W3 6RS |
| Lead Financial Adviser and Joint Sponsor | Deutsche Bank AG<br>Winchester House<br>1 Great Winchester Street<br>London<br>EC2N 2DB |
| Joint Financial Adviser and Joint Sponsor | UBS Limited<br>1 Finsbury Avenue<br>London<br>EC2M 2PP |
| Legal advisers to the Company | Osborne Clarke<br>One London Wall<br>London<br>EC2Y 5EB |
| Legal advisers to the Joint Sponsors | Clifford Chance LLP<br>10 Upper Bank Street London<br>E14 5JJ |
| Auditors and Reporting Accountants | Deloitte LLP<br>2 New Street Square<br>London<br>EC4A 3BZ |
| Registrars | Equiniti Limited<br>Aspect House<br>Spencer Road<br>Lancing<br>West Sussex<br>BN99 6DA |

*Notes:*

*(1) Nigel Langstaff and John Allwood will retire as Carphone Directors with effect from the Effective Date.*

*(2) The Proposed Directors will become directors of the Company with effect from the Effective Date.*

# PART I

# INFORMATION ON THE MERGER

## 1. Introduction

On 15 May 2014, the boards of Carphone and Dixons announced that they had agreed the terms of a recommended all-share merger of Carphone and Dixons.

The terms of the Merger will provide Dixons Shareholders with 0.155 of a New Dixons Carphone Share in exchange for each Dixons Share held.

The Merger will be effected by way of a Court-sanctioned scheme of arrangement of Dixons under Part 26 of the Act pursuant to which Carphone will acquire the entire issued and to be issued ordinary share capital of Dixons. It is proposed that the Combined Group will be called "Dixons Carphone plc". Subject to the satisfaction or, where applicable, waiver of the Conditions, it is expected that the Merger will become Effective on 6 August 2014.

Owing to its size, the Merger constitutes a "reverse takeover" for the purposes of the Listing Rules and therefore requires the approval of Carphone Shareholders. Accordingly, the Carphone General Meeting has been convened for 11.00 a.m. London time on 17 July 2014 at the offices of Osborne Clarke, One London Wall, London EC2Y 5EB. Carphone Shareholders will be asked, among other things, to approve the Merger itself and the allotment of Carphone Shares in connection with the Merger.

The Carphone Directors consider the Merger and the Resolutions to be in the best interests of Carphone and Carphone Shareholders as a whole and unanimously recommend that Carphone Shareholders vote in favour of the Resolutions, as the Carphone Directors who hold or are beneficially entitled to Carphone Shares have irrevocably undertaken to do in respect of their own beneficial holdings of Carphone Shares. The Merger has also been unanimously recommended by the Dixons Directors.

## 2. Summary of the terms of the Merger

The Merger will result in each of Dixons' and Carphone's shareholders holding, in aggregate, 50 per cent. of Dixons Carphone on a fully diluted basis taking into account existing share options and award schemes for both companies. Under the terms of the Merger, and subject to the Conditions and certain further terms, if the Scheme becomes Effective Dixons Shareholders will receive:

**0.155 of a New Dixons Carphone Share in exchange for each Dixons Share**

The Scheme and the Conditions relating to the Merger are summarised at paragraph 11 below.

## 3. Background to, and reasons for, the Merger

The consumer electronics and mobile phone retail landscapes have evolved significantly over the last few years. In particular, the growth of smartphones, tablets and speed of internet access both in and out of the home, together with an increasing number of connected devices, are altering the way people live their lives, communicate and use technology. This creates a significant new opportunity for retailers to provide a broader range of products, connectivity, services and solutions to customers.

The Carphone Directors and the Dixons Directors believe that the winners within this evolving landscape will need to combine:

- a broad range of products and connectivity solutions;
- expert product knowledge backed up by independent, trusted advice;
- a full range of support services;
- multi-channel capabilities; and
- a competitive pricing model.

The directors of both Dixons and Carphone believe therefore that combining these two already strong businesses, with industry-leading management teams, will provide the opportunity to create a new retailer for the new digital age. This is underpinned by four principal drivers:

(a) ***The markets in which Carphone and Dixons operate are converging***

Technology developments, in particular, hardware innovation, internet connectivity speeds, content evolution and cloud-based storage, have been advancing rapidly. This has been particularly prevalent following the advent of the smartphone and has been supported by increasing consumer adoption rates. This has led to greater convergence of both smart connected devices and the wider markets in which both Dixons and Carphone operate. These trends are the key building blocks for the so-called 'Internet of Things', extending connectivity of devices, systems and services so that they interact with themselves, with users and with their environment – creating significant new service opportunities as customers seek help and support in the connected world.

In light of the convergence of their respective markets, Carphone and Dixons have become highly complementary businesses. Carphone is one of Europe's largest independent retailers of mobile phones, which are central to how this technology will operate and be controlled, and Dixons is one of Europe's largest retailers of electrical goods with a product range which includes many of the devices that make up the Internet of Things. The Carphone Board and the Dixons Board both believe that the current market propositions, together with a comprehensive service and support infrastructure, create the opportunity both for a compelling end-to-end proposition and for developing a long-term relationship with the Combined Group's customers.

(b) ***The Combined Group will have improved scale and reach***

The improved scale and reach in Dixons Carphone's multi-channel offerings are expected to benefit customers, suppliers and network operators alike.

The increased scale from combining Dixons and Carphone will enable the Combined Group to invest more efficiently in systems, employees and training in order to have better conversations with customers about their needs in a multi-channel world. These conversations are increasingly viewed as a critical differentiator not only by customers but also by suppliers seeking to communicate their new technologies effectively, and the Merger is expected to enhance further the Combined Group's relevance to its suppliers and network partners.

The complementary store footprint in the UK will also enable the Combined Group to offer customers increased points of presence for services such as Click&Collect or Pay&Collect.

(c) ***Significant synergies arise from the Merger***

The boards of Carphone and Dixons believe that the Merger will deliver significant value to their shareholders through a combination of enhanced commercial opportunities as well as operating efficiencies. The Carphone Board and the Dixons Board both believe that synergies arising from the Merger will be at least £80 million and expect these to be delivered in full in the financial year 2017/18.

In addition to these recurring synergies, further significant additional value from growth opportunities is expected, as outlined under "Synergies and integration" in paragraph 7 below.

(d) ***The Merger will provide a stronger platform to create global opportunities for growth through the provision of services to consumers and businesses***

Carphone and Dixons have already taken steps to develop their services platform and believe that the Merger will enhance opportunities to develop this further for consumers and businesses. Carphone has already established contracts with "blue chip" businesses such as Aviva, British Gas and Royal Bank of Scotland to provide services and support, and has opened 33 Samsung stores in seven countries and established a partnership with the Media Saturn Group in the Netherlands. Dixons has started to provide services such as delivering white goods on behalf of suppliers sold by third parties and is exploring the possibilities for utilising its sourcing operations in Hong Kong for the benefit of other electrical retailers internationally.

The Carphone Board and the Dixons Board both believe that the Merger will enable the Combined Group to leverage the strong platforms, capabilities, experiences and skills of both businesses to offer corporate and end-user customers a significantly enhanced and broader range of profitable services.

4. **Information relating to Carphone**

Over the last 25 years, Carphone's experienced management team has grown the business to become one of the largest independent telecommunications retailers in Europe, operating over 2,000 stores across seven European countries, supported by a well-developed online proposition. Carphone employs highly-trained consultants who provide specialist and independent advice across the products and services that Carphone offers, fostering long-standing relationships with customers beyond the initial sale. Carphone also benefits from strong relationships with the major Western European network operators and suppliers and its management team has a proven track record of establishing and growing successful businesses and driving value in partnerships.

Carphone has recently created its Connected World Services business, which 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 solutions. Carphone is already offering managed services to a number of businesses in Europe and is actively exploring further growth opportunities.

Carphone Shares are traded on the London Stock Exchange and Carphone is a member of the FTSE 250 index.

5. **Information relating to Dixons**

Dixons is one of the leading specialist electrical multi-channel retailing and services companies in Europe. It has expertise in selling electricals and provides a broad range of products to its customers across consumer electricals, computing and domestic appliances, complemented by related services and accessories. Dixons provides this through a multi-channel offering, online and in engaging and exciting store environments, with 944 stores in 13 countries[1]. It provides product support services as well as added value services, such as Knowhow, Showhow, fault&fix, flexible delivery options, installation and repair services to its customers. Dixons also undertakes business to business sales and services. Over the last seven years, Dixons has been significantly streamlined to focus on its core markets and has transformed its business by improving store environments, its online offer and product ranges as well as the expertise of its employees. It has established a strong business model enabling it to offer sustainable competitive pricing in a multi-channel world. These improvements have been reflected in record levels of customer satisfaction scores being recorded in mystery shops and customer exit surveys.

Dixons Shares are traded on the London Stock Exchange and Dixons is a member of the FTSE 250 index.

6. **Strategy of the Combined Group**

The Merger will enable Dixons Carphone to provide customers with an integrated offering across a broad range of technology, connectivity and services beyond the point of sale, enhancing the lifetime value of the Combined Group's customers and improving the offering to existing and new service partners. The Carphone Board and the Dixons Board both believe that this will provide the opportunity to increase the value of the core combined retail operation, the Combined Group's service proposition and its business capability.

The directors of Carphone and Dixons believe that, in addition to the strategy of delivering the synergies identified in paragraph 7, there are three significant additional growth opportunities that have been identified and will be central to the overall strategy of the Combined Group:

(a) ***Generating incremental value by providing a seamless multi-channel offering throughout the retail operation, across a comprehensive range of products and connectivity services to benefit customers and business partners***

The directors of Carphone and Dixons believe that they have the opportunity to create enhanced revenue opportunities, in addition to developing an integrated mobile retailing proposition, from an improved customer offering across multiple electrical categories, enabled by a true multi-channel approach, including a wider and more convenient

1 As at 30 April 2014. Includes the Electroworld operations in the Czech Republic and Slovakia, the agreed disposal of which was announced on 19 May 2014. 13 countries in total includes Dixons Travel stores in Italy and Belgium which are operated from the United Kingdom, franchise stores in Iceland which are operated from the Nordics division and franchise stores in Cyprus which are operated from Greece.

combined footprint for customers. In the UK, Ireland and the Nordics customers will be able to shop in store, online or using a combination of both through Click&Collect or Pay&Collect through the Combined Group's extensive store network.

In store, the Combined Group will cross-fertilise existing technologies and capabilities from Dixons and Carphone to allow simplified and improved customer journeys for multiple connected products, enabling the Combined Group's business partners to see their products and services presented to customers in a compelling manner enhanced by the customer's interaction with Dixons Carphone's highly trained staff.

The Carphone Board and the Dixons Board believe that the incremental capabilities and improved offerings coupled with ever-increasing data speeds and a broadening range of connected electrical devices will enhance revenue streams for the Combined Group and its business partners, suppliers and network operators alike.

(b) ***Driving significant revenue growth through incremental service offerings whilst providing customers with a best in class and comprehensive service proposition both in store and beyond the point of sale***

The Carphone Board and the Dixons Board believe that by building on the respective businesses' well-established service offerings of Geek Squad and Knowhow, the Combined Group will be well placed to extend Dixons Carphone's existing service offering even further across the entire range of connected and electricals products. Through an end-to-end service proposition including product set-up, delivery, ongoing peace of mind product support and insurance, as well as repairs, accessories and recycling, the Combined Group can extend the relationship with customers to provide them with the full service offering they may need anytime, anywhere and drive significant incremental lifetime value opportunities and recurring revenue streams for the Combined Group.

(c) ***Delivering substantial value enhancement by leveraging existing capabilities and providing Connected World Services to global business partners***

The Combined Group will aim to leverage its core systems, services and product expertise for the benefit of both third party customers and suppliers.

Carphone and Dixons have a shared vision for the future opportunity that exists to exploit their respective expertise in building additional services revenue streams. The Combined Group's focus will be on both existing and new markets. Although this business is relatively small, the Carphone Board and the Dixons Board believe that this can evolve on a global basis, with relatively low capital expenditure, and drive four additional revenue streams over time:

(i) *Connected retailing*

Dixons Carphone intends to offer a full range of propositions for multi-channel retailing for connected products and services. Opportunities include specific consultancy services such as sales processes, store design and customer fulfilment and loyalty, all the way through to full scale partnerships for retailers, networks and manufacturers.

(ii) *Services and support*

The Carphone Board and the Dixons Board intend to deliver technical support solutions for connected devices using existing logistics infrastructure, insurance expertise (including administration and claims management), repairs, after-sales and technical support capabilities.

(iii) *Multi-channel platform*

The Combined Group intends to provide its technology platforms and managed services to support complex transactions, connections to service providers and customer relationship management. For example, the Combined Group intends to be able to offer an end-to-end turn-key software and training solution for partner retailers who wish to navigate the complexities of hardware and networks and deliver a comprehensive mobile and connectivity offer for their customers.

(iv) *Global partnerships*

Opportunities will include leveraging the Combined Group's scale and commercial relationships, enabling partner retailers not only to source hardware, own brand consumer electrical products and accessories but also to provide network operator services.

The Carphone Board and the Dixons Board believe that the relationships, resources and combined skills of Dixons Carphone will enable the development of a much stronger business platform than were each company to pursue this strategy individually.

7. **Synergies and integration**

The Carphone Directors and the Dixons Directors, having reviewed and analysed the potential benefits of the Merger, based on their experience of operating in the consumer electrical and mobile retail sectors, and taking into account the factors they can influence, believe that the Combined Group will be able to achieve integrated mobile retailing and procurement synergies, together with cost savings, of at least £80 million on a recurring basis, which are expected to be delivered in full in the financial year 2017/18. These estimated synergies reflect both the beneficial elements and relevant costs of achieving them. The boards of Carphone and Dixons expect Dixons Carphone to deliver these synergies progressively, achieving almost half of them in the financial year 2015/16.

Approximately half of the identified synergies are expected to come from integrated mobile retailing and procurement savings. Integrated mobile retailing synergies arise in the UK, Ireland and the Nordics, and relate to the creation of an integrated mobile offering in Dixons shops, to promote a seamless customer journey across all technology categories, underpinned by the use of Carphone's expertise in mobile. It is expected that the deployment of an integrated mobile offering will commence as soon as is practicable after Completion, with a progressive roll-out, which is expected to be largely completed by the end of the financial year 2016/17. Alongside the integrated mobile retailing programme, it is expected that the Combined Group's scale will enable procurement benefits, across a number of cost categories, which are again expected to be delivered progressively.

The remainder of the identified synergies relate primarily to the integration and rationalisation of certain operational and support functions across the UK and the Nordics. These synergies comprise the elimination of duplication across such functions, and the integration of head offices and removal of duplicated rent and other infrastructure costs. These synergies are expected to be delivered progressively through periods to the end of the financial year 2016/17.

In addition to these quantified synergies, the Carphone Directors and the Dixons Directors believe that further value will be created through additional growth opportunities including:

(a) enhanced revenue opportunities from an improved customer offering across electrical, mobiles and connectivity, enabled by a true multi-channel approach, including a wider and more convenient combined footprint for customers;

(b) developing a world class service proposition for customers; and

(c) enhancement of the existing Connected World Services opportunities for both existing and new business partners around the globe.

It is expected that there will be significant job creation through the rollout of the Dixons Carphone integrated retail offering, resulting in an increase of approximately four per cent. of the Combined Group's full-time equivalent employees. This is expected to be substantially complete by the end of 2016. This increase will be partially offset as a result of the rationalisation of certain operational and support functions resulting, in these functions, in a decrease of approximately two per cent. of the Combined Group's full-time equivalent employees. Any changes related to the rationalisation are unlikely to take effect prior to 2015 and are anticipated to be implemented gradually over the three years after Completion. Taken together with the job creation opportunities, it is expected there will be a net increase of approximately two per cent. of the Combined Group's full-time equivalent employees as a result of the Merger. The integration of the businesses will clearly require some roles to change but, with more new roles being created than those that are lost, it is hoped that there will be opportunities for many of the people involved. Specific roles have not yet been identified, outcomes will depend on integration planning and will, of course, be subject to consultation with the Combined Group's employees.

The realisation of the identified synergies is expected to result in one-off exceptional costs of approximately £55 – 60 million, principally in relation to the rationalisation of certain operational and support functions where there is duplication, in the UK and Nordics regions. It is expected that such costs will largely be incurred by the end of the financial year 2015/16. Incremental capital expenditure of approximately £60 – 70 million is also expected during the period to the end of the financial year 2017/18, principally resulting from the creation of an integrated retail offering in Dixons shops, together with implementation of common IT platforms across parts of the Carphone and Dixons businesses. Aside from these identified integration costs and the planned incremental capital expenditure, no material dis-synergies are expected in connection with the Merger. The identified synergies will accrue as a direct result of the Merger and would not be achieved on a standalone basis.

Carphone and Dixons are establishing a full integration team, bringing together the best relevant capabilities of both businesses, to ensure that the synergies of the Merger are maximised. The Carphone Board and the Dixons Board are confident that the integration of Carphone and Dixons can be achieved without undue disruption to the underlying operations of either business.

As at the date of this document, an integration plan is being developed. As soon as practicable following the Effective Date, the Combined Group will aim to have fully validated its initial synergy assumptions, agreed the target operating model of the Combined Group and completed the detailed integration plan across the Combined Group's business. The integration plan, once finalised, will set out the scope of the integration process and quantified objectives, proposed organisation structures and processes to be reviewed and subsequently implemented, together with an overall integration programme and stakeholder communication and consultation timetable. Finalisation of the integration plan will be subject to engagement with appropriate stakeholders, including employee representative bodies.

These statements of estimated cost savings and synergies relate to future actions and circumstances which, by their nature, involve risks, uncertainties and contingencies. As a result, the cost savings and synergies referred to may not be achieved, may be achieved later or sooner than estimated, or those achieved could be materially different from those estimated. For the purposes of Rule 28 of the Code, these statements of estimated cost savings and synergies are the responsibility of the Carphone Directors, in Carphone's capacity as offeror under the terms of the Merger. The Carphone Directors confirm that there have been no material changes to these statements which remain valid and were set out in Appendix IV of the Announcement. Deloitte LLP and Deutsche Bank have also confirmed to Carphone that the reports they produced in connection with these statements, which were set out in Appendix IV of the Announcement, continue to apply.

These statements are not intended as a profit forecast and should not be interpreted as such.

## 8. Management, employees and head office location

The Dixons Carphone Board will be drawn equally from the boards of both companies and will comprise 14 directors, including nine Non-executive Directors.

As from Completion, Sir Charles Dunstone, Chairman of Carphone, will become the Chairman of Dixons Carphone. Roger Taylor, Deputy Chairman of Carphone, and John Allan, Chairman of Dixons, will become Co-Deputy Chairmen and John Allan will also become Senior Independent Director; Sebastian James, CEO of Dixons, will become CEO; Andrew Harrison, CEO of Carphone, will become Deputy CEO; Humphrey Singer, CFO of Dixons, will become CFO; Katie Bickerstaffe, CEO of UK & Ireland Dixons, and Graham Stapleton, CEO of UK & Ireland Carphone, will join the Dixons Carphone Board as Executive Directors and retain their current responsibilities. In addition, the Dixons Carphone Board will comprise six other Non-executive Directors. John Gildersleeve, Baroness Morgan of Huyton and Gerry Murphy will be the Non-executive Directors appointed from Carphone. Tim How, Jock Lennox and Andrea Gisle Joosen will be the Non-executive Directors appointed from Dixons.

Nigel Langstaff and John Allwood will step down from the Carphone Board upon the Scheme becoming Effective. Each of the Carphone Directors stepping down from the Carphone Board is fully supportive of the rationale for the Merger and of its terms and conditions.

Dharmash Mistry and Prof. Dr. Utho Creusen will step down from the Dixons Board upon the Scheme becoming Effective and will not join the Dixons Carphone Board. Each of the Dixons Directors who will not join the Dixons Carphone Board is fully supportive of the rationale for the Merger and of its terms and conditions.

The boards of Carphone and Dixons recognise that in order to achieve the expected benefits of the Merger, operational and administrative restructuring will be required following Completion.

The Combined Group will in due course consolidate its head office functions within one principal location. Dixons and Carphone are currently working on assessing the solution which best suits the future business needs of the Combined Group.

Carphone has given assurances that, following Completion, the existing employment rights of Dixons' and Carphone's employees will be fully safeguarded.

9. **Financial and accounting considerations**

The Carphone financial year ends on or around 31 March and the Dixons financial year ends on 30 April. Dixons Carphone will look at the merits of adopting each of these year ends but its current intention is to adopt an end of April year end.

For accounting purposes, it is expected that Dixons will be consolidated into Carphone's balance sheet. A fair value exercise in respect of Dixons' assets and liabilities will be conducted following Completion, resulting in Dixons' assets and liabilities being included at fair value on the Combined Group's balance sheet. Intangible assets arising will include goodwill and brands.

10. **Dividends and dividend policy**

Dixons Carphone intends to adopt a dividend policy in line with Carphone's current dividend policy of 3.0x dividend cover based on Headline earnings. The exchange ratio of the Merger has been determined on the basis that no dividend will be payable by either of Carphone or Dixons prior to Completion, other than an ordinary course Carphone final dividend of 4 pence per Carphone Share in respect of the financial year ended 29 March 2014.

11. **Structure of the Merger**

The Merger will be implemented by way of a Court-sanctioned scheme of arrangement between Dixons and the Dixons Shareholders, under Part 26 of the Act, under which Carphone will acquire all of the shares in Dixons.

The purpose of the Scheme is to provide for Carphone to become the holder of the entire issued and to be issued ordinary share capital of Dixons. This is to be achieved by the cancellation of the Dixons Shares held by Dixons Shareholders and the application of the reserve arising from such cancellation in paying up in full such number of new Dixons Shares as is equal to the number of Dixons Shares cancelled, and issuing the same to Carphone in consideration for which Dixons Shareholders will receive consideration on the basis set out in paragraph 2 above.

The Merger is subject to the Conditions and certain further terms and will only become Effective if, among other things, the following events occur on or before 31 December 2014 or such later date as Carphone and Dixons may agree and (if required) the Court and the Panel may allow:

(a) a resolution to approve the Scheme being passed by a majority in number of the Dixons Shareholders who are present and voting at the Court Meeting, either in person or by proxy, representing 75 per cent. or more in value of the Dixons Shares voted by those Dixons Shareholders;

(b) the special resolutions necessary to implement the Scheme and to approve the related Capital Reduction being passed by the requisite majority of Dixons Shareholders at the Dixons General Meeting;

(c) the Scheme being sanctioned (with or without modification, on terms agreed by Carphone and Dixons) and the related Capital Reduction being confirmed by the Court;

(d) a copy of each of the Court Orders (together with the Statement of Capital) being delivered to the Registrar of Companies and, if so ordered by the Court, the Reduction Court Order being registered by the Registrar of Companies, together with the Statement of Capital;

(e) relevant anti-trust clearances being received on terms satisfactory to Carphone and Dixons (acting reasonably);

(f) the resolution to be proposed at the Carphone General Meeting to approve, effect and implement the Merger and to grant authority to the Carphone Directors to allot the New Dixons Carphone Shares, being passed by the requisite majority of Carphone Shareholders (but, for the avoidance of doubt, not the other resolutions to be proposed at the Carphone General Meeting which shall not be conditions to the Merger); and

(g) the UK Listing Authority having acknowledged to Carphone or its agent (and such acknowledgement not having been withdrawn) that the application for the admission of the New Dixons Carphone Shares to listing on the premium segment of the Official List has been approved and (subject to satisfaction of any conditions to which such approval is expressed) will become effective as soon as a dealing notice has been issued by the UK Listing Authority and such conditions have been satisfied and the London Stock Exchange having acknowledged to Carphone or its agent (and such acknowledgement not having been withdrawn) that the New Dixons Carphone Shares will be admitted to trading on the London Stock Exchange's main market for listed securities.

On 25 June 2014, the European Commission confirmed that it had unconditionally cleared the Merger following its Phase I review.

Upon the Scheme becoming Effective, it will be binding on all Dixons Shareholders, irrespective of whether or not they attended or voted at the Court Meeting or the Dixons General Meeting (and if they attended and voted, whether or not they voted in favour), and share certificates in respect of Dixons Shares will cease to be valid and entitlements to Dixons Shares held within the CREST system will be cancelled.

Dixons Shares will be acquired by Carphone pursuant to the Scheme fully paid and free from all liens, charges, equities, encumbrances, rights of pre-emption and any other interests of any nature whatsoever and together with all rights attaching thereto, including voting rights and the rights to receive and retain in full all dividends and other distributions declared, made or paid on or after the Effective Date, save where the record date for such dividend or other distribution falls prior to the Effective Date or otherwise where Carphone and Dixons agree.

The New Dixons Carphone Shares issued to Dixons Shareholders pursuant to the Scheme will be issued credited as fully paid and will rank *pari passu* in all respects with existing Carphone Shares, including the right to receive dividends and other distributions declared, made or paid on Carphone Shares by reference to a record date falling after the Effective Date. The New Dixons Carphone Shares will be issued in registered form and will trade under the same ISIN number as the Existing Carphone Shares.

Fractions of New Dixons Carphone Shares will not be allotted or issued pursuant to the Merger and fractional entitlements will be rounded down to the nearest whole number of New Dixons Carphone Shares. Dixons Shareholders who hold six or fewer Dixons Shares will have their Dixons Shares cancelled, but will not receive any New Dixons Carphone Shares (or any other consideration) pursuant to the Scheme unless they increase their holding of Dixons Shares prior to the Scheme Record Time.

If the Scheme does not become Effective on or before 31 December 2014 (or such later date as Carphone and Dixons may agree and (if required) the Court and the Panel may allow), it will lapse and the Merger will not proceed.

12. **Employee share schemes**

(a) ***Carphone Share Schemes***

Outstanding options and awards under the Carphone 2010 Share Scheme, the CPW SAYE Scheme and the CPWG Share Plan will not vest as a result of the Merger. The awards under the Carphone 2010 Share Scheme and the CPW SAYE Scheme will continue on the same terms as prior to the Merger and the awards under the CPWG Share Plan will continue on similar terms subject to any necessary adjustment to take into account the Merger including, without limitation, the impact of New Dixons Carphone Shares being issued pursuant to the Merger and the potential growth in the Combined Group.

At the Carphone General Meeting, approval will be sought from Carphone Shareholders to proposed amendments to the Carphone 2010 Share Scheme and the CPWG Share Plan, details of which are described below.

The Carphone Group adopted the Carphone 2010 Share Scheme, the principal provisions of which are set out in paragraph 10.1 of Part XI of this document, on 24 February 2010. At a general meeting of the Company held on 24 June 2013, Carphone Shareholders approved the extension of the life of the Carphone 2010 Share Scheme so that it currently expires on the tenth anniversary of that general meeting. At the Carphone General Meeting, Carphone Shareholders will be asked to authorise an extension of the life of the Carphone 2010 Share Scheme so that it expires on the tenth anniversary of the Carphone General Meeting. The full text of the resolution relating to the Carphone 2010 Share Scheme is set out in the Notice of Carphone General Meeting at the end of the Circular.

At the Carphone General Meeting, Carphone Shareholders will be asked to authorise amendments to the rules of the CPWG Share Plan in order to give the remuneration committee of Dixons Carphone the ability to amend any of the terms of awards made under that plan to existing participants and grant new awards under the CPWG Share Plan following the Merger becoming Effective to employees of the Combined Group including those currently employed by the Dixons Group, in each case in accordance with the rules of the CPWG Share Plan and to take into account the Merger including, without limitation, the impact of New Dixons Carphone Shares being issued pursuant to the Merger and the potential growth in the Combined Group. The full text of the resolution relating to the CPWG Share Plan is set out in the Notice of Carphone General Meeting at the end of the Circular.

The full text of the amended rules of the Carphone 2010 Share Scheme and the CPWG Share Plan will be available for inspection, from the date of this document until the close of the Carphone General Meeting, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of Osborne Clarke, One London Wall, London EC2Y 5EB.

(b) ***Dixons Share Schemes***

Letters are being sent to the participants in the Dixons Share Schemes explaining the effect of the Scheme on their share options and awards.

All Dixons Shares issued or transferred on the exercise of options or vesting of awards under the Dixons Share Schemes before the Scheme Record Time will be subject to the terms of the Scheme. The Scheme will not extend to Dixons Shares issued after the Scheme Record Time. It is proposed to amend the articles of association of Dixons at the Dixons General Meeting to provide that, if the Scheme becomes Effective, any Dixons Share issued or transferred after the Scheme Record Time will be automatically transferred to Dixons Carphone in consideration for the issue or transfer of Dixons Carphone Shares on the same terms as for holders of Dixons Shares before the Scheme Record Time.

Outstanding Dixons ESOP options and Dixons PSP awards which are not already exercisable or vested will vest immediately on the sanction of the Scheme by the Court to the extent that performance conditions are satisfied and, where applicable, subject to the participant entering into a lock-in commitment. Dixons PSP awards made in 2013 will be pro-rated by 50 per cent. Outstanding Dixons RRP awards will also vest on the sanction of the Scheme by the Court. Dixons ESOP options which are already vested will be able to participate in the Scheme. Any outstanding Dixons ESOP options will lapse no later than six months after the sanction of the Scheme by the Court.

Carphone will offer Dixons Sharesave participants the opportunity to rollover the options granted in 2011, 2012 and 2013, enabling them to exercise their options in full over Dixons Carphone Shares at the maturity date free of income tax for UK participants, adjusted as appropriate. Any Dixons Sharesave options which are not rolled over and are not exercised will lapse no later than six months after the sanction of the Scheme by the Court.

The maximum number of Dixons Shares that will be exchanged for Dixons Carphone Shares will be 3,716,566,252 Dixons Shares following settlement of those options and awards over Dixons Shares which will vest as a result of the Merger. It is expected that new Dixons Shares will be issued to satisfy the vesting of awards and exercise of options up to the maximum number of 3,716,566,252 Dixons Shares. Further entitlements to receive Dixons Shares as a result of the vesting of awards and exercise of options will be satisfied by the acquisition of Dixons Shares in the market by the trustee of Dixons' employee benefit trust and/or in cash, or as otherwise agreed with Carphone.

13. **Irrevocable undertakings**

In aggregate, Carphone and Dixons have received irrevocable undertakings from:

- those of the Dixons Directors and certain members of their families who hold or are beneficially entitled to Dixons Shares to vote in favour of the Scheme at the Court Meeting and the resolutions to be proposed at the Dixons General Meeting, in respect of an aggregate of 2,149,695 Dixons Shares, representing, in aggregate, approximately 0.06 per cent. of Dixons' ordinary share capital in issue on 25 June 2014 (being the latest practicable date prior to the publication of this document); and
- those of the Carphone Directors and certain members of their families who hold or are beneficially entitled to Carphone Shares to vote in favour of the resolutions to be proposed at the Carphone General Meeting to approve the Merger and related matters, in respect of an aggregate of 153,679,774 Carphone Shares, representing, in aggregate, approximately 26.7 per cent. of Carphone's ordinary share capital in issue on 25 June 2014 (being the latest practicable date prior to the publication of this document).

14. **Lock-in commitments**

Each of the proposed members of the Dixons Carphone Board has given a binding undertaking not to dispose of any of his or her beneficial holdings in shares of Dixons Carphone (or any interest therein), which he or she holds on Admission or subsequently acquires during the lock-in period, subject to limited exceptions. Certain other Carphone Group and Dixons Group senior executives have given similar commitments. All of the proposed members of the Dixons Carphone Board have given this undertaking for a period of 24 months following Completion, with the exception of Katie Bickerstaffe and Graham Stapleton who have given this undertaking for a period of 12 months, in line with undertakings received from other senior executives.

15. **Offer related arrangements**

Carphone and Dixons have entered into a mutual confidentiality agreement dated 30 January 2014 pursuant to which each of Carphone and Dixons has undertaken to keep certain information relating to the Merger and the other party confidential and not to disclose it to third parties (other than to permitted disclosees) unless required by law or regulation. These confidentiality obligations will remain in force until Completion.

16. **De-listing of Dixons**

Prior to the Scheme becoming Effective, applications will be made to the UK Listing Authority for the cancellation of the listing of the Dixons Shares on the Official List and to the London Stock Exchange for the cancellation of trading of the Dixons Shares on the London Stock Exchange's main market for listed securities, in each case to take effect on or shortly after the Effective Date.

On the Effective Date, Dixons will become a wholly-owned subsidiary of Carphone and share certificates in respect of Dixons Shares will cease to be valid and entitlements to Dixons Shares held within the CREST system will be cancelled.

17. **Listing, dealings and settlement of the New Dixons Carphone Shares**

Applications will be made to the UK Listing Authority for the New Dixons Carphone Shares to be admitted to the premium listing segment of the Official List and to the London Stock Exchange for the New Dixons Carphone Shares to be admitted to trading on the London

Stock Exchange's main market for listed securities. It is expected that Admission will become effective and that dealings for normal settlement in the New Dixons Carphone Shares will commence on the London Stock Exchange at 8.00 a.m. on 7 August 2014.

18. **Dilution**

Subject to the Merger becoming Effective, it is expected that up to 576,067,769 New Dixons Carphone Shares will be issued. This will result in Carphone's issued share capital increasing by approximately 100 per cent. If the Merger becomes Effective, Carphone Shareholders will suffer an immediate dilution as a result of the Merger following which they will hold approximately 50 per cent. of the Enlarged Issued Share Capital.

19. **Overseas Shareholders**

***United States***

The New Dixons Carphone Shares have not been, and will not be, registered under the US Securities Act or under the securities laws of any state, district or other jurisdiction of the United States. Accordingly, the New Dixons Carphone Shares may not be offered, sold, resold, delivered, distributed or otherwise transferred, directly or indirectly, in, into or from the United States absent registration under the US Securities Act or an exemption from registration.

It is expected that the New Dixons Carphone Shares to be issued pursuant to the Scheme will be issued in reliance upon an exemption from the registration requirements of the US Securities Act provided by Section 3(a)(10) thereof.

For the purpose of qualifying for the exemption from the registration requirements of the US Securities Act provided by Section 3(a)(10) of that Act with respect to the New Dixons Carphone Shares issued pursuant to the Scheme, Dixons will advise the Court that Carphone will rely on the Section 3(a)(10) exemption based on the Court's sanctioning of the Scheme, which will be relied upon by Carphone as an approval of the Scheme following a hearing on its fairness to Dixons Shareholders at which hearing all such Dixons Shareholders are entitled to attend in person or through counsel to support or oppose the sanctioning of the Scheme and with respect to which notification has been given to all such Dixons Shareholders.

The New Dixons Carphone Shares issued to a Dixons Shareholder who was not or will not be an "affiliate" (within the meaning of the US Securities Act) of Dixons or Carphone prior to, or Dixons Carphone after, the Effective Date will not be "restricted securities" under the US Securities Act and such New Dixons Carphone Shares may be sold by such person in ordinary secondary market transactions without restriction under the US Securities Act.

Under applicable US securities laws, a person (whether or not a US person) who is or will be deemed to be an "affiliate" (within the meaning of the US Securities Act) of Dixons or Carphone prior to, or Dixons Carphone after, the Effective Date will be subject to certain US transfer restrictions relating to the New Dixons Carphone Shares received in connection with the Scheme. Persons who may be deemed to be affiliates of Dixons or Carphone include individuals who, or entities that, control, directly or indirectly, or are controlled by or are under common control with, Dixons or Carphone and may include certain officers and directors and principal shareholders (such as, for example, a holder of more than 10 per cent. of the outstanding capital stock). Dixons Shareholders who are affiliates may not resell the New Dixons Carphone Shares received pursuant to the Scheme without registration under the US Securities Act, except pursuant to an applicable exemption from the registration requirements of the US Securities Act, or in a transaction not subject to such requirements. Dixons Shareholders who believe they may be affiliates for the purposes of the US Securities Act should consult their own legal advisers prior to any sale of the New Dixons Carphone Shares received pursuant to the Scheme.

The New Dixons Carphone Shares have not been and will not be listed on a US securities exchange or quoted on any inter-dealer quotation system in the United States. Carphone does not intend to take any action to facilitate a market in the New Dixons Carphone Shares in the United States. Consequently, Carphone believes that it is unlikely that an active trading market in the United States will develop for the New Dixons Carphone Shares.

The New Dixons Carphone Shares will not be registered under the securities laws of any state of the United States, and will be issued in the United States in compliance with, or in reliance on, available exemptions from such state law registration requirements.

Neither the SEC nor any other US federal or state securities commission or regulatory authority has approved or disapproved the New Dixons Carphone Shares or passed upon the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

If Carphone exercises its right, subject to the consent of the Panel and Dixons, to implement the Merger by way of a Merger Offer, the Merger will be made in compliance with applicable US laws and regulations, including applicable provisions of the tender offer rules under the US Exchange Act, to the extent applicable.

Dixons Shareholders who are citizens or residents of the United States should consult their own legal and tax advisers with respect to the legal and tax consequences of the Scheme or, if Carphone decides to implement the Merger by way of a Merger Offer, the Merger Offer, in their particular circumstances.

The Merger will involve an exchange of securities of a company incorporated under the laws of England and Wales for the securities of another company incorporated under the laws of England and Wales and will be subject to UK disclosure requirements. The Merger is proposed to be made by means of a scheme of arrangement provided for under the laws of England and Wales and is subject to the disclosure requirements and practices applicable in the UK to takeover offers effected by way of schemes of arrangement, which may differ from the disclosure and other requirements of the securities laws of jurisdictions other than the United Kingdom (**"Restricted Jurisdictions"**). Financial information included in the relevant documentation will have been prepared in accordance with IFRS.

***Dixons American Depositary Shares***

The Scheme will not be extended to holders of Dixons ADSs. Therefore, if the Scheme becomes Effective, the Dixons Depositary will sell the New Dixons Carphone Shares it receives in the Scheme as agent for and on behalf of Dixons ADS holders, will call for surrender of the Dixons ADSs and, upon those surrenders, will deliver the proceeds of that sale, net of applicable fees, expenses, taxes and governmental charges, to the Dixons ADS holders entitled to them in accordance with the terms of the Deposit Agreement. Thereafter, the Dixons ADS program will be terminated.

Dixons ADS holders will not be entitled to vote directly on the Scheme and the Merger. However, Dixons ADS holders have the right to instruct the Dixons Depositary how to vote the Dixons Shares underlying the Dixons ADSs with respect to the Scheme and the Merger, subject to and in accordance with the terms of the Deposit Agreement, but the Dixons Depositary will not send voting cards or otherwise solicit those instructions from Dixons ADS holders.

If you hold Dixons ADSs and wish to vote directly on the Scheme and the Merger or to receive New Dixons Carphone Shares in the Scheme, you must surrender your Dixons ADSs to the Dixons Depositary, pay the Dixons Depositary's fees and charges in accordance with the Deposit Agreement and become a holder of Dixons Shares prior to the Voting Record Time or Scheme Record Time, as applicable, and in each case subject to and in accordance with the terms of the Deposit Agreement. Dixons ADS holders that wish to vote directly on the Scheme and the Merger or to receive New Dixons Carphone Shares in the Scheme should take care to surrender their Dixons ADSs in time to permit processing to be completed by the Dixons Depositary and its English custodian prior to the Voting Record Time or the Scheme Record Time, as applicable. If you hold Dixons ADSs through a broker or other securities intermediary, you should contact that intermediary to determine the date by which you must instruct that intermediary to act in order that the necessary processing can be completed in time.

If the Scheme becomes Effective, holders of Dixons ADSs who are residents of the United States for tax purposes and receive cash upon their surrender of Dixons ADSs will generally recognize gain or loss for US federal income tax purposes. Such holders should consult their independent professional advisers as to the US federal income tax consequences of the Scheme.

### *Other jurisdictions*

This document and any accompanying documents may not be treated as an invitation to acquire or subscribe for any New Dixons Carphone Shares by any person resident or located in any Restricted Jurisdiction (''**Overseas Shareholders**'').

The New Dixons Carphone Shares have not been, and will not be, registered under the applicable securities laws of any Restricted Jurisdiction. Accordingly, the New Dixons Carphone Shares may not be offered, sold, delivered or transferred, directly or indirectly, in or into any Restricted Jurisdiction to or for the account or benefit of any national, resident or citizen of any Restricted Jurisdiction.

The implications of the Scheme for Overseas Shareholders may be affected by the laws of relevant jurisdictions.

Such Overseas Shareholders should inform themselves about, and observe, any applicable legal requirements. It is the responsibility of each overseas person who is to receive New Dixons Carphone Shares pursuant to the Scheme to satisfy himself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required or the compliance with other necessary formalities which are required to be observed and the payment of any issue, transfer or other taxes due in such jurisdiction.

This document has been prepared for the purposes of complying with English law, the Prospectus Rules and the Listing Rules, and the information disclosed may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws of jurisdictions outside the UK.

THIS DOCUMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITY. NONE OF THE SECURITIES REFERRED TO IN THIS DOCUMENT SHALL BE SOLD, ISSUED OR TRANSFERRED IN ANY JURISDICTION IN CONTRAVENTION OF APPLICABLE LAW.

Overseas Shareholders should consult their own legal and tax advisers with respect to the legal and tax consequences of the Scheme in their particular circumstances.

# PART II

# INFORMATION ON THE CARPHONE GROUP

*The following information should be read in conjunction with the information appearing elsewhere in this document including the Carphone Group's audited historical consolidated financial information for the three years ended 31 March 2012, 31 March 2013 and 29 March 2014 which is contained in Part VII of this document. Unless otherwise indicated, the selected financial information included in this Part II has been extracted without material adjustment from the Carphone Group's audited historical consolidated financial information contained in Part VII of this document.*

## 1. Introduction

CPW, the continuing business of the Carphone Group, excluding joint venture interests, is one of the largest, independent, multi-channel telecommunications retailers in Europe, operating in seven European countries, principally under the Carphone Warehouse and Phone House brands. CPW specialises in mobile handsets, tablets and other connected devices, combining hardware with connections to service providers to create subsidised propositions. The business has highly-trained consultants who provide specialist and independent advice in areas of product and service complexity, and offers ongoing customer support beyond the point of sale, including a comprehensive range of insurance and technical support services. Its Connected World Services division 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 solutions.

The Carphone Group also holds a 46 per cent. interest in Virgin Mobile France, which is the largest MVNO in France with approximately 1.7 million customers, further details of which are set out in paragraph 11 of this Part II. On 16 May 2014, Carphone announced that the shareholders of Virgin Mobile France had entered into an exclusivity agreement in respect of the proposed sale of 100 per cent. of Virgin Mobile France to Numericable Group for an enterprise value of Euro 325 million. During the exclusivity period the parties have carried out the necessary consultations with employee work councils, with the transaction also being subject to the approval of the French Competition Authority.

## 2. Business overview

*Retail products and services*

A significant proportion of CPW's revenue is derived from MNOs and other service providers, for delivering new customers and upgrades. CPW's revenue is generally based on the ultimate value of the customers it acquires for the relevant service provider, commonly involving a share of customer revenues. CPW typically uses these commissions to subsidise the sales values of a range of connected devices such as smartphones and tablets. CPW also offers a range of ancillary products, including accessories, wearables and app-cessories, which are smartphone/tablet accessories that work specifically with mobile applications.

CPW's retail proposition utilises highly-trained experts providing impartial advice on connected devices, network connections and tariffs, and ancillary products and services. The business has enhanced its proposition in the UK in recent months through a tablet-based sales tool, 'Pin Point', which offers a personalised experience allowing customers to compare between networks, tariffs and handsets, with features such as a network coverage checker and a data allowance function to help customers to assess future usage.

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

- Technology support – including device set-up, data back-up and data transfer services, together with remote technical support from highly-trained Geek Squad agents;
- Insurance – providing protection from loss, theft or damage to customers' devices, with a 48-hour replacement service in several markets and claims acceptance rates typically over 95 per cent.; and
- Repairs – CPW runs the largest in-house mobile phone repair facility in the UK, and has well-developed processes for managing repairs of handsets and other devices across its mainland European markets.

*Retail sales channels*

In the UK and the Republic of Ireland, CPW trades under the "Carphone Warehouse" brand and elsewhere primarily trades under the "Phone House" brand.

As at 29 March 2014, CPW had a portfolio of 2,024 stores, spread across seven European countries as follows:

| Country | Own stores | Franchise stores | Total stores |
|---|---|---|---|
| UK | 771 | N/A | 771 |
| Spain | 356 | 178 | 534 |
| Netherlands | 145 | 68 | 213 |
| Portugal | 157 | 3 | 160 |
| Germany | 121 | 34 | 155 |
| Sweden | 91 | 9 | 100 |
| Ireland | 91 | N/A | 91 |
| **Total** | **1,732** | **292** | **2,024** |

CPW's retail stores are generally positioned on high streets, in shopping centres, and in retail parks. CPW's stores typically have an average selling space of around 650 square feet. Within the overall portfolio, CPW has 1,732 of its own stores (excluding France which is in the process of closure). In certain mainland European markets, these stores are supplemented by franchise stores, of which there were 292 as at 29 March 2014. These stores provide the same consumer proposition and generally operate on the same sales and back office systems as own stores, but are typically in secondary locations and the lease is held by the franchisee.

Within its own store portfolio, as at 29 March 2014, CPW had 35 stores-in-stores, 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. SIS partnerships currently include Harvey Norman in Ireland and Makro and Media-Markt Saturn in the Netherlands.

CPW has taken the opportunity to leverage its retail expertise to provide retail services to a number of MNO and other service providers. It currently runs stores on behalf of Yoigo in Spain, Portugal Telecom and Vodafone in Portugal, and T-Punkt in Germany. During the financial year ended 29 March 2014, CPW entered into a preferred-partner agreement with Samsung and have now opened 33 Samsung stores across seven CPW territories. All of the above mentioned stores are included within CPW's own store numbers.

CPW has well-developed websites in all of its markets. Revenues from CPW's websites remain a relatively small proportion of total revenue, typically ranging between 10 and 15 per cent. Customers continue to value the advice available within CPW stores, given the complexity of the technology available to customers, and the opportunity to obtain technical support through the business' Geek Squad service. In the UK, the Netherlands and Germany, the Carphone and Phone House brands are supplemented by specialist online brands such as E2Save.com, mobiles.co.uk, Typhone.nl. and Typhone.de.

In addition to supporting sales activity, CPW's websites provide an important marketing tool, enabling customers to undertake their own research, even if they ultimately choose another channel for the final purchase. Retail and online channels are supported by a transactional mobile site, providing further choice for customers. In the UK, CPW is active across social media platforms such as Facebook and Twitter, which provide meaningful ways to engage with existing and potential customers.

*Dealer*

CPW generates significant revenues from the sale of mobile handsets to, and from the management of MNO connections on behalf of, smaller or non-specialist retailers and distributors. Its largest operation is in Germany, where the Mobile World Distribution business shares the benefits of its commercial terms with MNOs and suppliers with other businesses, and provides support services to a number of retailers. Similar services are also provided by CPW's UK business.

*Connected World Services*

CPW has 25 years of experience in the mobile industry. During this time, CPW 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 tools 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 known as Connected World Services.

**Connected World Services — range of services**

| Service | Description | Clients |
| --- | --- | --- |
| Connected retailing | Multi-channel consultancy and support for connected product and service propositions, ranging from specific managed services through to partnerships. | Portugal Telecom<br>Makro<br>Media-Markt Saturn<br>Samsung<br>T-Punkt<br>Vodafone<br>Yoigo |
| Services and support (in partnership with Aviva) | Provision of insurance services, including policy administration, claims administration and fulfilment; and provision of technical support solutions for connected devices. | Belgacom<br>British Gas<br>RBS<br>TalkTalk |
| honeyBee platform (in partnership with Accenture) | Provision of technology platforms and managed services to support complex transactions, connections to service providers and customer relationship management. | (Announcements to be made in due course) |
| Global partnerships | Leverages CPW's scale and commercial relationships, enabling partner retailers to source hardware and to provide network operator services. | Allo<br>TalkTalk |

## 3. History and development

Key recent events in the development of the Carphone Group include:

| | |
|---|---|
| 1989 | Founded by Sir Charles Dunstone as a UK mobile phone retailer. |
| 1996 | Launched the Phone House stores in mainland Europe. |
| 2000 | Initial public offering on the main market of the London Stock Exchange. |
| 2003 | Launched TalkTalk, a fixed line telephone and broadband service provider, as a direct competitor to BT in the residential telephony market. |
| 2006 | Launch of Virgin Mobile France as a joint venture with the Virgin Group. Launched as the major alternative brand to traditional operators in the French market. |
| 2007 | Entered into two commercial arrangements with Best Buy, a leading US consumer electronics retailer. Firstly, the launch of Best Buy Mobile, an independent mobile retail format in the US. Secondly the launch of the Geek Squad, a home technology support business, in the UK. |
| 2008 | Best Buy acquired 50 per cent. of the Carphone Group's mobile phone retail and distribution business for £1.088 billion, creating a new joint venture. |
| 2010 | Demerger of TalkTalk as a separately listed group on the London Stock Exchange. |
| 2010 | The joint venture with Best Buy launched Best Buy UK, its Best Buy-branded 'Big Box' store format. |
| 2011 | Sold interest in Best Buy Mobile to Best Buy for £838 million in cash, subsequently returned to shareholders. |
| 2012 | Best Buy UK business discontinued. Following the sale of Best Buy Mobile and closure of Best Buy UK stores, the joint venture with Best Buy consisted of its core European retail business, the Carphone Europe Group. |
| 2013 | Acquired Best Buy's 50 per cent. of the Carphone Europe Group for a net consideration of £471 million. 100 per cent. ownership from completion on 26 June 2013.<br><br>Transferred from standard listing segment to premium listing segment of the Official List. FTSE 250 inclusion from December 2013 Quarterly Review. |

## 4. Marketplace

Mobile handsets and other connected devices are sold through a range of retail channels, including consumer electronics retailers, generalists, such as supermarkets and hypermarkets, and specialists. Specialists such as CPW tend to focus on postpay connections, which are more complex in nature requiring a greater level of advice and expertise and the opportunity for CPW to offer associated services such as insurance. Generalists are typically more focused on unconnected or prepay handsets, which ordinarily involve a less complex transaction process and require lower levels of customer support. Alongside these retailers, MNOs typically have significant networks of branded stores, which sell only the products and services of the relevant MNO. Such stores may be managed and controlled directly by an MNO, or may operate under franchise or dealership arrangements.

These retailers and network operators generally have a combination of stores, online channels and, in some cases, call centres. Being a leading specialist, CPW's online channels are used to enable customer research as well as to provide alternative purchasing options. There are also some retailers which operate only through online channels.

The key drivers of the European mobile sector include:

(a) *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 devices 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.

(b) *Network evolution*

MNOs across Western Europe have invested significantly in recent years in the development of 4G network infrastructure. 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 ARPUs.

(c) *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.

(d) *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.

(e) *Regulatory pressure on MNOs*

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 of prepay phones making them increasingly more expensive for consumers, causing a shift towards postpay in some markets.

(f) *Online*

As with most markets, the internet plays an increasingly important part of customers' purchasing journey. A majority of customers research online before making a purchase. However, unlike many multi-channel retailers, where online sales have become a significant portion of sales, mobile online sales continue to represent between 10 per cent. and 15 per cent. 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.

5. **Key strengths**

The Carphone Board believes that the key strengths of the Carphone Group are:

(a) *Experienced management team, with long-standing industry relationships*

Sir Charles Dunstone, Roger Taylor and Andrew Harrison have been instrumental in growing and developing the business with the help of an experienced management team, many of whom have held long-standing management positions within the Carphone Group. The management team has been critical to building CPW's track record of profitable growth (both organic and through successful integration of acquisitions) and of innovation in retail and telecommunications.

(b) *One of the largest independent European telecommunications retailers with strong relationships with major Western European network operators*

Over 25 years, CPW has grown to become one of the leading independent European retailers of mobile phones and other connected devices, with 2,024 stores across seven European countries as at 29 March 2014. Through scale, CPW has developed strong relationships with major network operators and device manufacturers in its markets. The business works very closely to align its interests with the interests of the network operators, by encouraging ongoing mutually beneficial commercial terms.

(c) *Portfolio of strong retail brands*

In the UK and the Republic of Ireland, CPW operates under the "Carphone Warehouse" brand, which was created when the business was formed in 1989. As a mobile phone retailer, this brand scores spontaneous awareness in the range of 52 to 57 per cent. and prompted awareness of over 96 per cent. In the rest of Europe, CPW operates under the Phone House brand, which scores prompted awareness in most countries of over 90 per cent.

(d) *Customer-centric retail proposition, with a demonstrated track record of high quality service*

CPW runs a customer-centric model, based on its provision of high quality independent advice to the consumer. This focus on customer service (in particular the provision of independent advice on devices and tariffs) and technology support has become increasingly important in recent years, with the proliferation of smartphones, tablets and other sophisticated connected devices with complex operating systems, requiring a greater degree of technical support. CPW has a long history of customer service and retail awards. Over the last year 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 Carphone Group came first in the "retailers – Specialist" category of Britain's Most Admired Companies 2013. CPW also received a 5 star rating from Defaqto for its Geek Squad service for the third year running.

(e) *Strong track record of innovation*

CPW has been at the forefront of product and service innovation, introducing fashion orientated mobiles, including branded and coloured handsets, launching the subsidisation of laptops and tablets in the European market, as well as introducing service propositions such as express repair centres and back-up facilities for mobile phone contacts. CPW has been focused on innovative measures that continue to support and build on a trusted brand for consumers. In September 2013, CPW launched a tablet-based sales tool called 'Pin Point'. Key features of this tool include the 'network coverage checker', which allows customers to assess the best network coverage across two post codes of their choice, as well as 'future proofing', which helps customers assess their likely data usage (particularly relevant for new 4G users).

(f) *Beneficiary of leading global purchasing economies of scale, with strong relationships with major global manufacturers*

CPW benefits from significant purchasing economies of scale, based on its status in Western Europe and its ability to leverage its buying power with international suppliers to secure attractive deals with manufacturers and logistics operators.

(g) *Core specialist capabilities, processes and systems create opportunities for partnerships and managed services to grow the Connected World Services business*

CPW has the ability to leverage its core expertise and systems to provide a range of services to third parties, as set out in the table of Connected World Services within paragraph 2 of this Part II. Delivering CPW's proposition is complex, involving connectivity with networks, customer relationship management, IT and insurance. The sharing of core systems and operating processes, as well as expertise in insurance, customer management and administration, contributed to the success of Best Buy Mobile in the US and highlighted the opportunity to use this expertise to help third parties to realise significant incremental value.

6. **Strategy**

The management team of CPW has a demonstrated track record of establishing and growing successful businesses. It intends to apply its extensive experience and industry relationships to help its business investments deliver on their strategic goals and to build value for Carphone Shareholders.

The principal strategic ambitions of CPW are as follows:

(a) *Provide outstanding value and help simplify complex areas of connected technology for its customers*

CPW aims to construct innovative propositions and to find new ways to subsidise expensive products, continuing to develop its "bundled" propositions, packaging mobile handsets with tablets and other devices, supported by a wide range of accessories and services. The business plans to maintain its strong customer service ethos, and to continue to evolve its service proposition to support this.

In response to consumer demand for technological advice, CPW plans to continue to invest in the ongoing training of its expert consultants and to use Geek Squad agents as a differentiator within the market, both in store and through its "24/7" technical phone and home support.

CPW intends to maintain the high quality of its store format and continue to enhance this format in response to changes in technology and consumer demand and to ensure that the retail channel remains a valuable point of differentiation.

(b) *Enhance multi-channel platforms to improve customer choice*

CPW is committed to developing its online channels to support its retail outlets, providing as much choice as possible for consumers. It intends to continue to enhance its m-commerce site, driving transactional site traffic and improving conversion, and to remain active through social media platforms, evolving the way it operates to make even better use of this opportunity to interact with customers and engage with potential customers.

(c) *Leverage global scale to build strategic relationships with key suppliers and partners*

CPW has a long-held strategy of using improved commercial terms to reinvest in the customer proposition. CPW intends to continue to leverage scale to drive differentiation from competitors and obtain exclusive products from key suppliers. This in turn aims to drive further growth, and to enable strengthened relationships with key suppliers and network partners.

(d) *Replicate the success of Best Buy Mobile in the US by partnering with retailers in target markets*

CPW's experience in the US market with Best Buy Mobile highlighted the potential for value creation through leveraging its specialist skills to help develop a connected product and service proposition in partnership with a retailer that has significant footfall but lacks these specialist skills. CPW aims to replicate such arrangements with other retailers, both in Europe, particularly in markets in which CPW currently lacks scale, and in other parts of the world.

(e) *Leverage expertise and systems capabilities to provide managed services to third parties*

CPW considers that there is an opportunity to leverage its specialist IT systems, operating processes, customer relationship management tools and employee expertise to support third parties in developing and managing their operations. CPW already provides managed services for third parties in relation to mobile phone insurance and IT solutions, and is active in exploring further opportunities both within its existing markets and elsewhere in the world.

7. **Information technology**

The Carphone Group's core information technology systems are managed by a central team and cover all key business processes, including customer billing, network activations, logistics, customer relationship management, websites and retail functions. Information technology is predominantly delivered through an offshore outsource model, whereby a few key partners provide the majority of services. Where the underlying infrastructure is deemed business critical, redundancy is deployed within the infrastructure and a disaster recovery plan is provided for. The honeyBee platform being developed and deployed as part of the Connected World Services strategy for both Carphone and external third parties follows a similar outsource model.

8. **Intellectual property**

Over the last 25 years, CPW has developed specialist IT systems, operating processes, customer relationship management tools and employee expertise.

Key brands include:

- Carphone Warehouse;
- Phone House;
- Connected World Services; and
- honeyBee.

Other key intellectual property includes the Geek Squad brand, trademarks and domain names which are owned by Best Buy. This brand and domain name is used by CPW under the Geek Squad Licence Agreement.

9. **Regulatory and environmental matters**

Carphone is subject to a range of legal and regulatory requirements originating from the UK, the other countries where it operates and the European Union, particularly in the areas of consumer protection; product safety; competition; bribery and corruption; health and safety; taxation; environment; labour and employment practices (including pensions and trade unions); transportation; extended warranties; copyright royalties and levies; supplier pricing; infrastructure investment; property rights and planning laws; the ability to transfer funds and assets externally; data protection and the selling of insurance and similar products governed by the FCA or similar authorities in other countries; accounting; taxation and stock exchange regulation.

As of 1 October 2013, the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 requires all UK quoted companies to report on their greenhouse gas emissions as part of their annual Directors' Report. This affects all UK incorporated companies listed on the main market of the London Stock Exchange. For the financial year ended 29 March 2014, Carphone has reported on greenhouse gas emissions for the first time.

Carphone is registered under the European WEEE (Waste Electrical and Electronic Equipment) Directive 2007 and Waste Batteries and Accumulator Regulations 2009 as a Producer, which allows members of the public to return used electrical items on a like-for-like basis to any of our stores. This is collected and processed by licensed companies and recycled in an environmentally sound manner. This operation is part of CPW's 'Take Back' operation required under the Directive.

10. **Employees and employee relations**

For the financial year ended 29 March 2014, the average number of employees of the Carphone Group including part-time employees was 8,707.

As far as the Carphone Directors are aware, there are very few employees represented by trade unions across the business. The Carphone Board believe that relations with employees across the business are generally positive.

11. **Other investments – Virgin Mobile France**

Carphone holds a 46 per cent. interest in Virgin Mobile France, which is the largest MVNO in France. The business was launched in 2006 and operates as a joint venture between Carphone (46 per cent.) and the Virgin Group (46 per cent.). Members of senior management hold the remaining 8 per cent. interest.

Virgin Mobile France is an MVNO, which pays wholesale fees to MNOs, Orange, SFR and Bouygues Telecom for the use of their infrastructure. It is the largest MVNO in France, with approximately 1.7 million customers (almost 80 per cent. postpay customers), strong brand awareness and a wide distribution network across France.

Since the financial year ending 31 March 2012, the business has invested in the development of a Full MVNO platform. This platform enables the business to benefit from termination revenues and from revenues from international roaming and other services. As at 29 March 2014, 77 per cent. of the customer base was on this platform.

On 16 May 2014, Carphone announced that the shareholders of Virgin Mobile France had entered into an exclusivity agreement in respect of the proposed sale of 100 per cent. of Virgin Mobile France to Numericable Group for an enterprise value of Euro 325 million. During the exclusivity period the parties have carried out the necessary consultations with employee work councils, with the transaction also being subject to the approval of the French Competition Authority.

# PART III

# INFORMATION ON THE DIXONS GROUP

*The following information should be read in conjunction with the information appearing elsewhere in this document including the Dixons Group's audited historical consolidated financial information for the three financial periods ended 28 April 2012, 30 April 2013 and 30 April 2014 which is incorporated by reference into Part VIII of this document. Unless otherwise indicated, the selected financial information included in this Part III has been extracted without material adjustment from the Dixons Group's audited historical consolidated financial information incorporated by reference into Part VIII of this document.*

## 1. Introduction

The Dixons Group is one of the largest, specialist electrical retailing and services companies in Europe which sells consumer electronics, computing, domestic appliances, photographic equipment and communications products. It is a multi-channel retailer, selling products in stores, over the internet and by phone. It provides product support services as well as added value services to its customers, principally under the Knowhow brand in the UK, Ireland and across the Nordics. It also undertakes B2B sales and services. The Dixons Group operates from 944 stores in the UK, Ireland and 11 other European countries[1] using a number of established brands, including Currys and PC World in the UK, Elkjøp in Norway and Kotsovolos in Greece, as well as multi-channel internet operations under these brands.

## 2. Business overview

*Products*

The principal products sold by the Dixons Group are categorised as brown goods, white goods, computing products and mobile phones.

Brown goods include: vision products, such as televisions, digital and decoders, smart TV devices, DVD and blu-ray and other video recording devices; audio products, such as stereos, home theatre kits, speaker systems, radios, CD players, MP3 players and iPods; imaging products, such as cameras and camcorders; gaming products, such as games consoles; and related essentials (additional products required for the operation of other products, such as camera batteries, keyboards and printer ink) and accessories (products related to other products, such as camera cases).

White goods include: major domestic appliances, such as washing machines, dryers, refrigerators, and gas and electric cookers; and small domestic appliances, such as microwave ovens, vacuum cleaners, kettles, coffee makers, toasters, irons, kitchen food preparation machines, breadmakers and personal care items.

Computing products include desktop computers, laptop computers, iPads and tablet computers, ultrabooks, netbooks, printers, wearables (such as fitness trackers), home monitoring and security devices and a wide range of related essentials and accessories.

Mobile phones include prepaid and contract mobile phones, smartphones, smart watches, mobile broadband modems and related accessories.

Brown goods, computing products and mobile phones are generally characterised by rapid technological advances that offer major improvements in quality, functionality, interactivity and design. White goods tend to benefit from innovation, energy efficiency, fashion and improved design and are typically heavily dependent on the replacement cycle in most markets.

In addition to selling third-party branded products, the Dixons Group sells a number of own-branded products.

1 As at 30 April 2014. Includes the Electroworld operations in the Czech Republic and Slovakia, the agreed disposal of which was announced on 19 May 2014. 13 countries in total includes Dixons Travel stores in Italy and Belgium which are operated from the United Kingdom, franchise stores in Iceland which are operated from the Nordics division and franchise stores in Cyprus which are operated from Greece.

*Services*

The Dixons Group offers a broad range of product support and added value services. The most important of these, which represent a substantial proportion of the revenue from support services provided by the Dixons Group, are customer support agreements for repairs and protection against breakage, fault and mishap, and after-sales support for products bought from the Dixons Group. In addition, the Dixons Group provides a range of technical support, repair, installation and other services. The Dixons Group also offers a range of home delivery and installation services for its products, including deliveries within specified time frames, free collection of customers' old appliances for recycling, installation of appliances and television installation and set up. In the UK and Ireland, these services are provided through a network of 15 Knowhow Customer Service Centres and supported by a dedicated Knowhow Customer Contact Centre in Sheffield, a laptop and TV repair centre and a dedicated Knowhow telephone support team. The Dixons Group also has arrangements with a number of third parties for the repair of products purchased through the Dixons Group.

*Structure of the Dixons Group*

The Dixons Group is organised into three divisions: UK & Ireland, Nordics and Greece.

All segments are involved in the multi-channel sale of high technology consumer electronics, personal computers, domestic appliances, photographic equipment, communication products and related financial and after-sales services. The principal categories of customer are retail and business to business.

The Dixons Group's reportable segments have been identified as follows:

(a) UK & Ireland comprises electrical and computing retail chains as well as in-store B2B activities. The division is engaged predominantly in multi-channel retail sales, associated peripherals and services and related financial and after sales services. The division also includes operations in airports across Europe (the majority of which are in the UK), all of which are managed from the UK.

(b) Nordics operates in Norway, Sweden, Finland, Denmark, Iceland, Greenland and the Faroe Islands. The division engages in multi-channel retail sales and provides related product support services to its customers. It also engages in B2B sales of computer hardware, software and services. Across the region, the division operates a successful franchise business, typically in smaller markets.

(c) Greece comprises retail sales (including multi-channel sales) and provides related product support services to its customers. In addition, it engages in B2B sales of computer hardware, software and services and also has franchise operations.

On 19 May 2014, Dixons announced that it had reached agreement for the disposal of its operations in the Czech Republic and Slovakia, which were previously reported together with the Nordics and reported as the Northern European division.

3. **Business description**

(a) *Business model*

The Dixons Group's objective is to provide customers with an unbeatable combination of value, choice and service through a full service retail model across a wide range of sales channels as well as by the provision of product support services. Further detail on the Dixons Group's business model is set out in paragraph 7 below.

(b) *Product sourcing and purchasing*

The sourcing of suitable products to meet customers' needs is an important function within the Dixons Group. Product sourcing offices for each of the UK & Ireland division, the Nordics division and Greece aim to continually monitor current and future product cycles and maintain strong relationships with suppliers of branded products. The electrical and computing products industry is characterised by a number of large global manufacturers. Products supplied by these manufacturers account for a substantial proportion of the Dixons Group's sales. The Dixons Group also sources products from a large number of smaller manufacturers. Maintaining established relationships with its suppliers is important in seeking to ensure that the Dixons Group can purchase appropriate products on favourable terms. Relationships with manufacturers are maintained at the local business level as well as through the Dixons Group's central buying team and senior management.

Commercial planning (including category, range and space planning) and buying is undertaken by commercial and buying teams for each of the UK & Ireland division, the Nordics division and Greece. These teams are supported by a central international buying team, which negotiates framework agreements with a number of the Dixons Group's suppliers to manage the overall relationship between the Dixons Group and the supplier and also negotiates rebates, for example in respect of volumes of products sold by the Dixons Group as a whole.

Maintaining relationships with suppliers at a global, regional and local level allows the Dixons Group to benefit from the tiered organisational structure of certain major suppliers whilst obtaining improved purchasing terms, resulting from the large volumes of products it buys, as well as the value suppliers place on staff in stores demonstrating the features and benefits of their products, for which they are increasingly prepared to reward multi-channel retailers.

The Dixons Group has extensive experience of managing electrical goods with short product life cycles. It maintains aged stock records and utilises demand forecasts, price management, accessory offers and point-of-sale material to sell its products. Regular surveys of customer satisfaction are conducted and customer feedback is used to shape product ranges and to understand where the Dixons Group can be more responsive to customers' needs.

The Dixons Group retails a number of products categorised as own equipment manufacture ("**OEM**") products, which are products designed and produced by third party manufacturers that are either sold under one of the Dixons Group's own brands (such as Goji for audio products, Logik for small domestic appliances or Sandstrøm for brown and other goods) or in some circumstances a licensed brand. These products are sourced by the Dixons Group's teams based in the UK and Hong Kong.

(c) *Central distribution*

The Dixons Group operates central distribution centres for each of the UK & Ireland, the Nordic region, the Czech Republic and Greece. The Dixons Board believes that centralised distribution provides the Dixons Group with a number of significant competitive advantages, including reduced costs of operation through efficiencies of scale, reduced suppliers' delivery costs due to the requirement for fewer deliveries, reduced volumes of stock in stores, increased space efficiency in stores, increased flexibility on where stock can be delivered, and facilitation of home deliveries.

(d) *Marketing*

Marketing activities include television campaigns, press activity, promotional offers and event-based marketing, such as targeted marketing at the peak Christmas trading season. The Dixons Group continues to develop customer databases to drive client relationship management activity as well as increasing its emphasis on understanding the needs of customers in order to better focus marketing activities on matching product ranges to customers' anticipated demands.

(e) *Store portfolio*

The Dixons Group operates from leased stores in a variety of locations throughout the markets in which it operates, including larger, out-of-town stores, megastores and smaller stores, often in high street or shopping centre locations.

The Dixons Group reviews its store portfolio on an ongoing basis to seek to ensure that the Dixons Group's stores are competitively located. In the UK & Ireland, following a comprehensive review of the store portfolio, management is reducing the number of stores from which the business operates.

As at 30 April 2014, the Dixons Group operated a total of 798 of its own stores (including 24 in the Czech Republic and Slovakia, which will form part of the proposed disposal of the Electroworld businesses in those countries). It also had a total of 143 franchised stores in the Nordic region and Greece and a further 3 franchised stores in the Czech Republic and Slovakia, which will form part of the proposed disposal of the Electroworld businesses in those countries. These franchise stores generally operate pursuant to franchise agreements entered into by the Dixons Group and the franchisee. Under the arrangement, the franchisee is required to purchase a substantial majority of its product requirements from the Dixons Group's relevant regional or country purchasing function. The franchise arrangements provide the Dixons Group with access to markets in areas where the population catchment is lower than in areas where the Dixons Group would normally operate or that are more difficult for the Dixons Group to access. The Dixons Board believes the franchise operations are an important part of the Dixons Group's overall operations as they increase the volume of purchases leading to improved purchasing terms of their respective divisions as well as increasing the reach of the Dixons Group's brands in each market.

The number of stores operating in each of the UK & Ireland division, Nordics division and Greece as at 30 April 2014 is set out in the table below.

| | **30 April 2014** |
|---|---|
| **UK & Ireland** | |
| UK | 455 |
| Dixons Travel (1) | 41 |
| Ireland | 28 |
| **Total UK & Ireland** | **524** |
| **Nordics** | |
| Norway (3) | 139 |
| Sweden (3) | 75 |
| Finland (3) | 39 |
| Denmark (2) (3) | 37 |
| Iceland (3) | 4 |
| **Total Nordics (3)** | **294** |
| **Total Greece (3)** | **99** |
| Czech Republic (3) (4) | 23 |
| Slovakia (4) | 4 |
| **Total** | **944** |

(1) Includes Dixons Travel stores in the UK, Italy, Denmark, Ireland and Belgium.

(2) Includes Greenland and the Faroe Islands.

(3) Includes franchise stores.

(4) On 19 May 2014, Dixons announced that it had entered into an agreement to sell its operations in the Czech Republic and Slovakia to NAY a.s.. Completion of the disposal is expected to take place during the summer of 2014.

*Divisions*

(a) *UK & Ireland*

The UK & Ireland division comprises the specialist electrical and computing retail brands Currys, CurrysDigital, Dixons Travel and the predominantly computing product focused brands PC World and PC World Business. It also includes product support services provided to customers through Knowhow. Currys, CurrysDigital, PC World and Knowhow operate throughout the UK and Currys, PC World and Knowhow operate in Ireland.

The Dixons Group is transitioning its stores to operate as combined 2-in-1 Currys and PC World stores with 44 per cent. now under this combined branding. These stores together with the online offering provide customers with an offering across white goods, consumer electronics, computing and mobiles depending on the size and format of the store.

The high street locations have an average size of approximately 3,000 square feet and focus on portable technology, offering brown goods, computing products and mobile phones, as well as services.

The superstores typically range in size from 10,000 to 25,000 square feet. and offer customers a full range of white goods, brown goods, computing products and mobile phones, as well as support services.

The megastores typically range in size from 25,000 to 55,000 square feet. and offer customers a wider range of products across white goods, brown goods, computing products and mobile phones, as well as support services, than is typically offered in a superstore.

Dixons Travel offers brown goods and computing products at a number of airports.

In addition to sales in stores, Currys and PC World sell products over the internet and by telephone either for home delivery or for customers to reserve and collect, or pay and collect, in-store. In the second half of the financial year ended 30 April 2014 multi-channel sales grew by 20.4 per cent. and by 22.5 per cent. in the full year.

Knowhow provides product support and repair services through in-store clinics, in customers' homes, over the internet and over the phone in the UK and Ireland.

The Dixons Group offers customer support agreements for many of its products, under the Knowhow brand.

The provision of services in the UK & Ireland division continues to be transformed, with the aim of shortening response times to customers, improving quality of service and reducing costs. The Dixons Group has also increased the range of service products to better match the needs of customers as well as the merchandising and sale of these products in stores.

The Dixons Group has been focusing on improving customer service in the UK & Ireland and this is increasingly being recognised by customer exit surveys carried out by a third party in the division's stores which have recorded "very likely to recommend" advocacy ratings rising from 43 per cent. in September 2010 to 88 per cent. in April 2014.

The UK & Ireland division has a principal distribution centre in Newark which co-ordinates the delivery of products to stores and to the division's customer service centres throughout the UK and Ireland, which are responsible for co-ordinating home deliveries to customers.

(b) *Nordics*

The Nordics division operates through 294 stores and over the internet and telephone (either for home delivery or for customers to reserve and collect in-store). It has the following primary brands: Elkjøp and Lefdal in Norway, Elgiganten in Sweden, Gigantti in Finland and Elgiganten in Denmark. The Fona business in Denmark is operated through a company which is 60 per cent. owned by a local partner and 40 per cent. owned by the Dixons Group. On 19 May 2014, Dixons announced that it had entered into an agreement to sell its operations in the Czech Republic and Slovakia to NAY a.s.. Completion of the disposal is expected to take place during the summer of 2014.

The Nordics division primarily operates from megastores and superstores that are similar to those in the UK & Ireland in terms of product offering, the primary difference being that Elkjøp stores provide a full mobile and connectivity offering.

The Nordics division operates a centralised distribution, logistics and management structure. This reduces operating costs and enables better management of the complexities of operating across the Nordics region. There are two central distribution centres for the Nordics division located in Jönköping, Sweden and Brno, Czech Republic.

The Nordics division uses one central wholesale unit, which purchases large volumes of products from suppliers based on detailed forecast demand from the stores in all countries across the region. The national and franchise retail operations then buy products from the range sourced by the Nordics division's central wholesale unit. This model differs from the central purchasing model used by the rest of the Dixons Group where the ranges and volumes which are supplied to the various stores is determined centrally. The Dixons Board believes that the different purchasing model used by the Nordics division is an important contributor to the profitability of this division because it allows the national operations to have a certain level of independence in this complex region whilst maintaining the purchasing leverage of using a centralised function. It also enables the Nordics division to use the same purchasing system for both the national and franchise operations.

Knowhow provides product support and repair services through in-store clinics, via third parties over the internet and over the phone in the Nordics.

(c) *Greece*

In Greece, the Dixons Group operates under the Kotsovolos brand, which is one of the leading specialist electrical and computing retailers in Greece.

The division in Greece operates from megastores, superstores and high street store formats that are similar to those in the UK & Ireland in terms of product offering. In Greece, the Dixons Group offers customers a full range of white goods, brown goods, computing products and mobile phones, as well as support services under the Support 360 brand.

The Greece division has a centralised purchasing, logistics and management structure, as well as a distribution centre which supplies the stores, all internet businesses and also co-ordinates certain home deliveries.

4. **History and development**

Dixons was incorporated in 1937 with the opening of a photographic studio, Dixons Studios Limited, in London. In 1948, Charles Kalms was joined by his son, Stanley, who now holds the title President of Dixons, and who expanded the business into the retailing of cameras and associated accessories.

In 1962, Dixons was listed on the London Stock Exchange and at that time was operating from 16 branches. Growth since then has been both organic and through a number of acquisitions and has resulted in the Dixons Group expanding from a photographic business to being a specialist electrical retailer and services company.

Key recent events in the development of the Dixons Group include:

| Year | Event | Location |
|---|---|---|
| 1999 | Acquired Elkjøp | Nordic region |
| 2001 | Disposed of the Dixons Group’s 79.3 per cent. stake in Freeserve | UK |
| 2004 | Acquired controlling interest in Kotsovolos | Greece |
| 2006 | Disposed of the Dixons Group’s 60 per cent. stake in The Link | UK |
| 2007 | Closed PCC France | France |
| 2007 and 2008 | Acquired further stakes in Kotsovolos, taking the Dixons Group’s shareholding to 99.2 per cent. | Greece |
| 2009 | Raised gross proceeds of £310.6 million by way of a placing and rights issue in June | |
| 2009 | Closed Markantalo stores in Finland and PC City stores in Sweden | Finland/Sweden |
| 2011 | Closed PC City Spain | Spain |
| 2013 | Disposed of Electroworld operations in Turkey | Turkey |
| 2013 | Disposed of Unieuro in Italy[2] | Italy |
| 2013 | Disposed of PIXmania | Headquartered in France |

2 Following completion of the disposal, Dixons holds a 15 per cent. share in Italian Electronics Holdings s.r.l, which indirectly owns both Unieuro and Marco Polo in Italy.

| Year | Event | Location |
|---|---|---|
| 2014 | Agreement to dispose of Central European operations of Electroworld in the Czech Republic and Slovakia (completion expected during the summer of 2014) | The Czech Republic and Slovakia |

5. **Marketplace**

Electrical retail outlets are the predominant destination for customers buying electrical goods in the European market. Buying groups, general merchants and independents also have a retail presence in most European markets. The market is served by a relatively small number of global manufacturers supplying goods to local, regional, national and international electrical retailers.

The electrical retail sector comprises specialist electrical retailers, such as Dixons Retail and general retailers which sell certain electrical goods as part of a wider offering, such as catalogue retailers, department stores, large supermarket chains and single channel internet retailers. The market also involves two distinct distribution channels: 'assisted' and 'unassisted'. In the assisted channel, specialist retailers help customers through the buying process in the form of product advice, add-on services, delivery and installation. The unassisted channel, which includes single channel internet retailers as well as general retailers, does not typically offer such services.

The Dixons Group is one of the largest, specialist electrical retailers in Europe and benefits from long-established and widely recognised brands.

The internet delivers enhanced product information and facilitates price comparability for consumers. Whilst this creates new challenges for the Dixons Group, it also provides a significant opportunity. The Dixons Board believes that over time, internet demand will polarise towards the larger retailers with scaleable distribution and systems, together with proven after-sales service and support. In particular customers are increasingly combining internet shopping with shopping in store by using services such as collect@store and pay and collect where customers can order goods on the internet and collect them from a convenient store at a suitable time.

The key drivers of the European electrical retail sector include:

(a) *Product development*

Innovation brings new products and products with improved functionality, such as Ultra High definition and smart TVs, ultrabooks and Apple's iPad, in turn driving sales growth. New content, including operating platforms such as Microsoft Windows, Apple IOS or Google Chrome, social media, apps, digital media and cloud computing, also help to drive hardware innovation and replacement. Product sales are also driven by structural shifts such as analogue to digital and standard format to HD television. In addition, innovation drives new service requirements such as TV installation and data backup.

(b) *Economic growth*

Electrical products, and in particular brown goods, are predominantly discretionary purchases. However, increasing use of digital technology in the home drives replacement cycles as these products become less discretionary. The economic backdrop also determines whether customers buy up or down price points. Accordingly, the electrical market tends to grow at a rate at or exceeding the economy during boom years. While the opposite can be true during a downturn, this may be influenced by new innovation and products.

The current economic backdrop has led to a number of electrical retail operations, both store and internet based, exiting the market. This underpins the Dixons Group's view that a strong service-led multi-channel operation satisfies both customer and supplier needs and delivers a sustainable business model.

(c) *Price deflation*

The rapid innovation cycle leads to price deflation in brown goods and computing but also drives volume as products become more affordable and replacement cycles accelerate. For larger ticket items, the low frequency of purchases limits the impact of price deflation on total market sales as consumers typically trade up.

(d) *Replacement cycle*

The sale of white goods is underpinned by the replacement cycle. Due to higher costs of repair, it often makes better economic sense for consumers to replace white goods outright rather than to arrange for their repair. The sale of white goods is also driven by the dynamics of the housing market, as new construction, house sales and refurbishment trigger new purchases.

(e) *Online presence*

The Dixons Group's core UK and Nordic markets have a maturing online sales platform. The increase in online shopping provides retailers with the opportunity to increase both the range of goods on offer and the availability of product information. The growth of online shopping also provides opportunities for multi- channel retailers to benefit from synergies between internet and store-based retailing.

6. **Key strengths**

The Dixons Board believes that the key strengths of the Dixons Group are as follows.

(a) *Strong market positions and established brands*

The Dixons Group is one of the largest specialist electrical multi-channel retailer and services companies and benefits from long-established and widely recognised brands.

In addition, the Dixons Group operates Knowhow, a comprehensive nationwide support services provider for consumer electrical and computing products in the UK.

(b) *Sustainable business model*

In May 2008, the Dixons Group launched a Renewal and Transformation plan designed to improve the profitability of the Dixons Group. Under this plan significant changes were made to the business by making it more attractive to customers, better for employees and cheaper to operate. This has enabled the Dixons Group to focus on delivering a sustainable business model in an environment where customer shopping habits are constantly evolving. See paragraph 7 below.

(c) *Strong management team with significant experience in the retail industry*

Dixons Retail benefits from a strong management team with electrical, retail and international experience, both at the Dixons Group level and in the key operating businesses and divisions. The Dixons Group believes that the executive team's experience, particularly in terms of customer focused retail businesses, gives it a competitive edge.

(d) *Strong established relationships with suppliers*

The Dixons Group, with its service-led business model, constitutes a key route to customers for the Dixons Group's suppliers and an important platform for major manufacturers to have their products explained and showcased to customers. The Dixons Group maintains and benefits from strong, long-established relationships with a wide range of suppliers at a global and a regional level, allowing the Dixons Group to benefit from the tiered organisational structure of certain suppliers while leveraging the Dixons Group's service-led approach and purchasing scale, which arises from the Dixons Group's ability to buy large volumes of products as well as the value placed by suppliers on the ability of Dixons' highly trained staff to explain and demonstrate the features and benefits of their products. As a result, the Dixons Group is able to secure beneficial supply terms with its suppliers.

(e) *Efficient distribution model*

The Dixons Group's distribution model, with central distribution centres in each of the regions in which it operates, enables it to reduce costs of operation through efficiencies of scale, reduce suppliers' delivery costs through the requirement for less frequent deliveries, reduce the quantity of stock in stores and warehouses, increase space efficiency in stores, increase flexibility on where stock can be delivered and facilitate home deliveries. In an industry in which easy access to products and efficient delivery are essential, the Dixons Group believes that this distribution network is a key competitive advantage.

(f) *Service-led business model*

In addition to providing suppliers with the ability to showcase their products and have them explained to customers, the Dixons Group's service-led business model helps customers choose the product that best suits their needs as well as providing them with a complete solution. The Dixons Group helps customers choose additional products (such as accessories) and services (such as set up or delivery and installation) to help ensure they get the most out of their products. This not only enables the Dixons Group to improve its average product margin but also ensures customer loyalty to the retail brands. The Dixons Group believes this is an important differentiator to competitors. See paragraph 7 below.

(g) *Long-term industry fundamentals remain attractive*

The Dixons Group believes that technological innovation, such as new digital products and products that combine or overlap in new ways (e.g. combined wireless handheld devices and mobile phones), together with further developments in wireless technology and the eco-systems in which the products operate, the development of smart home monitoring products, the 'internet of things' and increasingly inter-connected devices, will continue to drive the increased proliferation of electrical and computing products in homes. These ongoing developments, coupled with increasing complexity, further content and functionality development and the growing prevalence of computing and brown goods in customers' daily lives, drives an increasing need for services such as remote storage, repair and fix, installation and set up, as well as the need for new services as products and usage develops. In addition management believes that improving the efficiency of products and the replacement cycle for white goods will remain relatively stable and will continue to drive demand for these products.

(h) *Store portfolio*

The Dixons Group operates predominantly from leasehold stores. This reduces the amount of capital required while retaining flexibility to manage its portfolio and ensure its location is best suited to its customers. The Dixons Group believes it operates from a number of high quality locations. The Dixons Group's stores are designed to provide an exciting, engaging and easy to navigate shopping environment for customers and the Dixons Group's continuing innovation in the format, including playtables, navigation, signage, customer journeys (which include providing customers with extensive information about the product and the product area to enable them to make an informed choice) and the provision of services, as well as areas dedicated to suppliers, differentiates the Dixons Group from the majority of its competitors.

7. **Strategy**

Over the last two years the Dixons Group has made very significant progress on delivering against its key priorities, and has seen the benefits of this in its financial performance. By changing the pricing model, driving service and the selling of complete solutions, embracing and driving a true multi-channel proposition and by leveraging the Dixons Group's ability to tell suppliers' stories better, Dixons believes that it has built a business model that will flourish in an internet world. In addition, Dixons has managed its portfolio so that the Dixons Group is now a leader in each of the key markets in which it operates.

This enables the Dixons Group to drive the Dixons Group forward from a position of strength with a focus on the three strategic priorities as set out below. By focusing on these, the Dixons Group aims to deliver not only a better business for customers and colleagues, but also better returns for shareholders. Dixons believes that the Merger will add additional strength in delivering each of these priorities as well as a new category of products across which these benefits can be brought to bear.

The three strategic priorities are:

(i) to continue to enhance and drive a successful and sustainable business model in a multi-channel world;

(ii) to leverage the Dixons Group's national and pan-European scale, Knowhow and infrastructure to drive growth in new product areas including growth in the provision of services, to both retail and business customers; and

(iii) to become a major player in connectivity and associated services and be positioned to benefit from major technology changes as the majority of devices become connected.

Each of these strategic priorities is considered in further detail below.

(a) *Continue to enhance and drive a successful and sustainable business model in a multi-channel world*

The way in which a customer shops continues to evolve. The Dixons Group's customers increasingly want advice, to experience products and to ensure that they are making the right choices, particularly as the purchases which they make from the Dixons Group are often major purchases that they will own for several years. The internet empowers customers with lots of information including product knowledge and price transparency. Single-channel internet operators have a different model whose principal advantage is structurally lower costs and single-channel internet operators have therefore historically been able to offer competitive prices versus store based operators. By focusing on those benefits that a multichannel specialist can offer customers and suppliers, the Dixons Group seeks to eliminate the cost advantage that pure play internet operators have historically enjoyed and, as a result, to offer customers very competitive prices against its competitor set.

There are four distinct activities that Dixons believes are the key strengths of its multi-channel, service-based model and which will support its competitive advantage going forward:

(i) work closely with suppliers to harness benefits available to Dixons' business model: suppliers want to ensure that customers not only choose their brands, but also experience the benefits of the latest products they have developed to meet customers' needs. As a multi-channel operator, the Dixons Group works with suppliers to ensure that the benefits of these products can be explained and demonstrated to customers in stores, and the Dixons Group's suppliers support this work in a variety of tangible ways.

(ii) focus on complete solutions for customers: customers buy products in order to achieve something, such as washing clothes, or entertaining the children. This does not just mean buying the hardware, but increasingly includes delivery, explanation and peace of mind through product support and after sales services, as well as accessories and, eventually, recycling. The conversations that Dixons' colleagues have in store with customers provides an opportunity to explain the benefits of these solutions and sell more of them than single-channel operators.

(iii) drive the Dixons Group's service proposition: the Dixons Group needs to be able to stand shoulder to shoulder with its customers and for customers to know they can come to the Dixons Group's stores and get knowledgeable advice and great service to help them buy the right product. Customers need to be confident that the Dixons Group will solve their problem for them quickly and efficiently. Knowhow in the UK offers customers one cohesive services brand that can help them with their product throughout its life from purchase, help and support, repair and through to disposal. Dixons believes that customers are prepared to pay a premium for this service.

(iv) reduce costs: the scale of the Dixons Group's operations across stores, ranges, logistics, distribution, repairs and services means that the Dixons Group can continually improve processes to reduce costs. The Dixons Group has removed a considerable amount of cost from the business over the last few years by making the business simpler, easier to operate and more efficient, and remains focused on managing costs to make its business more efficient.

The Merger will allow Dixons to further expand and strengthen its proposition to customers, its service capability and its relationship with suppliers to underpin and drive even greater success in the markets in which it operates.

(b) *Leverage pan-European scale and Knowhow, including growth in services*

The Dixons Group has many best practices in each of its business divisions. Some work has taken place to align these and share them across the Dixons Group, such as the new store formats, supplier relationships and, to a limited degree, own brands. However, there remain many opportunities to share knowledge, expertise and best practice across the Dixons Group. For example, the '*Our Experts Love*' model, which aligns recommendations for customers with suppliers' new technology, operates in some form in each of the Dixons Group's key markets.

Growing complexity and interconnectivity of products means that customers are increasingly demanding help and support, not just in choosing the right product, but also installation, connection, support and repair. The Dixons Group's Knowhow services are at the forefront of this in the UK and Knowhow services have started to be introduced across the Nordics. In Greece, the Dixons Group is rolling out services under the Support360 brand. Dixons believes that the Dixons Group can and will do more to make sure that innovation in local markets is rewarded and rolled back to other territories.

Dixons must continue to innovate new services to help customers and to remain relevant to the way products and connectivity are evolving. The Dixons Group's end to end service operation is supported by a comprehensive infrastructure, including technical phone support, delivery, installation, repair and recycling. Dixons believes that this infrastructure can be leveraged to widen the Dixons Group's customer base, both for customers who bought their products through a third party (for example the fault&fix computer service), and for business customers (for example deliveries for Beko and Bosch Siemens for products bought directly). By doing this, Dixons believes that it can lower the cost density of utilising this infrastructure and deliver even better value services for customers. As Dixons moves forward with the Merger, this thinking has further evolved and complements Carphone's ambitions to grow its Connected World Services business.

(c) *Drive a leadership position in mobile and connectivity in each of the markets in which the Dixons Group operates*

In the markets outside the UK & Ireland, the Dixons Group has successful mobile retailing operations within its specialist electrical stores. However, in the UK & Ireland Dixons does not have its own mobile and connectivity offering. Dixons currently operates a joint venture shop in shop offer in 160 stores with Phones4U under a contract that runs until May 2015.

The consumer electronics and mobile phone retail landscapes have evolved significantly over the last few years. In particular, the growth of smartphones, tablets and speed of internet access both in and out of the home, together with an increasing number of connected devices, are altering the way people live their lives, communicate and use technology. This makes available to Dixons a number of new market opportunities, like health, security, content, home management and others, which have the potential to develop into large connected markets in the next few years. Linked to this market development will be a need for a raft of new services that will ensure that these technologies work and are maintained and monitored so that they can achieve what they are supposed to achieve: they can make people's lives better.

Dixons believes that combined with Carphone's leading position as an independent retailer of mobile phones and connectivity, Dixons Carphone will be best placed to help customers navigate this increasingly complex matrix of device, connectivity and content in all the markets in which the Dixons Group operates. By combining these two already strong businesses, with industry-leading management teams, Dixons Carphone can provide the opportunity to create a new retailer for the new digital age.

## 8. Information technology

The Dixons Group's information technology systems are managed at a regional or business unit level and cover all key business processes in the value chain, including logistics, stock management and point-of-sale functions. Certain of these systems are considered business critical and plans are in place to mitigate failures of these systems. In addition, each of the Dixons Group's business units monitors its IT systems on an ongoing basis to ensure that they provide appropriate support for the Dixons Group's business model and strategy.

9. **Intellectual property**

The Dixons Group considers its most important intellectual property to be its brands and domain names. The Dixons Group's policy is to register its important brands as trademarks in those markets that the Dixons Directors believe are, or are likely in the future to be, material to the Dixons Group's business. The Dixons Group also registers domain names connected to its websites.

The Dixons Group considers the following to be its particularly important brands:

(a) the Dixons Group brand name Dixons;

(b) the electrical and computing brand names Currys, Dixons Travel, Elkjøp, Kotsovolos, Elgiganten and Gigantti;

(c) the computing brand names PC World, PC City and PC World Business;

(d) the product support service brand name Knowhow; and

(e) the OEM brand names Sandstrøm, Logik, Advent, Goji and iWantit.

In connection with its OEM products, the Dixons Group also licenses a number of brands from third parties including Hitachi (for audio products and small domestic appliances), Pioneer, JVC and Kenwood.

10. **Regulatory and environmental matters**

The Dixons Group is subject to a range of legal and regulatory requirements in the countries where it operates, particularly in the areas of consumer protection (including product safety), competition, health and safety, taxation, environment, labour and employment practices (including pensions), transportation, bribery and corruption. A number of the key regulations which affect the Dixons Group's business are set out below.

The products which the Dixons Group sells are subject to various consumer protection laws in the markets in which it operates, which has an effect on the pricing of products, product descriptions, promotional activity and product safety among other things. The Dixons Group offers customer support agreements, including extended warranties, which are subject to compliance with legislation and regulation and in 2011 to 2012, were the subject of regulatory investigation. The Dixons Group is also subject to legislation and regulation regarding the energy efficiency of products, products with age restrictions on sale, data privacy, product packaging, collection and recycling of end of life electrical products (in particular the Waste Electrical and Electronic Equipment Directive and the Waste Batteries and Accumulators Regulations), money laundering, TV licensing, hazardous waste and trade waste. This legislative environment is supplemented with codes of practice and additional guidance provided by various enforcing regulators, as well as the activities of self-regulatory bodies (such as the UK Advertising Standards Authority and Clearcast in relation to advertising).

11. **Employees and employee relations**

For the financial year ended 30 April 2014, the average number of employees of the Dixons Group from continuing operations, including part-time employees, was 32,400.

As far as the Dixons Group is aware, there is a low level of unionisation across the Dixons Group. The Dixons Board believes that relations with employees across the Dixons Group are generally positive.

# PART IV

# OPERATING AND FINANCIAL REVIEW OF THE CARPHONE GROUP

*The operating and financial review should be read in conjunction with the Carphone Group's audited historical consolidated financial information for the financial year ended 29 March 2014 which is contained in Part VII of this document and for the financial years ended 31 March 2013 and 31 March 2012 which are incorporated into this document by reference as explained in Part VII and paragraph 17 of Part XII of this document and are available for inspection in accordance with paragraph 16 of Part XII of this document. Unless otherwise indicated, the selected financial information included in this Part IV has been extracted without material adjustment from the Carphone Group's audited historical consolidated financial information.*

## 1. Overview

CPW is one of the largest, independent, multi-channel telecommunications retailers in Europe, operating 2,024 stores as at 29 March 2014 in seven European countries, principally under the Carphone Warehouse and Phone House brands, together with a well-developed online proposition. CPW specialises in mobile handsets, tablets and other connected devices, combining hardware with connections to service providers to create subsidised propositions. The business has highly-trained consultants who provide specialist and independent advice in areas of product and service complexity, and offers ongoing customer support beyond the point of sale, including a comprehensive range of insurance and technical support services. The Carphone Group recently launched its Connected World Services business which 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 solutions.

The Carphone Group also holds a 46 per cent. interest in Virgin Mobile France, the largest MVNO in the French market.

On 16 May, Carphone announced that the shareholders of Virgin Mobile France had entered into an exclusivity agreement in respect of the proposed sale of 100 per cent. of Virgin Mobile France to Numericable Group for an enterprise value of Euro 325 million. During the exclusivity period the parties have carried out the necessary consultations with employee work councils, with the transaction also being subject to the approval of the French Competition Authority.

The retail and distribution business of the Carphone Group is principally represented by the Carphone Europe Group. Prior to the Best Buy Acquisition, Carphone Europe Group was owned equally by the Carphone Group and Best Buy. The Carphone Group accounted for the Carphone Europe Group as a joint venture and recognised its post-tax share of the earnings of this business as a single line within the income statement. Following the Best Buy Acquisition, the results of the Carphone Europe Group are consolidated within the results of the Carphone Group.

Further information on the Carphone Group is set out in Part II of this document.

## 2. Current trading and prospects

### (a) *CPW*

Like-for-like revenue growth in the quarter ended 29 March 2014 was 2.3 per cent, maintaining the momentum seen during the Christmas quarter, despite strong comparatives. Overall connections were down 10.1 per cent, reflecting continued weakness in the prepay market (down an estimated 20-25 per cent). However, sustained focus on higher-value postpay connections led to further UK market share gains in this category.

In Europe, the focus remained on replicating the UK's operational excellence across other markets and increasing relevance and scale through partnerships. In the Netherlands, good progress was made with the roll-out of the store-in-a-store format in partnership with Media-Markt Saturn. Discussions continue with Metro Group in Germany, with store openings anticipated over the coming months, and with other potential partners across other territories.

Across the Carphone Group, further momentum has been gained in driving data-rich 4G services, seeing significantly higher levels of data take-up compared to the prior period and continuing to see a pricing differential for these additional data services.

In the Connected World Services business, the Carphone Group has now opened 33 Samsung stores in seven countries. The Carphone Group has been building an exciting pipeline of potential partners during the quarter ended 29 March 2014 and expects to make further announcements in due course.

(b) *Virgin Mobile France (46 per cent. joint venture)*

Continued competitive activity in the French market resulted in the postpay base of 1.3 million customers being marginally down (net loss of 17,000 postpay customers in the quarter ended 29 March 2014) with revenue down in the same period as anticipated (-8.6 per cent.). Virgin Mobile France remains focused on improving the quality of its base, continuing to make good progress with the Full MVNO migration, with 77 per cent. of customers on the Full MVNO platform as at 29 March 2014 and substantially more by value. Virgin Mobile France launched a new 4G proposition in April 2014 with both SFR and Bouygues Telecom, the business' third network partner, providing opportunities to access new parts of the market.

On 16 May 2014, Carphone announced that the shareholders of Virgin Mobile France had entered into an exclusivity agreement in respect of the proposed sale of 100 per cent. of Virgin Mobile France to Numericable Group for an enterprise value of Euro 325 million. During the exclusivity period the parties have carried out the necessary consultations with employee work councils, with the transaction also being subject to the approval of the French Competition Authority.

## 3. Dividend policy

Dixons Carphone intends to adopt a dividend policy in line with Carphone's current dividend policy of 3.0x dividend cover based on Headline earnings. The exchange ratio of the Merger has been determined on the basis that no dividend will be payable by either of Carphone or Dixons prior to Completion, other than an ordinary course Carphone final dividend of 4 pence per Carphone Share in respect of the financial year ended 29 March 2014.

## 4. Principal factors affecting the Carphone Group's operating results

### 4.1 *Factors affecting the Carphone Group*

The following factors, in addition to general economic and market conditions, government policy and regulation, have had and are likely to continue to have a material effect on the Carphone Group's results. In addition, investors should read the section of this document headed "Risk Factors" and Part II of this document.

(a) *Economic growth and consumer spending*

The Carphone Group's results are affected by the level of consumer spending in Europe which can be volatile due to factors such as changes in interest rates and utility costs; consumer confidence; and risk appetite (in particular, attitudes to borrowing which in turn are sensitive to the rate of growth in the housing market). Consumer confidence over recent years has been depressed by macro-economic factors including the banking crisis and instability in the Eurozone.

(b) *Mobile network competition*

Demand for new mobile connections and handsets are affected by the consumer propositions offered by the MNOs. Competition between the MNOs tends to lead to improvements in the customer proposition and, in turn, to stimulate demand; conversely, any reduction in competition will tend to do the opposite.

(c) *ARPU*

The revenue earned by the Carphone Group from MNOs is typically based at least in part on the level of customer spend with the MNOs. The ARPU generated by MNOs therefore affects the results of the Carphone Group. In recent years MNOs in Europe have reported a downward trend on ARPU reflecting regulatory changes, a challenging consumer environment, and competition between the networks to attract and retain customers. The launch of 4G services may present opportunities for the MNOs to reverse this downward trend as customers utilise increasing data packages.

(d) *New products*

Demand for new mobile connections and handsets and for other connected products is affected by the availability and quality of new products.

(e) *Competition*

The Carphone Group operates in highly competitive markets and the offers available to customers from competitors affect the results of the Carphone Group. The Carphone Group's margins may be eroded if the Carphone Group seeks to reduce prices in order to remain competitive. If the Carphone Group seeks to maintain margins it may experience a reduction in demand if competitors offer a more compelling proposition.

(f) *Seasonality*

The Carphone Group sources additional volumes of merchandise and hires additional employees for peak trading periods. The Carphone Group increases stock levels in anticipation of peak trading periods and these increased stockholdings require careful management to avoid obsolescence. Retail demand in Europe is highest during the Christmas period and is subject to consumer preferences, perception and/or spending during this period.

(g) *Store openings and closures*

The Carphone Group's results are affected by the rate of introduction of new stores and closure of existing stores. The number of stores affects sales and associated costs. As at 29 March 2014, the Carphone Group operated 2,024 stores in seven European countries.

(h) *Other sales channels*

Carphone Group's results are also affected by the level of sales through online channels and the level of sales achieved by its dealer and wholesale businesses.

(i) *Suppliers*

The Carphone Group is affected by the availability of merchandise from product manufacturers. As noted above, demand for new products is important to the Carphone Group and the supply of the most popular products needs to be secured to allow the Carphone Group to maximise sales opportunities.

(j) *Inflation*

Inflation affects the Carphone Group by generating upward pressure on: wage costs; rental costs; rates; utility costs; and the costs of other goods and services that the Carphone Group purchases which are not for resale.

(k) *Working capital*

Over recent years the Carphone Group has agreed new commercial terms with MNOs allowing the business to take a greater share of ongoing customer spend in exchange for reduced upfront commissions. The Carphone Group seeks prepayments from network operators to compensate for the cash impact of this. The ability of the Carphone Group to continue to secure these prepayments will affect the working capital position of the Carphone Group. The impact on working capital of agreements with MNOs is a central part of ongoing commercial negotiations.

(l) *Tax*

The effective tax rate and level of tax payments are affected by the profitability of each market in which the Carphone Group operates, the prevailing tax rate and legislation in each jurisdiction and by losses arising in territories where no relief is anticipated.

(m) *Exchange rates*

The business currently has profits, cash flows and assets denominated in sterling, Euros and Swedish Krona, and in the future the Carphone Group may have profits, cash flows or assets denominated in other currencies. In the periods covered by the financial information the results of the Carphone Group were also affected by the Swiss Franc and US dollar. Fluctuations in exchange rates may therefore have a material effect on the results of the Carphone Group.

(n) *Income and cash flows from joint ventures*

The earnings of the Carphone Group are affected by the results of its joint venture investments: the Carphone Europe Group (prior to the Best Buy Acquisition) and Virgin Mobile France. These joint ventures also affect the cash flows of the Carphone Group, in the form of loan requirements or repayments and dividends. The earnings and cash flows of the Carphone Europe Group therefore have had and those of Virgin Mobile France continue to have a direct impact on the Carphone Group. The factors that influence Virgin Mobile France are described in paragraph 4.2 below. The factors affecting the Carphone Europe Group are the same as those affecting the Carphone Group as set out above.

(o) *Property market and tenants*

Rental income from the Carphone Group's freehold properties is a source of revenue for the Carphone Group.

(p) *Interest rates*

The Carphone Group has an RCF and term loan which it uses to fund its cash requirements. Interest is charged on these facilities at a margin over LIBOR or EONIA depending on the currency in which the respective facilities are drawn down and any change in LIBOR or EONIA will affect the results of the Carphone Group.

(q) *Significant transactions*

During the financial year ended 31 March 2012, the Carphone Group disposed of its interest in Best Buy Mobile and closed the Best Buy UK 'Big Box' business in which it had an interest. The results of these businesses and Exceptional Items arising as a result of these events were excluded from Headline earnings for the financial year ended 31 March 2012 in order to provide visibility of the continuing business.

On 26 June 2013, the Carphone Group completed the Best Buy Acquisition. After this date, the results of the Carphone Europe Group were consolidated within the results of the Carphone Group rather than being presented as a share of results of a joint venture. Consequently, the results for the financial year ended 29 March 2014 are not comparable to the results for the financial year ended 31 March 2013 or the financial year ended 31 March 2012.

During the financial year ended 29 March 2014, the Carphone Group announced the closure of Carphone Europe Group's retail operations in France. The results of this business, along with Exceptional Items arising as a result of the exit, have been excluded from Headline earnings for the financial year ended 29 March 2014 in order to provide visibility of the results of the continuing business. Results for the financial year ended 31 March 2013 have been restated on the same basis.

### 4.2 Factors affecting Virgin Mobile France

(a) *Consumer and customer behaviour*

Virgin Mobile France's results are affected by the level of consumer spending in France and on the amount consumers are willing to spend on mobile services. The results of Virgin Mobile France are also affected by the amount of data consumed by its customers which affects the amount of capacity Virgin Mobile France needs to buy from the MNOs and therefore the gross profit earned.

(b) *MNO behaviour*

The behaviour of the MNOs in France affects the results of Virgin Mobile France through the competitive environment in which the business operates and the impact this has on demand for the products and services of Virgin Mobile France. MNO behaviour also affects the results of Virgin Mobile France through the wholesale rates charged by the MNOs.

## 5. Basis of preparation of the financial information and explanation of line items

### 5.1 *Financial information*

The Carphone Group's consolidated financial information presents the audited results for the financial years ended 29 March 2014, 31 March 2013 and 31 March 2012.

Full details of the basis of preparation of the financial information for the financial year ended 29 March 2014 are set out in Part VII of this document. Full details of the basis of preparation of the financial information for the financial years ended 31 March 2013 and 31 March 2012 are set out in note 1 to the consolidated financial information for the respective years which are incorporated into this document by reference as explained in Part VII of this document. The principal entities included within the financial information for the financial year ended 29 March 2014 are shown in notes 12 and 24 to the consolidated financial information set out in Section A of Part VII of this document. The principal entities included within the financial information for the financial years ended 31 March 2013 and 31 March 2012 are shown in notes 12 and 13 to the consolidated financial information for the respective years which are incorporated into this document by reference as explained in Part VII of this document.

5.2 ***Accounting policies and other principles applicable to the financial information***

The principal accounting policies and other principles applied in the preparation of the financial information are set out in note 1 of Section A of the financial information set out in Part VII of this document. These policies have been consistently applied to all periods presented. The financial information has been prepared on the basis of IFRS. These standards include subsequent amendments and related interpretations issued and adopted by the International Accounting Standards Board that have been endorsed by the European Commission.

5.3 ***Explanation of line items in the income statement of the Carphone Group***

(a) *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.

The terms Headline/non-Headline as used in this Part IV of this document are equivalent to the terms Underlying/non-Underlying as used in Part V of this document in relation to the Dixons Group. The only material differences relate to certain items which are included by Dixons within non-Underlying results that do not have an equivalent in the results of the Carphone Group. These items are net interest on defined benefit pension schemes and fair value re-measurements of financial instruments.

For completeness, other items included within the definition of non-Underlying results in paragraph 4.3 of Part V of this document, being trading results of businesses exited/to be exited, net restructuring and business impairment charges and other one-off, non-recurring items, profits/losses on sale of investments or businesses, and, where applicable, discontinued operations would be included in non-Headline results to the extent they are considered so material that they require separate disclosure to avoid distortion of underlying performance.

(b) *Revenue*

Revenue is stated net of VAT and other sales-related taxes and, prior to the Best Buy Acquisition, predominantly represented rental income on freehold properties and consultancy income.

Following the Best Buy Acquisition, revenue also comprises:

- revenue from the sale of mobile phones and other products to consumers;
- commission receivable on sales (including share of customer airtime spend, customer spend bonuses and volume bonuses) net of any provision for promotional offers and MNO performance penalties;
- the Carphone Group's share of premiums on insurance policies sold or administered by the Carphone Group;
- revenue derived from the provision of mobile and other network services;
- revenue from the sale of mobile phones and other products to dealers and distributors; and

- revenue on the provision of insurance and IT services.

(c) *Cost of sales*

There was no cost of sales prior to the Best Buy Acquisition.

Following the Best Buy Acquisition, cost of sales includes:

- the cost of goods sold, net of rebates;
- insurance claims on policies sold or administered by the Carphone Group;
- marketing costs; and
- the cost of stock write-downs, product returns and warranty costs.

(d) *Operating expenses*

Operating expenses primarily consist of:

- wages, salaries, commissions, bonuses and other employee benefits and all related taxes;
- charges for share-based payments;
- rent, property taxes and other property-related costs;
- distribution costs;
- depreciation of leasehold improvements, fixtures and fittings and IT hardware in stores and across head offices and customer contact centre sites;
- amortisation of IT software and lease incentives or key money; and
- other costs incurred in the running of the business.

(e) *Share of results of joint ventures*

Share of results of joint ventures comprises the Carphone Group's share of the post-tax profits or losses of the Carphone Europe Group prior to the Best Buy Acquisition and Virgin Mobile France.

(f) *Net interest income / expense and investment income*

In periods prior to the Best Buy Acquisition, net interest and investment income reflect interest on cash and loans to Virgin Mobile France, fees on facilities provided to the Carphone Europe Group and income from minority investments.

Following the Best Buy Acquisition, net interest expense reflects interest payable on loans and other facilities and the amortisation of arrangement fees on such facilities, net of interest receivable, predominantly from Virgin Mobile France, and income from minority investments.

(g) *Taxation*

Taxation represents the corporation tax charge or credit for the period.

(h) *Non-Headline items*

Non-Headline items are items that are excluded from Headline results, as detailed in paragraph 5.3(a).

### 5.4 *Like-for-like revenue comparison*

The Carphone Group uses like-for-like revenue comparisons to provide a sense of comparative performance across financial periods. Like-for-like percentages are based on revenue generated by 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 in both the current and comparative period. Closed stores are excluded for any period of closure including periods of refitting. Revenues from dealer, Connected World Services and other non-retail businesses are excluded from like-for-like revenues.

6. **Results of operations**

Set out below is a review of the Carphone Group's results for the financial years ended 29 March 2014, 31 March 2013 and 31 March 2012.

| | | Restated[1] | As disclosed | As disclosed |
|---|---|---|---|---|
| | **Financial year ended 29 March 2014 £million** | **Financial year ended 31 March 2013 £million** | **Financial year ended 31 March 2013 £million** | **Financial year ended 31 March 2012 £million** |
| Headline results | | | | |
| Revenue | 2,505 | 11 | 11 | 6 |
| Cost of sales | (1,864) | — | — | — |
| Gross margin | 641 | 11 | 11 | 6 |
| Operating expenses | (508) | (8) | (8) | (5) |
| Share of results of joint ventures | | | | |
| Carphone Europe Group | 3 | 48 | 51 | 48 |
| Virgin Mobile France | — | — | 3 | 6 |
| EBIT | 136 | 51 | 57 | 55 |
| Net interest (expense)/income and investment income | (9) | 2 | 2 | 3 |
| Taxation | (25) | (1) | (1) | (1) |
| Profit from continuing operations | 102 | 52 | 58 | 57 |
| Profit from discontinued operations | — | 3 | — | — |
| Net profit for the year | 102 | 55 | 58 | 57 |
| Statutory results | | | | |
| Headline net profit for the year | 102 | 55 | 58 | 57 |
| Non-Headline items | (54) | (51) | (54) | 705 |
| Profit after taxation | 48 | 4 | 4 | 762 |

1 The income statement for the financial year ended 31 March 2013 has been restated to exclude the results of the French operations of the Carphone Europe Group from Headline earnings and to classify the results of Virgin Mobile France as discontinued operations in order to provide visibility of the performance of the continuing business.

(a) *Headline results*

Revenue increased from £6 million in the financial year ended 31 March 2012 to £11 million in the financial year ended 31 March 2013 with the increase reflecting consultancy income associated with the disposal of the Carphone Group's interest in Best Buy Mobile. Revenue for the financial year ended 29 March 2014 increased to £2,505 million reflecting the consolidation of revenue from the Carphone Europe Group following the Best Buy Acquisition.

Gross margin increased from £6 million in the financial year ended 31 March 2012 to £11 million in the financial year ended 31 March 2013 reflecting the increase in revenue noted above. Gross margin for the financial year ended 29 March 2014 increased to £641 million reflecting the consolidation of revenue and cost of sales from the Carphone Europe Group following the Best Buy Acquisition.

Operating expenses increased from £5 million in the financial year ended 31 March 2012 to £8 million in the financial year ended 31 March 2013 primarily reflecting incremental investment in new business development. Operating expenses for the financial year ended 29 March 2014 increased to £508 million reflecting the consolidation of operating expenses from the Carphone Europe Group following the Best Buy Acquisition.

The Carphone Group's share of the results of the Carphone Europe Group was £48 million in the financial year ended 31 March 2012 and the financial year ended 31 March 2013 (as restated). The Carphone Group's share of the results of the Carphone Europe Group in the financial year ended 29 March 2014 was £3 million reflecting the Carphone Group's share of the profits of the business in the first quarter of the year prior to the Best Buy Acquisition. Following the Best Buy Acquisition the results of the Carphone Europe Group were consolidated within the results of the Carphone Group.

The Carphone Group's share of the results of Virgin Mobile France reduced from £6 million in the financial year ended 31 March 2012 to £3 million in the financial year ended 31 March 2013 reflecting an intensely competitive market which put downward pressure on gross margin and required a greater level of investment in customer acquisition and retention. This trend continued in the financial year ended 29 March 2014 and the Carphone Group's share of the results of Virgin Mobile France reduced to nil in this year. On 16 May 2014 the Carphone Group announced that it had entered into an exclusivity agreement for the sale of Virgin Mobile France. As a result of the sale process the results of Virgin Mobile France are presented as a discontinued operation in the current year and the restated prior year comparatives.

Interest income decreased from £3 million in the financial year ended 31 March 2012 to £2 million in the financial year ended 31 March 2013 principally reflecting a reduction in loans to Virgin Mobile France. Interest expense in the financial year ended 29 March 2014 was £9 million reflecting the consolidation of interest expense from the Carphone Europe Group following the Best Buy Acquisition and the debt taken on to finance the Best Buy Acquisition, partly offset by the unwind of discounts for the time value of money on network commissions receivable.

Tax expense in the financial years ended 31 March 2013 and 31 March 2012 was £1 million reflecting the pre-tax profits of the wholly-owned businesses within the Carphone Group explained above. Tax expense in the financial year ended 29 March 2014 was £25 million reflecting the consolidation of the pre-tax earnings of the Carphone Europe Group following the Best Buy Acquisition as explained above.

(b) *Non-Headline items*

Non-Headline items are further analysed as follows:

| | | Restated[1] | As disclosed | As disclosed |
|---|---|---|---|---|
| | **Financial year ended 29 March 2014 £million** | **Financial year ended 31 March 2013 £million** | **Financial year ended 31 March 2013 £million** | **Financial year ended 31 March 2012 £million** |
| **i) Best Buy Acquisition** | | | | |
| Exceptional Items | (15) | — | — | — |
| Amortisation of acquisition intangibles | (16) | — | — | — |
| Taxation | 6 | — | — | — |
| **ii) French operations** | | | | |
| Share of Carphone Europe Group's French operations (post-tax) | (23) | (45) | (48) | — |
| French operations | (6) | — | — | — |
| **iii) Carphone Europe Group reorganisation** | | | | |
| Share of Carphone Europe Group Exceptional Items | — | (5) | (5) | |
| **iv) Best Buy Mobile Disposal** | | | | |
| Investment income | — | — | — | 813 |
| Share of Carphone Europe Group Exceptional Items | — | — | — | (17) |
| Exceptional Items | — | — | — | (21) |
| Taxation | — | — | — | 1 |
| Share of Best Buy Mobile operating profit (post-tax) | — | — | — | 17 |
| **v) Best Buy UK closure** | | | | |
| Share of Carphone Europe Group Exceptional Items | — | — | — | (60) |
| Share of Best Buy UK operating loss (post-tax) | — | — | — | (27) |
| **vi) Virgin Mobile France** | | | | |
| Virgin Mobile France amortisation of acquisition intangibles | — | (1) | (1) | (1) |
| | (54) | (51) | (54) | 705 |

1 The income statement for the financial year ended 31 March 2013 has been restated to exclude the results of the French operations of the Carphone Europe Group from Headline earnings in order to provide visibility of the performance of the continuing business.

(i) Best Buy Acquisition

Exceptional Items of £15 million arose in the financial year ended 29 March 2014 in relation to the Best Buy Acquisition.

Banking and professional fees of £7 million were incurred 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 were either allowed to vest early or were replaced during the period. This resulted in cash costs of £8 million and an acceleration of non-cash accounting charges of £3 million.

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

Arrangements with Best Buy allowed the Carphone Group to manage the disposal of 42,105,263 new Carphone Shares issued to Best Buy in connection with the Best Buy Acquisition (the "**Consideration Shares**"), 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 £23 million for the Carphone Group. The gain implied by comparing the share price at completion, being £2.38, and £1.90, is treated as an adjustment to consideration and the remaining gain of £2 million is recorded in the income statement.

A charge of £16 million arose during the financial year ended 29 March 2014 in relation to the acquisition intangibles arising on the Best Buy Acquisition.

A tax credit of £6 million has been recognised in respect of these items.

(ii) French operations

In light of an increasingly challenging market context, Carphone Europe Group 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 £7 million 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 £94 million were booked in the year. A tax credit of £5 million was booked against these charges, principally reflecting the de-recognition of deferred tax liabilities.

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

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

In the year ended 29 March 2014, prior to the Best Buy Acquisition and in light of the commitment to exit the business, Carphone Europe Group recorded further non-cash asset write-downs of £8 million, and provided £32 million for estimated future exit costs, principally covering redundancies and lease exit costs. Operating losses of £10 million were incurred prior to the Best Buy 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 £3 million was recognised against these items. The Group's post-tax share of these restructuring costs, asset write-downs and operating results was £23 million.

Since the Best Buy Acquisition, the French business incurred further EBIT losses of £6 million, representing gross margin of £23 million and operating expenses of £29 million.

(iii) Carphone Europe Group reorganisation

During the financial year ended 31 March 2013, the Carphone Europe Group 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. The Carphone Europe Group also reviewed its European operations, and announced plans to reduce its store portfolio and operating cost base across certain markets. As a result of this exercise, the business booked an exceptional charge of £18 million in relation to redundancies, lease exit costs and other cash restructuring costs.

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

The Carphone Group's Share of these items was £5 million.

(iv) Best Buy Mobile Disposal

During the financial year ended 31 March 2012, the Carphone Group disposed of its interest in Best Buy Mobile for an initial consideration of £813 million, which was received in the form of a dividend.

The Carphone Europe Group incurred charges of £28 million in connection with the disposal reflecting charges of £27 million in respect of incentive schemes and £1 million of fees in relation to the transaction. A tax credit of £7 million was recognised in respect of these charges. This was offset by the de-recognition of £13 million of deferred tax assets which were expected to be irrecoverable as a result of the disposal.

The Carphone Group's share of these charges was £17 million.

Exceptional Items incurred by the Carphone Group in the financial year ended 31 March 2012 were £21 million reflecting cash costs of £4 million and non-cash accounting charges of £14 million in relation to incentive schemes which vested as a result of the Best Buy Mobile Disposal and professional fees relating to the Best Buy Mobile Disposal of £3 million. A tax credit of £1 million was recognised against these items.

The Carphone Group's share of post-tax profits of Best Buy Mobile was £17 million in the financial year ended 31 March 2012.

(v) Best Buy UK closure

During the financial year ended 31 March 2012, the Carphone Europe Group also closed its Best Buy UK business. Total closure costs of £147 million were booked, against which a tax credit of £26 million was recognised. Closure costs comprised £46 million of non-cash asset write-downs, £57 million in relation to property leases, £11 million in relation to redundancies and other employee-related costs, and other costs of £33 million, primarily reflecting stock write-downs and contract exit costs. The Carphone Group's Share of these items was £60 million reflecting 50 per cent. of the post-tax charge.

The Carphone Group's share of post-tax losses of Best Buy UK was £27 million in the financial year ended 31 March 2012.

(vi) Virgin Mobile France

The Carphone Group's share of non-Headline results of Virgin Mobile France reflects the amortisation of acquisition intangibles which arose on the acquisition of Tele2 France in December 2009.

## 7. Capital resources and liquidity

The Carphone Group's current primary sources of liquidity are cash flows from operations.

The Carphone Group monitors cash flow closely through both the treasury and finance functions. Cash flow forecasts are prepared and reviewed on a weekly or daily basis, as necessary. In addition, cash flow measures are prepared as part of the Carphone Group's overall budgeting and forecasting processes and performance is monitored against budget each period. The Carphone Group's net funds level can vary significantly from period to period and there is some variation within periods. This variation reflects, among other things, quarterly rent payment dates in the UK (and, to a lesser extent, rent payment dates in other jurisdictions), trading patterns, payments to suppliers, patterns of inventory holdings, VAT payment cycles, timing of receipts from customers and the timing of spend on major capital and restructuring products. The Carphone Group's net funds levels at the end of an interim half-year financial period and financial year end therefore may not be indicative of debt levels at other points throughout the year. The Carphone Group's peak funds outflows generally occur over the end of the calendar year because of payments to suppliers for stock purchases made for its peak trading season in its third quarter.

The Carphone Group's working capital fluctuates throughout the year, for the reasons described above.

***Comparison of the financial years ended 29 March 2014, 31 March 2013 and 31 March 2012***

| | Financial year ended 29 March 2014 £million | Financial year ended 31 March 2013 £million | Financial year ended 31 March 2012 £million |
|---|---|---|---|
| Operating cash flows | 442 | 24 | (12) |
| Cash flows from investing activities | (358) | 46 | 825 |
| Cash flows from financing activities | 82 | (56) | (831) |
| Net increase (decrease) in cash and cash equivalents | 166 | 14 | (18) |
| Cash and cash equivalents at the start of the year | 117 | 103 | 121 |
| Cash and cash equivalents at the end of the year | 283 | 117 | 103 |

Operating cash flows in the financial year ended 31 March 2012 were an outflow of £12 million predominantly reflecting cash costs associated with the Best Buy Mobile Disposal, with the costs of running the business offset by rental income from freehold properties.

Operating cash flows in the financial year ended 31 March 2013 were an inflow of £24 million, predominantly reflecting the settlement of receivables from the Carphone Europe Group and consultancy income from Best Buy.

Operating cash flows in the financial year ended 29 March 2014 were an inflow of £442 million, reflecting cash inflows in the Carphone Europe Group following the Best Buy Acquisition, with the substantial inflow reflecting seasonal cash flows and temporary timing differences at the time of the Best Buy Acquisition.

Cash flows from investing activities in the financial year ended 31 March 2012 were an inflow of £825 million, reflecting the initial consideration from the Best Buy Mobile Disposal, which was received in the form of a dividend, and loan repayments from Virgin Mobile France.

Cash flows from investing activities in the financial year ended 31 March 2013 were an inflow of £46 million, predominantly reflecting the proceeds on the disposal of one of the Carphone Group's freehold properties and loan repayments from Virgin Mobile France.

Cash flows from investing activities in the financial year ended 29 March 2014 were an outflow of £358 million, predominantly reflecting the consideration for the Best Buy Acquisition and capital expenditure following the Best Buy Acquisition, partly offset by proceeds on the disposal of one of the Carphone Group's freehold properties.

Cash flows from financing activities in the financial year ended 31 March 2012 were an outflow of £831 million, predominantly reflecting the return to shareholders of the proceeds of the Best Buy Mobile Disposal, ordinary dividends paid during the year and the purchase of own shares.

Cash flows from financing activities in the financial year ended 31 March 2013 were an outflow of £56 million, reflecting the deferred element of distributions to Shareholders in relation to the Best Buy Mobile Disposal and ordinary dividends paid during the year.

Cash flows from financing activities in the financial year ended 29 March 2014 were an inflow of £82 million, reflecting the proceeds of the placing of new Carphone Shares on 30 April 2013, the gain to which the Carphone Group was entitled following the placing of the Consideration Shares issued to Best Buy in connection with the Best Buy Acquisition and net drawdowns of borrowings on facilities following the Best Buy Acquisition. These items were partly offset by ordinary dividends paid during the year, the net purchase of own shares and the payment of fees associated with the facilities put in place at the time of the Best Buy Acquisition.

8. **Contractual obligations and commitments**

The Carphone Group had the following commitments as at 29 March 2014 (as extracted without material adjustment from the Carphone Group's audited historical consolidated financial information for the financial year ended 29 March 2014):

| **Finance lease obligations** | **£million** |
|---|---|
| Less than one year | 1 |

| **Operating lease obligations** | **£million** |
|---|---|
| Less than one year | 93 |
| Between one and five years | 249 |
| More than five years | 130 |
| Total | 472 |

The Carphone Group had no capital commitments at 29 March 2014.

9. **Treasury policies and procedures**

The Carphone Group's treasury function has responsibility for cash management, banking and bank relationships, funding and liquidity management, and management of foreign exchange and interest rate exposures. Each of these areas is covered by documented policies. Funding requirements and headroom are reviewed regularly against cashflow forecasts and budgets. There are limited exposures to foreign exchange risk, primarily arising on the import of goods for resale, and material current and future foreign exchange exposures are hedged as they arise. Inter-company funding of non-sterling subsidiaries is fully hedged to avoid translational exposures. The Carphone Group may use long-term derivative products to manage interest rate risk subject to certain policies and limits. The Carphone Group does not speculate in such instruments.

10. **Critical accounting estimates and assumptions**

(a) *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.

(b) *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.

(c) *Revenue recognition*

Commission receivable within the Carphone Group 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 nevertheless 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.

(d) *Current taxation*

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

(e) *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.

(f) *Provisions*

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

**11. Funding arrangements**

The Carphone Group has a £650 million term and revolving facility agreement which matures in April 2017 provided by nine relationship banks. The interest rate payable in respect of drawings under this facility is at a margin over LIBOR for the relevant currency and the appropriate period. The actual margin applicable to any drawing depends on the fixed charges (interest and operating lease expenditure) cover ratio calculated in respect of the most recent accounting period. A non-utilisation fee is payable in respect of amounts available but undrawn under this facility. The RCF has covenants that relate to the ratio of net debt to EBITDA and fixed charges cover.

The Carphone Group has overdraft and uncommitted money market facilities at various banks and in various currencies as operationally necessary. Interest is charged at a margin over UK base rate, LIBOR, EONIA and other market rates as appropriate for the relevant currencies and the appropriate periods.

At 31 May 2014, the Carphone Group had borrowings of £397 million on the £650 million facilities agreement or on overdrafts or other uncommitted facilities (as extracted without material adjustment from the unaudited management accounts of the Carphone Group for the month ended 31 May 2014). At the same date, the Carphone Group had cash balances of £82 million, of which £25 million was held to cover regulatory reserve requirements in its insurance business (in each case, as extracted without material adjustment from the unaudited management accounts of the Carphone Group for the month ended 31 May 2014). In addition, £1 million was outstanding at 31 May 2014 in respect of finance leases (as extracted without material adjustment from the unaudited management accounts of the Carphone Group for the month ended 31 May 2014).

# PART V

# OPERATING AND FINANCIAL REVIEW OF THE DIXONS GROUP

*The operating and financial review should be read in conjunction with the Dixons Group's audited historical consolidated financial information for the financial years ended 30 April 2014 (the* ***"Financial Year 2013/14"****), 30 April 2013 (the* ***"Financial Year 2012/13"****) and the 52 weeks ended 28 April 2012 (the* ***"Financial Year 2011/12"****) which are incorporated by reference into Part VIII of this document from the Circular as explained in Part VIII and paragraph 17 of Part XII of this document and are available for inspection in accordance with paragraph 16 of Part XII of this document. Unless otherwise indicated, the selected financial information included in this Part V has been extracted without material adjustment from the Dixons Group's audited historical consolidated financial information.*

1. **Overview**

Dixons is a specialist electrical and computing retailer operating in a multi-channel environment, selling products in stores, over the internet and by phone and provides product support services to its customers. It also undertakes B2B sales and services. Dixons has stores in the UK, Ireland and 11 other European countries[1].

2. **Current trading and prospects**

As Dixons announced in its preliminary audited results for the Financial Year 2013/14, published on 26 June 2014, the Dixons Group has had another year of significant progress. The Dixons Group's underlying total sales were up 3 per cent. to £7.22 billion in the full financial year ended 30 April 2014 (Financial Year 2012/13: £7.03 billion).

Underlying pre-tax profit grew by 10 per cent. to £166.2 million (Financial Year 2012/13: £151.0 million). This represents an increase of 76 per cent. when compared with the underlying profit before tax of £94.5 million for the Financial Year 2012/13 as originally reported on 20 June 2013. The Dixons Group's gross margins were down 0.2 per cent. in the year, improving in the second half. The Dixons Group has made substantial progress against its strategic objectives having exited non-core markets, enabling the Dixons Group to focus on those markets where it has leadership positions. The Dixons Group's online sales increased by 16 per cent. to £1 billion. Return on capital employed was 16.3 per cent. (Financial Year 2012/13: 14.9 per cent.). The Dixons Group has continued to reduce costs, completing the two year £90 million cost reduction initiative during the year. In spite of headwinds and the costs associated with the disposals, the Dixons Group again managed to generate positive cash flow resulting in an increase of net cash to £70.9 million. Total profit before tax was £132.9 million (Financial Year 2012/13: profit of £86.6 million), after non-underlying items of £33.3 million, which predominantly comprise restructuring charges and pension interest costs. The Dixons Group incurred post-tax non-underlying charges of £186.0 million, relating mainly to disposals of non-core operations.

Underlying diluted earnings per share was 3.0 pence (Financial Year 2012/13: 2.6 pence). Underlying profit before interest and tax was £202.8 million (Financial Year 2012/13: £186.4 million). Basic loss per share including discontinued operations was 1.9 pence (Financial Year 2012/13: 4.5 pence). Each of the divisions has performed well in its markets, as well as continuing to deliver further improvements to the already strong customer service levels.

The UK & Ireland division delivered a strong performance across the year with significant growth in profitability and a 3.4 per cent. return on sales. Total sales in the division were up 3 per cent. to £4,148.6 million (Financial Year 2012/13: £4,014.5 million) and like-for-like sales were up 5 per cent. Underlying operating profits increased 24 per cent. to £141.0 million (Financial Year 2012/13: £113.3 million).

1 As at 30 April 2014. Includes the Electroworld operations in the Czech Republic and Slovakia, the agreed disposal of which was announced on 19 May 2014. 13 countries in total includes Dixons Travel stores in Italy and Belgium which are operated from the United Kingdom, franchise stores in Iceland which are operated from the Nordics division and franchise stores in Cyprus which are operated from Greece.

The Elkjøp group in the Nordics continues to perform strongly and had another very satisfactory year. Sales grew by 3 per cent. at constant exchange rates, while in sterling, underlying sales grew by 2 per cent. to £2,789.8 million (Financial Year 2012/13: £2,733.3 million). Like-for-like sales were up 2 per cent. Underlying operating profits were £116.9 million (Financial Year 2012/13: £125.4 million).

Total sales in Kotsovolos in Greece were down 3 per cent. at constant exchange rates and flat in sterling at £279.2 million (Financial Year 2012/13: £278.8 million), with like-for-like sales down 9 per cent., largely as a result of the weak economic environments being experienced in Greece coupled with a mild summer and the digital switchover benefit in the prior year. Underlying operating loss was £10.5 million (Financial Year 2012/13: loss of £11.0 million).

The new financial year has started well, with an uplift in TV sales driven by the World Cup, and the Dixons Directors believe that there are some early signs of a consumer recovery, most notably in the UK.

### 3. Principal factors affecting the Dixons Group's operating results

The following factors and market trends in addition to general economic conditions, government policy and regulation have had and are likely to continue to have a material effect on the Dixons Group's results. In addition investors should read the section of this document headed "Risk Factors" and Part II of this document.

(a) *Product development*

Innovation and product development drive demand and sales growth. This includes advances in both hardware and content (such as operating platforms, social media etc.). In addition, innovation drives new service requirements such as TV installation and data backup.

(b) *Economic growth*

The economy also determines whether customers trade up or down price points. The electrical goods market tends to grow at a rate at or exceeding the economy during boom years. While the opposite can be true during a downturn, this may be mitigated by new innovation and products.

The economic backdrop over recent years has led to a number of electrical retail operations, both store and internet based, exiting the market, increasing Dixons' market share. This underpins the assertion that a strong, service-led, multi-channel operation satisfies both customer and supplier needs and delivers a sustainable business model.

(c) *Price pressures and product replacement*

Rapid innovation leads to price reductions in brown goods and computing. For larger ticket items, the low frequency of purchases limits the impact of price deflation on total market sales as consumers typically trade up. The sale of white goods is underpinned by the replacement cycle. Due to higher costs of repair, it often makes better economic sense for consumers to replace white goods outright rather than to arrange for their repair. The sale of white goods is also driven by the dynamics of the housing market, as new construction, house sales and refurbishment trigger new purchases.

(d) *Online presence*

The Dixons Group's core UK and Nordic markets have a maturing online sales platform. The increase in online shopping provides retailers with the opportunity to increase both the range of goods on offer and the availability of product information. The growth of online shopping also provides opportunities for multi-channel retailers to benefit from synergies between internet and store-based retailing.

(e) *Exchange rates*

Dixons' reporting currency is sterling. A number of its subsidiaries have different functional currencies and consequently, increases and decreases in the value of the sterling versus the currencies used by Dixons' international operations will affect its reported results and value of its assets and liabilities in its consolidated balance sheet. Dixons' principal translation currency exposures are to the Norwegian Krone, Swedish Krona and the Euro.

Dixons is also subject to certain transactional currency exposures. These exposures arise when a Dixons Group company makes purchases in currencies other than its functional currency. Dixons' principal transactional currency exposures are to the US dollar and the Euro.

It is Dixons' policy to minimise its currency exposures through the use of hedging instruments such as forward exchange contracts.

(f) *Store portfolio*

The quality and location of the Dixons Group's store portfolio is key to the success of the Dixons Group's strategy. Store costs make up a significant portion of operating costs. In the short to medium term, store costs are fixed and the Dixons Group has limited flexibility to reduce these costs in response to a significant decrease in revenue.

The Dixons Group principally operates from large, out-of-town stores in convenient locations that are accessible to substantial numbers of customers.

Dixons continually opens and closes stores as part of its normal operations, in addition to those stores closed as part of restructuring programmes.

(g) *Franchising*

In areas of lower population densities, franchising of the Dixons Group's brands offers the potential for market penetration. The Dixons Group has franchised stores in Norway (Elkjøp), Sweden (Elgiganten), Greece (Kotsovolos), Cyprus (Kotsovolos), Denmark (the Faroe Islands: El Ding and Greenland: Pisiffik), Finland (Gigantti), and Iceland (Elko), and the Czech Republic (Electroworld), the agreed disposal of which was announced on 19 May 2014. The Dixons Group acts as a wholesaler to the franchisee, who is required to purchase a substantial proportion of its products from the Dixons Group. Dixons also offers accounting, branding and advertising services to the franchises for a fee.

(h) *Stock management*

Careful management is required by the Dixons Group to avoid the risk of stock obsolescence when products are superseded by those that have newer technology or design, which could lead to a write-off or write-down of stock.

The increasing speed of technological innovation also makes it more challenging to forecast demand.

(i) *Product pricing*

Product pricing is influenced by competition from other retailers (including the internet), consumer demand as well as by the cost of products and distribution. Cost efficiency is managed by maintaining efficient sourcing and distribution arrangements. The Company actively manages its price competitiveness against other retailers (both internet and in-store). Price negotiations with suppliers are critical to the overall level of profitability.

(j) *Customer support agreements*

Although customer support agreements form a small proportion of Dixons Group revenue, they account for a higher proportion of the Dixons Group's underlying operating profit.

(k) *Seasonality*

The Dixons Group's business is highly seasonal, with a substantial proportion of its revenue and operating profit generated during the financial quarter that includes the Christmas and New Year season. An underperformance during this quarter for any reason could have a disproportionately adverse effect on Dixons' results for the entire year. In Greece, the hot summers drive sales of air-conditioning units, creating a peak distinct from that experienced in other parts of the Dixons Group.

(l) *Tax*

Dixons's results of operations are impacted by the relative contributions of its business segments to its profit before tax. The results of operations are taxed at the statutory rate applicable to the country in which the results are generated, which currently varies between 12.5 per cent. and 27 per cent. In addition, the main factor influencing the Dixons Group's effective rate is the non-deductibility of certain expenses.

(m) *Pension risk and policies*

The principal pension scheme operated by the Dixons Group is the UK defined benefit scheme. The value of liabilities varies because of changes in factors such as life expectancy and inflation and there are risks regarding the value of investments and their returns. A full actuarial valuation of the scheme was last carried out as at 31 March 2010 and showed a shortfall of assets compared with liabilities of £239 million. A 'recovery plan' agreed with the trustees commenced in 2010/11 with special contributions of £12.0 million, rising to £20.0 million for the Financial Year 2012/13 and the Financial Year 2013/14. Contributions will rise to £25.0 million for 2014/15 and will rise approximately annually thereafter to £35.0 million by 2020/21. The next triennial valuation as at 31 March 2013 is still underway and its results are expected in the first half of the financial year ending 30 April 2015. Any deficit existing as at this date may influence whether further special contributions are required in the future.

(n) *Acquisitions, disposals and other activities*

Dixons has completed a number of disposals and business closures that have affected the Dixons Group's results of operations across the periods presented herein. The most significant of these are as follows:

- PC City Spain was closed in June 2011 although small residual activity remains in the form of the unexpired customer support agreement contracts sold in the period prior to closure with income comprising the unwinding of residual deferred income and related costs.
- On 28 March 2013, the Dixons Group completed the disposal of its Equanet B2B operations (Equanet) to Kelway (UK) Limited for consideration of £4.2 million.
- On 5 September 2013, the Dixons Group announced the sale of its Electroworld Turkey operations to Bimeks, one of the leading electrical retailer specialists in Turkey. The sale was completed on 31 October 2013.
- On 10 October 2013, the Dixons Group announced the sale of its Unieuro operations, which completed on 29 November 2013. The Dixons Group together with the shareholders of SGM Distribuzione s.r.l. (SGM) (which trades as Marco Polo in Italy (Marco Polo)) formed a new entity, Italian Electronics Holdings s.r.l. (IEH) that now indirectly owns both Unieuro and Marco Polo. Rhône Capital was the controlling shareholder of Marco Polo and is now the controlling shareholder of IEH. Under the terms of the agreement, the Dixons Group left Unieuro with €25 million of cash and has invested €7.5 million in the form of a loan note. The Dixons Group now owns a 15 per cent. share in IEH with the shareholders of SGM holding the remaining 85 per cent.
- On 27 September 2013, the Dixons Group announced the sale of its PIXmania operations to mutares A.G. (mutares), a German listed industrial holding company, which completed on 31 December 2013. As part of its purchase, mutares has developed a robust plan to build on PIXmania's pure play e-commerce operations as well as further develop its market leading software platform. In order to support this plan, and to provide ongoing funding for PIXmania, the Dixons Group provided €69 million of ring-fenced capital.
- On 19 May 2014, the Dixons Group announced that it had entered into an agreement to dispose of its Electroworld businesses in the Czech Republic and Slovakia (together "**Electroworld Central Europe**").

Electroworld Turkey, Unieuro, PIXmania and Electroworld Central Europe have all been classified as discontinued operations with the prior years' results re-presented on a consistent basis.

## 4. Basis of preparation of the financial information and explanation of line items

4.1 *Financial periods*

For the Financial Year 2011/12, the Dixons Group drew up its accounts for the 52 week period ended 28 April 2012. However, commencing with the financial year ended 30 April 2013, the Dixons Group drew up its accounts on a calendar monthly basis meaning that its financial period ends on the accounting reference date of 30 April.

4.2 *Segmental analysis*

The Dixons Group's three operating segments are the UK & Ireland division, the Nordics division (comprising the Dixons Group's businesses in Norway, Sweden, Finland and Denmark, together with franchise operations in Iceland, Greenland and the Faroe Islands) and Greece.

4.3 *Underlying performance measures and non-underlying items*

The Dixons Group's income statement and segmental analysis identify separately underlying performance measures and non-underlying items. The Dixons Directors consider 'underlying' performance measures to be a more accurate reflection of the ongoing trading performance of the Dixons Group and believe that these measures provide additional useful information for shareholders on the Dixons Group's performance and are consistent with how business performance is measured internally.

Underlying performance measures comprise profits and losses incurred as part of the day-to-day ongoing retail activities of Dixons and include profits and losses incurred on the disposal and closure of owned or leased properties that occur as part of the Dixons Group's annual retail churn. The profits or losses incurred on disposal or closure of owned or leased properties as part of a one-off restructuring programme are excluded from underlying performance measures and are therefore included, among other items, within non-underlying items as described below.

Non-underlying items comprise trading results of businesses exited/to be exited, amortisation of acquired intangibles, net restructuring and business impairment charges and other one-off, non-recurring items, profits/losses on sale of investments or businesses, net interest on defined benefit pension schemes, fair value re-measurements of financial instruments and, where applicable, discontinued operations. Businesses exited/to be exited are those which do not meet the definition of discontinued operations as stipulated by IFRS 5. Items excluded from underlying results can evolve from one financial year to the next depending on the nature of reorganisation or one-off type activities described above.

A reconciliation of how underlying results and non-underlying items reconciles to total results is shown on the face of the income statement of the Dixons Group incorporated by reference into Part VIII of this document.

The terms Underlying/non-Underlying as used in this Part V of this document are equivalent to the terms Headline/non-Headline as used in Part IV of this document in relation to the Carphone Group. The only material differences relate to certain items which are included by Dixons within non-Underlying results that do not have an equivalent in the results of the Carphone Group. These items are net interest on defined benefit pension schemes and fair value re-measurements of financial instruments.

For completeness, other items included within the definition of non-Underlying results, being trading results of businesses exited/to be exited, net restructuring and business impairment charges and other one-off, non-recurring items, profits/losses on sale of investments or businesses, and, where applicable, discontinued operations would be included in non-Headline results of the Carphone Group to the extent they are considered so material that they require separate disclosure to avoid distortion of underlying performance.

4.4 *Like-for-like revenue comparisons*

The Dixons Group uses like-for-like revenue comparisons to provide a sense of comparative performance across financial periods. Like-for-like percentages are based on underlying store and internet sales using constant exchange rates. New stores are included where they have been open for a full financial year both at the beginning and end of the financial period. Closed stores are excluded for any period of closure including periods of refitting. In performing like-for-like calculations for businesses acquired part way through prior periods, adjustments are made to annualise the prior period.

4.5 *Accounting policies and other principles applicable to the financial information*

The principal accounting policies and other principles applied in the preparation of the financial information are set out in the historical financial information relating to the Dixons Group which is incorporated by reference into this document. These policies have been consistently applied to all financial reporting periods being presented. The financial information has been prepared in accordance with IFRS as adopted by the EU, IFRS issued by the International Accounting Standards Board and those parts of the Act applicable to those companies reporting under IFRS, and have been prepared on a going concern basis.

4.6 *Explanation of line items in the income statement of the Dixons Group*

The Dixons Group's key line items are described as follows:

Revenue: comprises sales of goods and services excluding sales taxes. Revenue from sales of goods is recognised at the point of sale or, where later, upon delivery to the customer and is stated net of returns. Revenue earned from customer support agreements is recognised as such over the life of the agreement by reference to the stage of completion of the transaction at the balance sheet date.

Operating profit: is defined as revenues minus the operating costs described below:

Cost of sales: these costs include product costs, store payroll, a proportion of store information system costs and store property costs, such as rent, rates (i.e. property taxes) and utilities.

Distribution costs: these costs include transportation costs of stock from dock to distribution centre, from distribution centre to store or customer and from store to customer. They also include other distribution-related costs such as payroll of distribution employees, distribution centre property costs, such as rent and rates, and equipment depreciation costs.

Administrative costs: these costs include payroll of employees not in stores but aligned to the retail chains (including employees in the Dixons Group's regional purchasing, marketing, supply chain and inventory planning functions), regional headquarter and management costs and payroll for central function employees that can be attributed to the retail chains.

Central costs: these costs include head office property costs such as rent, rates and utilities, information system costs (other than those allocated to stores) and related amortisation and payroll for central function employees that cannot be directly attributed to the retail chains (for example, legal, accounting, tax and treasury).

Property (losses)/profits: these costs arise from the gain or loss from the sale of freehold properties and certain costs associated with the closure of stores (including write-offs of assets and provisions and accruals for onerous leases).

5. **Results of operations**

Set out below is a table of the Dixons Group's results for the Financial Year 2013/14, the Financial Year 2012/13 and the Financial Year 2011/12.

Figures as originally reported are shown in the table below:

| | Financial Year 2013/14 | | | Financial Year 2012/13 As originally presented | | | Financial Year 2011/12 As originally presented | | |
|---|---|---|---|---|---|---|---|---|---|
| | Underlying £million | Non-underlying £million | Total £million | Underlying £million | Non-underlying £million | Total £million | Underlying £million | Non-underlying £million | Total £million |
| **Continuing operations** | | | | | | | | | |
| **Revenue** | 7,217.6 | 0.1 | 7,217.7 | 8,213.9 | 225.4 | 8,439.3 | 8,186.7 | 6.5 | 8,193.2 |
| Profit / (loss) from operations before associates | 202.8 | (13.5) | 189.3 | 136.0 | (186.9) | (50.9) | 114.5 | (184.0) | (69.5) |
| Share of post tax results of associates | — | — | — | — | — | — | 0.6 | — | 0.6 |
| **Operating (loss) / profit** | 202.8 | (13.5) | 189.3 | 136.0 | (186.9) | (50.9) | 115.1 | (184.0) | (68.9) |
| Loss on sale of business | — | — | — | — | (9.6) | (9.6) | — | — | — |
| Net Finance costs | (36.6) | (19.8) | (56.4) | (41.5) | (13.3) | (54.8) | (44.3) | (5.6) | (49.9) |
| **Profit / (loss) before tax** | 166.2 | (33.3) | 132.9 | 94.5 | (209.8) | (115.3) | 70.8 | (189.6) | (118.8) |
| Income tax (expense) / credit | (50.5) | 5.4 | (45.1) | (49.2) | (3.6) | (52.8) | (36.4) | (7.7) | (44.1) |
| **Profit / (loss) after tax – continuing operations** | 115.7 | (27.9) | 87.8 | 45.3 | (213.4) | (168.1) | 34.4 | (197.3) | (162.9) |
| Loss after tax – discontinued operations | — | (158.1) | (158.1) | — | — | — | — | — | — |
| **(Loss) / profit after tax for the period** | 115.7 | (186.0) | (70.3) | 45.3 | (213.4) | (168.1) | 34.4 | (197.3) | (162.9) |

The following table sets out the figures re-presented on a consistent basis to that in the Financial Year 2013/14 with the figures for the Financial Year 2012/13 and the Financial Year 2011/12 having been re-presented to take account of discontinued operations and businesses exited. Discontinued operations comprise Electroworld Turkey, UniEuro, PIXmania and Electroworld Central Europe which became discontinued in the Financial Year 2013/14. Businesses exited comprise Equanet and PC City Spain, which were disclosed as such in the Financial Year 2012/13 and the reported comparative financial period for the Financial Year 2011/12. In addition, the Financial Year 2012/13 also disclosed Webhallen, PLS and PIXmania stores as businesses exited, however owing to these businesses all having formed part of PIXmania which in the Financial Year 2013/14 became a discontinued operation, these businesses have been further re-presented to be discontinued operations.

| | Financial Year 2013/14 | | | Financial Year 2012/13 (Re-presented) | | | Financial Year 2011/12 (Re-presented) | | |
|---|---|---|---|---|---|---|---|---|---|
| | Underlying £million | Non-underlying £million | Total £million | Underlying £million | Non-underlying £million | Total £million | Underlying £million | Non-underlying £million | Total £million |
| **Continuing operations** | | | | | | | | | |
| **Revenue** | 7,217.6 | 0.1 | 7,217.7 | 7,026.6 | 82.6 | 7,109.2 | 6,521.4 | 109.4 | 6,630.8 |
| Profit / (loss) from operations before associates | 202.8 | (13.5) | 189.3 | 186.4 | (35.8) | 150.6 | 157.5 | (16.2) | 141.3 |
| Share of post tax results of associates | — | — | — | — | — | — | 0.6 | — | 0.6 |
| **Operating (loss) / profit** | 202.8 | (13.5) | 189.3 | 186.4 | (35.8) | 150.6 | 158.1 | (16.2) | 141.9 |
| Loss on sale of business | — | — | — | — | (9.6) | (9.6) | — | — | — |
| Net Finance costs | (36.6) | (19.8) | (56.4) | (35.4) | (19.0) | (54.4) | (33.4) | (11.3) | (44.7) |
| **Profit / (loss) before tax** | 166.2 | (33.3) | 132.9 | 151.0 | (64.4) | 86.6 | 124.7 | (27.5) | 97.2 |
| Income tax (expense) / credit | (50.5) | 5.4 | (45.1) | (54.0) | 10.3 | (43.7) | (45.1) | (9.5) | (54.6) |
| **Profit / (loss) after tax – continuing operations** | 115.7 | (27.9) | 87.8 | 97.0 | (54.1) | 42.9 | 79.6 | (37.0) | 42.6 |
| Loss after tax – discontinued operations | — | (158.1) | (158.1) | — | (215.3) | (215.3) | — | (205.5) | (205.5) |
| **(Loss) / profit after tax for the period** | 115.7 | (186.0) | (70.3) | 97.0 | (269.4) | (172.4) | 79.6 | (242.5) | (162.9) |

(a) The Dixons Group's underlying revenue from continuing operations was £7,217.6 million in the Financial Year 2013/14, an increase of £191.0 million, or 2.7 per cent. on the Financial Year 2012/13. The Dixons Group delivered a second consecutive year of strong growth over the important Christmas period, with strong full year growth in the UK & Ireland division (up £134.1 million; 3.3 per cent.). Reported growth in the Nordics (up £56.6 million; 2.1 per cent.) was hampered to some extent because of adverse foreign exchange movements between local reporting currencies in the region and sterling. In local currency terms, Nordics sales grew by 3 per cent.. In Greece, sales were marginally up year on year (by £0.4 million), although down in local currency terms by 3 per cent. with the prior year result boosted by a particularly hot summer (driving air conditioning sales) and a digital switchover in Athens pushing up sales of TVs in the Financial Year 2012/13. In the Financial Year 2012/13, underlying revenue from continuing operations was £7,026.6 million, an increase of £505.2 million, or 7.7 per cent, compared to £6,521.4 million in the Financial Year 2011/12. This increase was due to significant growth in both the Nordics (up £243.4 million; 9.8 per cent.) and UK & Ireland (up £263.2 million; 7 per cent.). In Greece there was also an increase in sales in local currency, although adverse movement in the sterling to euro exchange rate meant that in sterling, sales decreased year on year in that region.

(b) The Dixons Group's underlying operating profit was £202.8 million in the Financial Year 2013/14, an increase of £16.4 million compared to an underlying operating profit of £186.4 million in the Financial Year 2012/13. The UK & Ireland division operating profit was up year-on-year (£27.7 million), which saw like-for-like sales up 5 per cent. with further market share gains and benefit from the exit of competitors, most notably Comet at the end of 2012, and a particularly strong post-Christmas sale period. Partially offsetting this was a reduction in underlying operating profit in the Nordics of £8.5 million. The Dixons Group's underlying operating profit in the Financial Year 2012/13 was £186.4 million, an increase of £28.3 million compared to an underlying operating profit of £158.1 million in Financial Year 2011/12. This variance was driven by UK & Ireland division's financial performance (up £31.9 million) from a successful Summer of Sport campaign in the first half of the financial year and a strong peak period performance as well as the exit of competitors towards the end of the financial year, the largest of which was Comet.

(c) The Dixons Group's underlying net finance cost was £36.6 million in the Financial Year 2013/14, an increase of £1.2 million compared to the Dixons Group's underlying net finance cost of £35.4 million in the Financial Year 2012/13. The increase in costs was primarily due to the full year net effect of issuance of the 2017 Notes, partial redemption of the 2015 Notes and the full redemption of the 2012 Bonds and associated hedging instruments in Financial Year 2012/13 (the terms 2017 Notes, 2015 Notes and 2012 Bonds are defined in paragraph 6 below). Underlying net finance cost was £33.4 million in the Financial Year 2011/12. Net interest from the 2015 Notes and 2017 Notes (as such terms are defined in paragraph 6 below) and related charges were £1.5 million higher in Financial Year 2012/13 due to an increased coupon. Both the 2015 Notes and 2017 Notes (as such terms are defined in paragraph 6 below) pay a coupon of 8.75 per cent., whereas the 2012 Bonds (as such term is defined in paragraph 6 below) had a coupon of 6.125 per cent., This more than offset the lower nominal rates following the partial buy back (£49.4 million) of the 2015 Notes in September 2012.

(d) The Dixons Group's underlying income tax expense was £50.5 million in the Financial Year 2013/14, a decreased expense of £3.5 million compared to the Dixons Group's underlying income tax expense of £54.0 million in the Financial Year 2012/13. The effective tax rate on underlying profits has fallen from 35.8 per cent. in the Financial Year 2012/13 to 30.4 per cent. mainly as a result of an increase in the proportion of taxable profits relative to the non-deductible expenses. Underlying income tax expense was £45.1 million in the Financial Year 2011/12, an effective rate of 36.2 per cent.

(e) The loss on sale of business in the Financial Year 2012/13 relates to the disposal of Equanet, the Dixons Group's main non-store UK B2B operations.

(f) Non-underlying items

The Dixons Group's non-underlying operating costs in the Financial Year 2013/14 totalled £13.5 million, comprising predominantly:

- Net restructuring items comprised £8.7 million for IT asset write-offs associated with reorganisations following disposals during the year; and
- Other items comprised mainly £1.6 million of income received from insurers in respect of the UK riots and charges of £5.4 million relating to a remeasurement of deferred consideration associated with an acquisition in the Nordics made in the Financial Year 2011/12.

Non-underlying operating costs in the Financial Year 2012/13 totalled £35.8 million, comprising predominantly:

- Net restructuring charges of £24.8 million for costs incurred in the UK for the reorganisation of the remaining UK B2B operations following the sale of Equanet (£22.9 million). There was an onerous lease in respect of the former Equanet operations and related fixed asset write-offs; and
- Business impairment charges of £9.1 million related to the impairment of goodwill of a small UK B2B operation (£6.6 million) after the reorganisation and significant reduction in the UK & Ireland's B2B operations following the sale of Equanet. There was also a full write-down of the investment in an associate (£2.5 million) following continued declining results.

Non-underlying operating costs in the Financial Year 2011/12 totalled £16.2 million, comprising predominantly:

- Net charges of £9.8 million related to restructuring initiatives, which commenced in the 2007/08 Financial Year as part of the renewal and transformation of the UK & Ireland division.

- Business impairment charges, which comprised £36.5 million goodwill impairment on Greek operations;
- £4.4 million for exited businesses trading losses and provisions (Spain and Equanet); and
- Other items comprised mainly a £37.2 million profit on disposal of property related to the sale and leaseback of the Dixons Group's Nordics distribution centre in Jönköping. This was partly offset by a £3.2 million charge in respect of the August 2011 UK riots (write-offs and reinstatement costs).

The Dixons Group's underlying net finance costs for Financial Year 2013/14 excluded the non-underlying finance costs of £19.8 million which consisted of £17.1 million for net interest expense on defined benefit obligations and a £2.0 million write off of unamortised revolving credit facility fees after the renegotiation of a new facility which came into effect on 19 May 2014.

Underlying net finance costs for Financial Year 2012/13 excluded non-underlying finance cost of £19.0 million. This consisted mainly of the net fair value re-measurements of financial instruments (£1.9 million), 2012 Bonds and 2015 Notes (as such terms are defined in paragraph 6 below) redemption costs and fees (£4.3 million), net interest expense on defined benefit obligation (£13.1 million) and £0.3 million finance income relating to businesses exited.

Underlying net finance costs for Financial Year 2011/12 excluded non-underlying finance expense of £11.3 million which included £2.8 million relating to the net fair value re-measurements of financial instruments. It also excluded £5.7 million net interest expense on defined benefit obligation (note the charge in Financial Year 2012/13 was significantly higher due to changes in accounting treatment for which the Financial Year 2011/12 number has not been restated), and £2.7 million accelerated Revolving Credit Facility fee amortisation expense following renegotiation of an amended facility in May 2012.

6. **Capital resources and liquidity**

The Dixons Group's current primary sources of liquidity are cash flows from operations.

Dixons monitors cash flow closely through both the treasury and finance functions. Cash flow forecasts are prepared and reviewed on a weekly or daily basis, as necessary. In addition, cash flow measures such as free cash flow are prepared as part of the Dixons Group's overall budgeting and forecasting processes and performance is monitored against budget each period.

Dixons' net funds level can vary significantly from period to period and there is some variation within periods. This variation reflects, among other things, quarterly rent payment dates in the UK (and, to a lesser extent, rent payment dates in other jurisdictions), trading patterns, payments to suppliers, patterns of inventory holdings, timing of receipts from customers and the timing of spend on major capital and restructuring products. Dixons' net funds levels at the end of an interim half-year financial period and financial year end therefore may not be indicative of debt levels at other points throughout the year.

Dixons' working capital fluctuates throughout the year, for the same reasons as described above.

***Free cash flow***

Free Cash Flow comprises cash generated from continuing operations before special pension contributions, plus net finance income, less income tax paid and net capital expenditure. The Dixons Directors consider that the underlying performance measure of "free cash flow" provides additional useful information for shareholders in respect of cash generation and is consistent with how business performance is measured internally. Free Cash Flow may not be directly comparable with similarly titled or other "adjusted" cash flow measures used by other companies.

**Analysis of net funds / (debt)**

| | 30 April 2014 £million | 30 April 2013 £million | 28 April 2012 £million |
|---|---|---|---|
| Cash and cash equivalents | 410.0 | 405.3 | 316.8 |
| Bank overdrafts | — | (17.7) | (15.8) |
| | 410.0 | 387.6 | 301.0 |
| Short term investments | 1.4 | 2.4 | 7.3 |
| Borrowings due within one year | — | (4.5) | (162.5) |
| Borrowings due in more than one year | (246.9) | (245.4) | (147.8) |
| Obligations under finance leases | (93.6) | (98.0) | (102.0) |
| | (340.5) | (347.9) | (412.3) |
| **Net funds / (debt)** | 70.9 | 42.1 | (104.0) |

Borrowings due within one year in the Financial Year 2011/12 comprised the 6.125 per cent. Guaranteed Bonds due 2012 (the **"2012 Bonds"**). Borrowings due after more than one year comprised 8.75 per cent. Guaranteed Notes due 2015 (the **"2015 Notes"**) for the Financial Year 2011/12, 2012/13 and 2013/14 Financial Years and 8.75 per cent. Guaranteed Notes due 2017 (the **"2017 Notes"**) for the 2012/13 and 2013/14 Financial Years.

Net funds for 30 April 2014 are stated inclusive of £103.3 million of restricted funds (the Financial Year 2012/13: £110.2 million, the Financial Year 2011/12: £114.0 million), which predominantly comprise funds held under trust for potential customer support liabilities.

**Cash flow analysis**

| | Financial Year 2013/14 £million | Financial Year 2012/13 As originally presented £million | Financial Year 2011/12 As originally presented £million |
|---|---|---|---|
| Net cash inflow / (outflow) from operating activities | 298.0 | 333.4 | 188.5 |
| Net cash inflow / (outflow) from investing activities | (74.4) | (74.8) | (16.8) |
| Net cash inflow / (outflow) from financing activities | (36.5) | (180.4) | (187.1) |
| **Increase / (decrease) in cash and cash equivalents** | | | |
| Continuing operations | 187.1 | 78.2 | (15.4) |
| Discontinued operations | (163.9) | (0.9) | (1.5) |
| | 23.2 | 77.3 | (16.9) |
| Cash and cash equivalents at beginning of period | 387.6 | 301.0 | 329.1 |
| Currency translation differences | (0.8) | 9.3 | (11.2) |
| **Cash and cash equivalents at end of period** | 410.0 | 387.6 | 301.0 |
| **Free Cash Flow** | 200.5 | 153.4 | 130.3 |

The following table sets out the figures re-presented on a consistent basis to that in Financial Year 2013/14 with the figures for the Financial Year 2012/13 and the Financial Year 2011/12 having been re-presented to take account of discontinued operations and businesses exited. Discontinued operations comprise Electroworld Turkey, UniEuro, PIXmania and Central Europe which became discontinued in the Financial Year 2013/14. Businesses exited comprise Equanet and PC City Spain which were disclosed as such in the Financial Year 2012/13 and the reported comparative period in the Financial Year 2011/12. In addition, the

Financial Year 2012/13 also disclosed Webhallen, PLS and PIXmania stores as businesses exited, however owing to these businesses all having formed part of PIXmania which in the Financial Year 2013/14 became a discontinued operation, these businesses have been further re-presented to be discontinued operations.

| | Financial Year 2013/14 £million | Financial Year 2012/13 (Re-presented) £million | Financial Year 2011/12 (Re-presented) £million |
|---|---|---|---|
| Net cash inflow / (outflow) from operating activities | 298.0 | 367.0 | 206.0 |
| Net cash inflow / (outflow) from investing activities | (74.4) | (50.2) | 3.7 |
| Net cash inflow / (outflow) from financing activities | (36.5) | (181.8) | (184.8) |
| **Increase / (decrease) in cash and cash equivalents** | | | |
| Continuing operations | 187.1 | 135.0 | 24.9 |
| Discontinued operations | (163.9) | (57.7) | (41.8) |
| | 23.2 | 77.3 | (16.9) |
| Cash and cash equivalents at beginning of period | 387.6 | 301.0 | 329.1 |
| Currency translation differences | (0.8) | 9.3 | (11.2) |
| **Cash and cash equivalents at end of period** | 410.0 | 387.6 | 301.0 |
| **Free Cash Flow** | 200.5 | 207.8 | 171.1 |

Net cash inflow from operating activities was £298.0 million (the Financial Year 2012/13: inflow of £367.0 million) with the year on year decrease of £69.0 million driven by £63.6 million of lower working capital inflows, primarily due to a very strong Easter trading period at the end of the Financial Year 2012/13. The £161.0 million increase in net cash inflow from operating activities from the Financial Year 2011/12 to the Financial Year 2012/13 was driven mainly by improved working capital movements of £88.2 million and lower utilisation of non-underlying provisions of £30.6 million, which were higher in the Financial Year 2011/12 due to the closure of PC City Spain. A further factor was that underlying operating profit was £28.3 million higher in the Financial Year 2012/13 compared to the Financial Year 2011/12.

Net cash outflows from investing activities increased by £24.2 million in the Financial Year 2013/14, compared to the Financial Year 2012/13. £4.2 million of this was due to a decrease in short-term investment flows, largely resulting from redemptions of forward rate notes. A further £12.5 million related to interest received. Capital expenditure was £3.8 million higher in the Financial Year 2013/14 compared to the Financial Year 2012/13 due largely to timing differences in UK and the Nordics, with project delays towards the end of the Financial Year 2012/13 meaning that these fell into the Financial Year 2013/14. The Financial Year 2012/13 also included a £3.4 million cash inflow from the sale of the Equanet business in the UK. Net cash flows from investing activities decreased by £53.9 million in the Financial Year 2012/13 compared to the Financial Year 2011/12. This was due to the Financial Year 2011/12 numbers including the Dixons Group's Swedish warehouse in Jönköping for £58.1 million. This was partly offset by £3.4 million cash inflow in the Financial Year 2012/13 from the sale of the Equanet business in the UK.

Net cash outflows from financing activities were £(36.5) million in the Financial Year 2013/14 (the Financial Year 2012/13 £(181.8) million). The Financial Year 2012/13 included a net £62.9 million outflow from a net decrease in borrowings following repayment of the 2012 Bonds in September 2012, although this repurchase was funded by part of a new issue of the 2017 Notes. Interest paid of £(36.3) million (the Financial Year 2012/13 £(114.1) million) was driven largely by a £62.6 million settlement of historical currency hedges.

The movement in cash and cash equivalents for discontinued operations related to Electroworld Turkey, Unieuro and PIXmania and Electroworld Central Europe.

There was a small £3.0 million decrease in net cash outflows from financing activities between the Financial Year 2011/12 and the Financial Year 2012/13. During the Financial Year 2012/13 the Dixons Group issued new 2017 Notes and redeemed all of its remaining £160 million 2012 Bonds and £49 million of its 2015 Notes. The strengthening cash position meant that the RCF remained undrawn through the Financial Year 2012/13 compared with the 2011/12 Financial Year where this had not been the case.

***Free cash flow***

Free Cash Flow of £200.5 million decreased by £7.3 million from an inflow of £207.8 million in the Financial Year 2012/13. This was mainly due to £63.6 million of lower working capital inflows and £3.8 million higher capital expenditure, largely offset by a net £65.3 million lower net interest outflow, both factors as described above. The improvement of £36.7 million in free cashflow in Financial Year 2012/13 over Financial Year 2011/12 was driven by improved profitability and good working capital management in all markets.

7. **Contractual obligations and commitments as at 30 April 2014**

| | **30 April 2014 £million** |
|---|---|
| **Capital commitments contracted for but not provided for in the accounts** | **35.5** |
| **Contingent liabilities** | **2.2** |

| | **Land and buildings £million** | **Other £million** |
|---|---|---|
| **Operating lease commitments** | | |
| Total undiscounted future committed payments due: | | |
| Within one year | 317.7 | 6.2 |
| Between two and five years | 1,159.5 | 14.4 |
| After five years | 1,105.2 | 1.1 |
| | 2,582.4 | 21.7 |

Guarantees comprise potential obligations to financial institutions in respect of activities undertaken in the normal course of business. The above table does not include contingent liabilities that exist in respect of lease covenants relating to premises assigned to third parties.

**Contractual obligations summary**

| | **At 30 April 2014** | | |
|---|---|---|---|
| | **Current** | **Non-current** *(£ million)* | **Total** |
| **On balance sheet:** | | | |
| 8.75 per cent. Guaranteed Notes 2015 | — | 99.6 | 99.6 |
| 8.75 per cent. Guaranteed Notes 2017 | — | 147.3 | 147.3 |
| Revolving credit facility | — | — | — |
| Bank overdraft | — | — | — |
| Derivative financial instruments(1) | 3.4 | — | 3.4 |
| Finance leases | 2.0 | 91.6 | 93.6 |
| **Off balance sheet:** | | | |
| Operating leases (2) | 323.9 | 2,280.2 | 2,604.1 |
| Capital commitments (3) | 35.5 | — | 35.5 |
| **Total** | 364.8 | 2,618.7 | 2,983.5 |

Notes:

(1) Comprises the mark to market liabilities of foreign exchange hedging contracts.

(2) Includes committed payments under onerous lease contracts for which provisions or accruals exist on the balance sheet.

(3) Predominantly relates to the purchase and construction of property, plant and equipment.

These tables do not reflect payments associated with the UK defined benefit pension scheme. A 'recovery plan' based on the valuation of this scheme, agreed with the trustee, commenced in 2010/11 with special contributions of £12.0 million, rising to £20.0 million for the Financial Year 2012/13 and the Financial Year 2013/14. Contributions rise to £25.0 million for 2014/15 and will rise approximately annually thereafter to £35.0 million by 2020/21. In addition, the figures in the table do not include accrued interest.

Certain of the above obligations are denominated in currencies other than sterling, and have been translated from foreign currencies into sterling. As a result, the actual payments will vary based on any change in exchange rates.

8. **Treasury policies and procedures**

Treasury operates within documented policies approved by the Dixons Board and manages, *inter alia*, foreign exchange and interest rate exposures, funding and cash needs and banking relationships. Foreign exchange exposures are hedged with appropriate instruments as these risks arise. With funding and liquidity, forecasts are reviewed regularly to ensure that the required level of committed facilities are always available to meet the Dixons Group's funding needs as they fall due. Credit exposure is managed by continuous monitoring including reviews of the credit quality of counterparties and limits placed on individual credit exposures.

9. **Critical accounting estimates and assumptions**

(a) *Revenue recognition*

Revenue earned from the sale of customer support agreements is recognised over the term of the contracts when the Dixons Group obtains the right to consideration as a result of performance of its contractual obligations. Revenue in any one year is therefore recognised to match the proportion of the expected costs of fulfilling the Dixons Group's total obligations under the agreements. An estimate of the degree of performance of these contractual obligations is determined by reference to extensive historical claims data.

(b) *Inventory valuation*

Inventories are valued at the lower of average cost and net realisable value. Net realisable value includes, where necessary, provisions for slow moving and damaged inventory. Calculation of these provisions requires judgements to be made which include forecast consumer demand, the promotional, competitive and economic environment and inventory loss trends.

(c) *Provisions and accruals for onerous leases*

If the Dixons Group vacates a store or other property prior to the expiry of the related lease, or a lease forms part of a separate cash generating unit (**"CGU"**) whereby the carrying value of that CGU is not considered supportable, it records a provision or accrual for the expected lease payments that the Dixons Group will incur prior to assignment or sublease of the property. Such a calculation requires a judgement as to the timing and duration of the expected vacant periods and the amount and timing of future potential sublease income.

(d) *Goodwill, intangible assets and property, plant and equipment impairment reviews*

Goodwill is required to be valued annually to assess the requirement for potential impairment. Other assets are assessed on an on-going basis to determine whether circumstances exist that could lead to the conclusion that the net book value of such assets is not supportable. Such calculations require judgement relating to the appropriate discount factors and long-term growth prevalent in a particular market as well as short and medium term business plans.

In assessing impairment of intangible assets and property, plant & equipment, discounted cash flow methods are used.

(e) *Share-based payments*

The charge for share-based payments is calculated by estimating the fair value of the award at the date of grant. The option valuation models used require highly subjective assumptions to be made including future share price volatility, expected dividend yields, risk-free interest rates, expected staff turnover and the likelihood of non-market vesting conditions being met.

(f) *Defined benefit pension schemes*

The surplus or deficit in the UK defined benefit pension scheme that is recognised through the consolidated statement of comprehensive income and expense is subject to a number of assumptions and uncertainties. The calculated liabilities of the scheme are based on assumptions regarding salary increases, inflation rates, discount rates and member longevity. Such assumptions are based on actuarial advice and are benchmarked against similar pension schemes.

***Taxation***

The Dixons Group recognises liabilities for anticipated taxes due based on the best information available and where the anticipated liability is probable and estimable. Where the final outcome of such matters differs from the amounts initially recorded, any differences will impact the income tax and deferred tax provisions in the year to which such determination is made. Where the potential liabilities are not considered probable, the amount at risk is disclosed unless an adverse outcome is considered remote.

Deferred tax is recognised on taxable losses based on the expected ability to utilise such losses. This ability takes account of the business plans for the relevant companies, potential uncertainties around the longer term aspects of these business plans, any expiry of taxable benefits and potential future volatility in the local tax regimes.

10. **Funding arrangements**

On 19 May 2014, the Dixons Group signed a new revolving credit facility agreement (the **''New Facility''**) for £150 million. The New Facility, which has a maturity date of 30 June 2018, with an option to extend to 30 June 2019, replaces the previous amended facility of £200 million which had a maturity date of 30 June 2015 (the **''Amended Facility''**).

The key terms of the New Facility have similarities to the Amended Facility, however, with reduced levels of fees and a reduced number of financial covenants. Drawings under the New Facility bear interest at LIBOR (or EURIBOR in relation to drawings in Euro) plus a margin of between 1.75 and 2.75 per cent. per annum (depending on performance against one of the financial covenants). Currently the margin is 2.25 per cent. (under the Amended Facility, immediately prior to its cancellation, the margin was 3.50 per cent.). A commitment fee is incurred on undrawn amounts. As at 30 April 2014 there were no drawings under the Amended Facility.

The Dixons Group has certain floating rate borrowings in the form of bank overdrafts. At 30 April 2014 there were no borrowings under bank overdrafts.

The Dixons Group also has non-current borrowings in the form of 8.75 per cent. Guaranteed Notes due 2015 (the **''2015 Notes''**) and 8.75 per cent. Guaranteed Notes due 2017 (the **''2017 Notes**''). The 2015 Notes and 2017 Notes are both denominated in sterling with a principal amount outstanding of £100.6 million and £150 million, respectively. Both the 2015 Notes and the 2017 Notes require payment of interest semi-annually and as at 30 April 2014, were guaranteed by a number of UK and Irish subsidiary undertakings of the Dixons Group, including DSG Retail Limited. From the 19 May 2014, when the New Facility came into effect, the number of subsidiary undertakings providing a guarantee was reduced, but still includes DSG Retail Limited.

Both the 2015 Notes and the 2017 Notes are listed on the London Stock Exchange and unless previously redeemed or purchased and cancelled they will be redeemed at par on 3 August 2015 and 15 September 2017, respectively. Both the 2015 Notes and the 2017 Notes may be redeemed in whole or in part at their principal amount plus accrued interest by providing 30 to 60 days' notice to the holders of the 2015 Notes and the 2017 Notes (the ''**Noteholders**''). They may also be purchased in the open market by any company within the Dixons Group and in either circumstance any unmatured coupons will be cancelled and may not be re-issued or re-sold. In the event of a specific change of control event, each Noteholder has an option to require Dixons to redeem or, at the option of Dixons, purchase (or procure the purchase of) any of the 2015 Notes or 2017 Notes held by such Noteholder at a cash price equal to 101 per cent. of their principal amount together with interest accrued.

At 31 May 2014, the Dixons Group borrowings comprised £nil under the New Facility, £nil on overdrafts, £99.6 million 2015 Notes and £147.4 million guaranteed Notes 2017 (as extracted without material adjustment from the unaudited management information of the Dixons Group for the month ended 31 May 2014). At the same date, the Dixons Group had cash and cash equivalents balances of £377.9 million and short term investments of £1.4 million, of which £97.5 million were restricted funds which predominantly comprise funds held under trust to fund potential customer support agreement liabilities (in each case, as extracted without material adjustment from the unaudited management information of the Dixons Group for the month ended 31 May 2014). In addition, £93.4 million was outstanding as at 31 May 2014 in respect of finance leases (as extracted without material adjustment from the unaudited management information of the Dixons Group for the month ended 31 May 2014).

# PART VI

## CAPITALISATION AND INDEBTEDNESS

The following table sets out the unaudited Carphone Group's capitalisation and indebtedness as at 29 March 2014:

| | £million |
|---|---|
| **Current debt** | |
| Secured | 1 |
| **Non-current debt** | |
| Unguaranteed/Unsecured | 290 |
| **Shareholders' equity** | |
| Share capital | 1 |
| Share premium | 283 |
| Translation reserve | (9) |
| Demerger reserve | (750) |
| **Total capitalisation** | **(184)** |

The following table sets out the unaudited Carphone Group's net indebtedness as at 29 March 2014:

| | £million |
|---|---|
| Cash and cash equivalents | 283 |
| Current finance lease obligations | (1) |
| Non-current bank loans | (290) |
| **Net financial indebtedness** | **(8)** |

Notes:

1. The capitalisation and indebtedness figures have been extracted without material adjustment from the audited financial information of the Carphone Group for the financial year ended 29 March 2014 as set out in Part VII of this document.
2. Capital and reserves do not include the profit and loss reserve, which was £1,355 million at 29 March 2014.
3. The above tables do not reflect the effect of the Merger on Carphone Group's capitalisation and indebtedness.

# PART VII

# HISTORICAL CONSOLIDATED FINANCIAL INFORMATION RELATING TO THE CARPHONE GROUP

## SECTION A: FINANCIAL INFORMATION RELATING TO THE CARPHONE GROUP FOR THE FINANCIAL YEAR ENDED 29 MARCH 2014

The financial information on the Carphone Group for the financial year ended 29 March 2014 set out in this Part VII has been prepared by the Carphone Directors on the basis set out in note 1. The accompanying notes represent an integral part of the financial information for the financial year ended 29 March 2014.

The following pages set out the audited consolidated financial information of the Carphone Group for the financial year ended 29 March 2014.

The financial information contained in this Part VII does not constitute statutory accounts within the meaning of section 434 of the Act.

In this Section A of Part VII, unless otherwise stated, references to the ''Company'' are references to Carphone, references to the ''Group'' are references to the Carphone Group and references to the ''Directors'' or the ''Board of Directors'' are references to the Carphone Directors and the Carphone Board, respectively.

In addition, references to ''CPW Europe'' are to Carphone Europe, references to ''CPW Europe Acquisition'' are references to the Best Buy Acquisition, references to ''Carphone Warehouse Share Plan'' are to the CPWG Share Plan and references to ''Share Schemes'' are to the Carphone Share Schemes.

# 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 statements 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**<br>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**<br>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.<br>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**<br>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. |
| **Closure of French operations**<br>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**<br>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.

*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.

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.

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.

*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.

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. 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.

*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 receivables 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.

## 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 businesses 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) | | | |
|---|---|---|---|---|---|---|
| **2014** | **UK and Ireland £m** | **Mainland Europe £m** | **CPW Europe (to 26 June 2013) £m** | **Virgin Mobile France £m** | **Unallocated* £m** | **Total £m** |
| 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.

| | CPW | Joint Ventures (see note 24) | | |
|---|---|---|---|---|
| **2013 (restated)** | **UK and Ireland £m** | **CPW Europe £m** | **Virgin Mobile France £m** | **Total £m** |
| 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.

| **i) Headline revenue*** | **2014 £m** | **2013 £m** |
|---|---|---|
| United Kingdom | 1,402 | 11 |
| Netherlands | 127 | — |
| Spain | 386 | — |
| Germany | 395 | — |
| Other | 195 | — |
| | 2,505 | 11 |

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

| **ii) Non-current assets** | **2014 £m** | **2013 £m** |
|---|---|---|
| United Kingdom | 779 | 552 |
| Netherlands | 60 | — |
| Spain | 60 | — |
| Germany | 26 | — |
| Other | 27 | 13 |
| | 952 | 565 |

### 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) |

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 at £0.3m (2013: nil) has been recognised in 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.

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.

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<br>£m | 2013<br>£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<br>£m | 2013<br>£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<br>£m | 2013<br>£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, which 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.

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:

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

| 2013 | Opening balance £m | Recognised in profit and loss £m | Closing balance £m |
|---|---|---|---|
| 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 has 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.

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 |

### *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*

a) Acquisition intangibles included customer relationships and brands. Each class of intangible asset was independently valued by experts using appropriate valuation techniques.

b) 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) |

| **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<br>£m | 2013<br>£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<br>£m | 2013<br>£m |
|---|---|---|
| Sterling | 698 | — |
| Euro | 229 | — |
| Other | 8 | — |
| | 935 | — |

The ageing of gross trade receivables is as follows:

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

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.

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) | — |

a) *LOANS AND OTHER BORROWINGS*

*i) COMMITTED FACILITIES*

The Group has a £650 million 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) |

| | **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.

## 21 RESERVES AND ACCUMULATED PROFITS

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 |

## 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.

(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.

a) *GROUP BALANCE SHEET INTERESTS*

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

| 2014 | Net assets (liabilities) £m | Goodwill £m | Loans £m | Total £m |
|---|---|---|---|---|
| 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 | — | — | — | — |

| 2013 | Net assets (liabilities) £m | Goodwill £m | Loans £m | Total £m |
|---|---|---|---|---|
| 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:

| Virgin Mobile France | 2014 £m | 2013 £m |
|---|---|---|
| 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.

c) *ANALYSIS OF PROFITS AND LOSSES*

The Group's share of the results of its joint ventures within continuing operations is as follows:

| CPW Europe | Period ended 26 June 2013 £m | Restated* 2013 £m |
|---|---|---|
| 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 in 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:

| Virgin Mobile France | 2014 £m | 2013 £m |
|---|---|---|
| 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 |

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.

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 although the Group holds none of these products at present.

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, assuming that the year-end positions prevail throughout the year is as follows:

| | 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) |

| 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. Provision is made for any receivables that are considered to be irrecoverable. 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.

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 | — | — |

## 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** | **2013** |
|---|---|---|
| | **£m** | **£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** | **2013** |
|---|---|---|
| | **£m** | **£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** | **2013** |
|---|---|---|
| | **£m** | **£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.

**SECTION B: FINANCIAL INFORMATION RELATING TO THE CARPHONE GROUP FOR THE FINANCIAL YEARS ENDED 31 MARCH 2013 AND 31 MARCH 2012**

The following documents, which have been filed with the FCA and are available for inspection in accordance with paragraph 16 of Part XII of this document, contain financial information about the Carphone Group which is relevant to the Merger:

- Carphone's Annual Report and Accounts 2013, containing Carphone's audited consolidated financial statements for the financial year ended 31 March 2013, together with the audit report in respect of that period and a discussion of Carphone's financial performance; and
- Carphone's Annual Report and Accounts 2012, containing Carphone's audited consolidated financial statements for the financial year ended 31 March 2012, together with the audit report in respect of that period and a discussion of Carphone's financial performance.

The table below sets out the sections of these documents which are incorporated by reference into, and form part of, this document, and only the parts of the documents identified in the table below are incorporated into, and form part of, this document. The parts of these documents which are not incorporated by reference are either not relevant for investors or are covered elsewhere in this document. To the extent that any part of any information referred to below itself contains information which is incorporated by reference, such information shall not form part of this document.

| **Reference** | **Information incorporated by reference into this document** | **Page number(s) in reference document** |
|---|---|---|
| ***For the financial year ended 31 March 2013*** | | |
| Carphone Annual Report 2013 | Independent auditors' report | 49 |
| Carphone Annual Report 2013 | Consolidated income statement | 50 |
| Carphone Annual Report 2013 | Consolidated statement of comprehensive income | 51 |
| Carphone Annual Report 2013 | Consolidated statement of changes in equity | 51 |
| Carphone Annual Report 2013 | Consolidated balance sheet | 52 |
| Carphone Annual Report 2013 | Consolidated cash flow statement | 53 |
| Carphone Annual Report 2013 | Notes to the financial information | 54-77 |
| ***For the financial year ended 31 March 2012*** | | |
| Carphone Annual Report 2012 | Independent auditors' report | 50 |
| Carphone Annual Report 2012 | Consolidated income statement | 51 |
| Carphone Annual Report 2012 | Consolidated statement of comprehensive income | 52 |
| Carphone Annual Report 2012 | Consolidated statement of changes in equity | 52 |
| Carphone Annual Report 2012 | Consolidated balance sheet | 53 |
| Carphone Annual Report 2012 | Consolidated cash flow statement | 54 |
| Carphone Annual Report 2012 | Notes to the financial information | 55-78 |

# PART VIII

# HISTORICAL CONSOLIDATED FINANCIAL INFORMATION RELATING TO THE DIXONS GROUP

**Background**

The audited consolidated financial information on the Dixons Group for the financial periods ended 28 April 2012, 30 April 2013 and 30 April 2014 is set out in Part III of the Circular which is incorporated into this document by reference and is available for inspection in accordance with paragraph 16 of Part XII of this document.

# PART IX

## SECTION A: UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE COMBINED GROUP

The unaudited consolidated *pro forma* income statement and statement of net assets of the Combined Group have been prepared in a manner consistent with the accounting policies adopted by the Carphone Group in preparing the audited historical consolidated financial information for the financial year ended 29 March 2014, as set out in Part VII of this document, on the basis set out in the notes to the *pro forma* income statement and statement of net assets and in accordance with Annex II to the Prospectus Directive Regulation.

The unaudited consolidated *pro forma* income statement of the Combined Group has been prepared based on the consolidated income statement of the Carphone Group for the year ended 29 March 2014 and the consolidated income statement of the Dixons Group for the year ended 30 April 2014 to illustrate the effect on the income statement of the Carphone Group of the Merger as if it had taken place as at 1 April 2013. The unaudited *pro forma* statement of net assets of the Combined Group has been prepared based on the consolidated balance sheet of the Carphone Group as at 29 March 2014 and the consolidated balance sheet of the Dixons Group as at 30 April 2014 to illustrate the effect on the balance sheet of the Carphone Group of the Merger as if it had taken place as at 29 March 2014.

The unaudited consolidated *pro forma* income statement and statement of net assets have been prepared for illustrative purposes only and, by their nature, address a hypothetical situation and, therefore, do not represent the Carphone Group's or the Combined Group's actual financial position or results.

**UNAUDITED PRO FORMA INCOME STATEMENT**

| | | Adjustments | | |
|---|---|---|---|---|
| | **Carphone Group income statement for the financial year ended 29 March 2014 [(1)] £million** | **Dixons Group income statement for the financial year ended 30 April 2014 [(2)] £million** | **Transaction adjustments [(3)] £million** | **Pro forma income statement of the Combined Group £million** |
| **Continuing operations** | | | | |
| Revenue | 2,576 | 7,218 | | 9,794 |
| Profit from operations before share of results of joint ventures | 96 | 189 | (33) | 252 |
| Share of results of joint ventures | (20) | — | | (20) |
| Profit before interest and taxation | 76 | 189 | (33) | 232 |
| Interest income | 8 | 3 | | 11 |
| Interest expense | (17) | (59) | | (76) |
| Profit before taxation | 67 | 133 | (33) | 167 |
| Taxation | (19) | (45) | | (64) |
| Profit from continuing operations | 48 | 88 | (33) | 103 |
| Loss from discontinued operations | — | (158) | | (158) |
| Net profit (loss) for the year | 48 | (70) | (33) | (55) |

Notes:

1. The consolidated income statement of the Carphone Group has been extracted without material adjustment from the audited financial information of the Carphone Group for the financial year ended 29 March 2014, as set out in Part VII of this document.

2. The consolidated income statement of the Dixons Group has been extracted without material adjustment from the audited financial information of the Dixons Group for the financial year ended 30 April 2014 as set out in Part III of the Circular which is incorporated into this document by reference.
3. Transaction costs of approximately £23 million and costs of approximately £10 million associated with employee incentive schemes of the Dixons Group are expected to be incurred as a result of the Merger and have been recognised as an operating expense in this unaudited consolidated *pro forma* income statement. These costs will not have a continuing impact on the Combined Group.
4. As detailed in note 3a to the unaudited consolidated *pro forma* statement of net assets below, fair value adjustments to the acquired assets and liabilities of the Dixons Group have not yet been determined as the fair value measurement of these items will be performed subsequent to the Merger. Such fair value adjustments may be material, and may have a continuing impact on the results of the Combined Group in years subsequent to the Merger.
5. No adjustment has been made to the unaudited *pro forma* income statement to reflect any changes in finance or tax charges which may arise as a result of the Merger in years subsequent to the Merger.

## UNAUDITED PRO FORMA STATEMENT OF NET ASSETS

| | | Adjustments | | |
|---|---|---|---|---|
| | Carphone Group net assets at 29 March 2014 (1) £million | Dixons Group net assets at 30 April 2014 (2) £million | Transaction adjustments (3) £million | Pro forma net assets of the Combined Group £million |
| **Non-current assets** | | | | |
| Goodwill | 481 | 607 | 1,793 | 2,881 |
| Intangible assets | 136 | 51 | | 187 |
| Property, plant and equipment | 90 | 331 | | 421 |
| Trade and other receivables | 191 | 14 | | 205 |
| Interests in joint ventures and associates | — | 1 | | 1 |
| Deferred tax assets | 54 | 121 | | 175 |
| | **952** | **1,125** | **1,793** | **3,870** |
| **Current assets** | | | | |
| Stock | 240 | 684 | | 924 |
| Trade and other receivables | 821 | 267 | | 1,088 |
| Corporation tax receivable | — | 6 | | 6 |
| Short-term investments | — | 1 | | 1 |
| Cash and cash equivalents | 283 | 401 | (55) | 629 |
| Assets held for sale | 11 | 31 | | 42 |
| | **1,355** | **1,390** | **(55)** | **2,690** |
| **Total assets** | **2,307** | **2,515** | **1,738** | **6,560** |
| **Current liabilities** | | | | |
| Trade and other payables | (869) | (1,382) | 15 | (2,236) |
| Deferred consideration | (25) | — | | (25) |
| Provisions | (50) | (24) | (11) | (85) |
| Corporation tax liabilities | (36) | (52) | | (88) |
| Finance lease obligations | (1) | (2) | | (3) |
| Liabilities associated with assets held for sale | — | (31) | | (31) |
| | **(981)** | **(1,491)** | **4** | **(2,468)** |
| **Non-current liabilities** | | | | |
| Trade and other payables | (113) | (239) | 13 | (339) |
| Deferred consideration | (25) | — | | (25) |
| Deferred tax liabilities | (18) | (15) | | (33) |
| Provisions | — | (16) | (13) | (29) |
| Loans and other borrowings | (290) | (247) | | (537) |
| Retirement benefit obligations | — | (402) | | (402) |
| Finance lease obligations | — | (92) | | (92) |
| | (446) | (1,011) | — | (1,457) |
| **Total liabilities** | **(1,427)** | **(2,502)** | **4** | **(3,925)** |
| **Net assets** | **880** | **13** | **1,742** | **2,635** |

Notes:

1. The net assets of the Carphone Group have been extracted without material adjustment from the audited financial information of the Carphone Group for the financial year ended 29 March 2014, as set out in Part VII of this document.
2. The net assets of the Dixons Group have been extracted without material adjustment from the audited financial information of the Dixons Group for the financial year ended 30 April 2014 as set out in Part III of the Circular which is incorporated into this document by reference.
3. Acquisition accounting adjustments are as follows:
   a. The unaudited consolidated *pro forma* statement of net assets has been prepared on the basis that the Merger will be treated as an acquisition of the Dixons Group by the Carphone Group in accordance with IFRS 3 'Business Combinations'. The unaudited consolidated *pro forma* statement of net assets does not reflect fair value adjustments to the acquired assets and liabilities of the Dixons Group as the fair value measurement of these items will be performed subsequent to the Merger. Such fair value adjustments may be material, although they will have no effect on the Combined Group's *pro forma* net assets. For the purposes of the unaudited consolidated *pro forma* statement of net assets, the excess consideration over the book value of the net assets acquired has been attributed to goodwill. The preliminary goodwill arising has been calculated as follows:

| | £million |
|---|---|
| Total consideration transferred | 1,806 |
| less book value of net assets acquired | (13) |
| Goodwill recognised | 1,793 |

   Total consideration transferred is the fair value of the shares to be issued by Carphone to acquire the entire issued and to be issued ordinary share capital of Dixons. The total consideration value is based on Carphone having a closing middle market share price of 313.50 pence per Carphone Share on 25 June 2014 (being the latest practicable date prior to the publication of this document) and there being 576,067,769 New Dixons Carphone Shares issued pursuant to the Merger.

   b. Total transaction costs of approximately £23 million and cash costs of approximately £32 million associated with employee incentive schemes of the Dixons Group (of which £4 million is already accrued for in current trade and other payables and net £18 million recognised against reserves) are expected to be incurred as a result of the Merger and have been deducted from cash and cash equivalents in this unaudited consolidated *pro forma* statement of net assets.
   c. At 29 March 2014, the Carphone Group recognised certain liabilities within provisions whilst the Dixons Group disclosed such liabilities at 30 April 2014 as trade and other payables. To ensure consistency of presentation, these liabilities recognised by the Dixons Group in trade and other payables have been reclassified to provisions in this unaudited consolidated *pro forma* statement of net assets.
4. No adjustment has been made to reflect the trading results of the Carphone Group since 29 March 2014 or the Dixons Group since 30 April 2014.
5. The anticipated impact on the Combined Group's *pro forma* net funds (debt) of the Merger is summarised from the unaudited consolidated *pro forma* statement of net assets as follows:

| | | Adjustments | | |
|---|---|---|---|---|
| | **Carphone Group net assets at 29 March 2014 £million** | **Dixons Group net assets at 30 April 2014 £million** | **Transaction adjustments £million** | **Pro forma net funds (debt) of the Combined Group £million** |
| Cash and cash equivalents* | 283 | 410 | (55) | 638 |
| Short-term investments | — | 1 | — | 1 |
| Current liabilities – Finance lease obligations | (1) | (2) | — | (3) |
| Non-current liabilities – Loans and other borrowings | (290) | (247) | — | (537) |
| Non-current liabilities – Finance lease obligations | — | (92) | — | (92) |
| | (8) | 70 | (55) | 7 |

* Cash and cash equivalents of Dixons Group in this table of *pro forma* net funds (debt) includes £9 million of cash and cash equivalents within assets held for sale.

## SECTION B: REPORTING ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

Deloitte.

Deloitte LLP
2 New Street Square
London
EC4A 3BZ

The Board of Directors (including the Proposed Directors
(as defined in the Prospectus))
on behalf of Carphone Warehouse Group plc
1 Portal Way
London
W3 6RS

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London
EC2N 2DB

UBS Limited
1 Finsbury Avenue
London
EC2M 2PP

26 June 2014

Dear Sirs,

**Carphone Warehouse Group plc (the ''Company'')**

We report on the *pro forma* financial information (the ''**Pro forma financial information**'') set out in Part IX of the prospectus of the Company dated 26 June 2014 (the ''**Prospectus**''), which has been prepared on the basis described in the notes in Section A of Part IX of the Prospectus, for illustrative purposes only, to provide information about how the Merger might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ended 29 March 2014. This report is required by Annex I item 20.2 of Commission Regulation (EC) No 809/2004 (the ''**Prospectus Directive Regulation**'') and is given for the purpose of complying with that requirement and for no other purpose.

**Responsibilities**

It is the responsibility of the directors of the Company (the ''**Directors**'') (including the proposed Directors) to prepare the Pro forma financial information in accordance with Annex II items 1 to 6 of the Prospectus Directive Regulation.

It is our responsibility to form an opinion as to the proper compilation of the Pro forma financial information and to report that opinion to you in accordance with Annex II item 7 of the Prospectus Directive Regulation.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Annex I item 23.1 of the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

**Basis of Opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the Directors.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards or practices.

**Opinion**

In our opinion:

(a) the Pro forma financial information has been properly compiled on the basis stated; and

(b) such basis is consistent with the accounting policies of the Company.

**Declaration**

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex I item 1.2 of the Prospectus Directive Regulation.

Yours faithfully

Deloitte LLP

Chartered Accountants

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# PART X

# UNITED KINGDOM TAXATION CONSIDERATIONS

## General

The following comments do not constitute tax advice and are intended only as a guide to current United Kingdom law and HMRC's published practice (which are both subject to change at any time, possibly with retrospective effect). They relate only to certain limited aspects of the United Kingdom taxation treatment of Carphone Shareholders and (except insofar as express reference is made to the treatment of non-United Kingdom residents) are intended to apply only to Carphone Shareholders who are resident in the United Kingdom for United Kingdom tax purposes and, in the case of individuals, who are domiciled in the United Kingdom and to whom ''split year'' treatment does not apply. The comments apply only to shareholders who are and will be the absolute beneficial owners of their Carphone Shares and who hold, and will hold, them as investments (and not as securities to be realised in the course of a trade). They may not apply to certain Carphone Shareholders, such as dealers in securities, insurance companies and collective investment schemes, Carphone Shareholders who are exempt from taxation, Carphone Shareholders who are connected with Carphone or the Combined Group and Carphone Shareholders who have (or are deemed to have) acquired their Carphone Shares by virtue of an office or employment. Such persons may be subject to special rules. The position may be different for future transactions and may alter between the date of this document and Admission.

Carphone Shareholders who are in any doubt as to their tax position or who are subject to tax in a jurisdiction other than the United Kingdom should consult an appropriate professional adviser.

## Dividend income

### *General*

There is no United Kingdom withholding tax on dividends paid by the Company.

### *Individual Carphone Shareholders within the charge to United Kingdom income tax*

When the Company pays a dividend to a Carphone Shareholder who is an individual resident (for tax purposes) in the United Kingdom, the Carphone Shareholder will be entitled to a tax credit equal to one-ninth of the dividend received. The dividend received plus the related tax credit (the **''gross dividend''**) will be part of the Carphone Shareholder's total income for United Kingdom income tax purposes and will, generally, be regarded as the top slice of that income. However, in calculating the Carphone Shareholder's liability to income tax in respect of the gross dividend, the tax credit (which equates to 10 per cent. of the gross dividend) is set off against the tax chargeable on the gross dividend.

### *Basic rate taxpayers*

In the case of a Carphone Shareholder who is liable to income tax at the basic rate only, the Carphone Shareholder will be subject to tax on the gross dividend at the rate of 10 per cent. The tax credit will, in consequence, satisfy in full the Carphone Shareholder's liability to income tax on the gross dividend.

### *Higher rate taxpayers*

To the extent that, after taking into account the Carphone Shareholder's other taxable income, the gross dividend falls above the threshold for the higher rate of income tax but below the threshold for the additional rate of income tax, the Carphone Shareholder will be subject to tax on the gross dividend at the rate of 32.5 per cent. This means that the tax credit will satisfy only part of the Carphone Shareholder's liability to income tax on the gross dividend, so that to that extent the Carphone Shareholder will have to account for income tax equal to 22.5 per cent. of the gross dividend (which equates to 25 per cent. of the dividend received). For example, assuming the entire gross dividend falls above the higher rate threshold and below the additional rate threshold, a dividend of £90 from the Company would represent a gross dividend of £100 (after the addition of the tax credit of £10) and the Carphone Shareholder would be required to account for income tax of £22.50 on the dividend, being £32.50 (i.e. 32.5 per cent. of £100) less £10 (the amount of the tax credit).

***Additional rate taxpayers***

To the extent that, after taking into account the Carphone Shareholder's other taxable income, the gross dividend falls above the threshold for the additional rate of income tax, the Carphone Shareholder will be subject to tax on the gross dividend at the rate of 37.5 per cent. This means that the tax credit will satisfy only part of the Carphone Shareholder's liability to income tax on the gross dividend, so that to that extent the Carphone Shareholder will have to account for income tax equal to 27.5 per cent. of the gross dividend (which equates to approximately 30.6 per cent. of the dividend received). For example, assuming the entire gross dividend falls above the additional rate threshold, a dividend of £90 from the Company would represent a gross dividend of £100 (after the addition of the tax credit of £10) and the Carphone Shareholder would be required to account for income tax of £27.50 on the dividend, being £37.50 (i.e. 37.5 per cent. of £100) less £10 (the amount of the tax credit).

***Corporate Carphone Shareholders within the charge to United Kingdom corporation tax***

Carphone Shareholders within the charge to United Kingdom corporation tax which are "small companies" (for the purposes of United Kingdom taxation of dividends) should not generally expect to be subject to tax on dividends from the Company.

Other Carphone Shareholders within the charge to United Kingdom corporation tax will not be subject to tax on dividends from the Company so long as the dividends fall within an exempt class and certain conditions are met. In general, a dividend paid to a United Kingdom corporate shareholder holding less than 10 per cent. of the issued share capital of the payer (or any class of that share capital in respect of which the dividend is paid) is an example of a dividend that falls within an exempt class. Carphone Shareholders will need to ensure that they satisfy the requirements of any exempt class before treating any dividend as exempt, and seek appropriate professional advice where necessary.

***No payment of tax credit***

A Carphone Shareholder (whether an individual or a company) who is not liable to tax on dividends from the Company will not be entitled to claim payment of the tax credit in respect of those dividends.

***Non-residents***

A Carphone Shareholder who is not resident (for tax purposes) in the United Kingdom will not generally be able to claim repayment from HMRC of any part of a tax credit in respect of a dividend paid by Carphone. A Carphone Shareholder resident outside the United Kingdom (for tax purposes) may also be subject to foreign taxation on dividend income under local law. Carphone Shareholders who are not resident in the United Kingdom (for tax purposes) should consult their own tax adviser concerning their tax liabilities on dividends received from the Company.

**Taxation of chargeable gains**

A future disposal of the Carphone Shares by a United Kingdom resident Carphone Shareholder may, subject to the Carphone Shareholder's individual circumstances and any available exemption or relief, give rise to a chargeable gain (or an allowable loss) for the purposes of United Kingdom capital gains tax and corporation tax on chargeable gains.

The amount of capital gains tax, if any, payable by a Carphone Shareholder (on any disposal of Carphone Shares) who is an individual will depend on his or her own personal tax position. No tax will be payable on any gain realised if the amount of the net chargeable gains realised by a Carphone Shareholder, when aggregated with other net gains realised by that Carphone Shareholder in the year of assessment (and after taking account of allowable losses), does not exceed the annual exemption (£11,000 for 2014/2015). Broadly, any gains in excess of this amount will be taxed at a rate of 18 per cent. for a taxpayer paying income tax at the basic rate and 28 per cent. for a taxpayer paying income tax at a rate above the basic rate. Where the gains of a basic rate taxpayer subject to capital gains tax exceed the unused part of his or her basic rate band, that excess is subject to tax at the 28 per cent. rate.

Individual Carphone Shareholders who are not resident in the United Kingdom and who do not carry on a trade, profession or vocation in the United Kingdom through a branch or agency in the United Kingdom in connection with which the Carphone Shares are acquired, used or held will generally not be subject to United Kingdom capital gains tax in respect of gains arising on disposals of Carphone Shares. However, an individual Carphone Shareholder who has previously been resident or ordinarily resident in the United Kingdom may in some cases be subject to United Kingdom tax on capital gains in respect of a disposal of Carphone Shares in the event that they re-establish residence in the United Kingdom.

A United Kingdom resident corporate shareholder is normally taxable on all of its chargeable gains, subject to any reliefs and exemptions. Corporate Carphone Shareholders should be entitled to indexation allowance up to the date the chargeable gain is realised.

A Carphone Shareholder which is a company not resident in the United Kingdom for tax purposes and which does not carry on a trade in the United Kingdom through a permanent establishment in the United Kingdom in connection with which the Carphone Shares are acquired, used or held will have no liability to United Kingdom tax on chargeable gains in respect of a disposal of Carphone Shares, though may be subject to foreign tax on the capital gain under local law.

**Inheritance tax**

Carphone Shares are assets situated in the United Kingdom for the purposes of United Kingdom inheritance tax. A gift of such assets by, or the death of, a Carphone Shareholder may (subject to certain exemptions and reliefs) give rise to a liability to United Kingdom inheritance tax, even if the shareholder is neither domiciled in the United Kingdom nor deemed to be domiciled there (under certain rules relating to long residence or previous domicile). Generally, United Kingdom inheritance tax is not chargeable on gifts to individuals if the transfer is made more than seven complete years prior to death of the donor. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit. Special rules also apply to close companies and to trustees of settlements who hold Carphone Shares bringing them within the charge to inheritance tax. Carphone Shareholders should consult an appropriate professional adviser if they make a gift of any kind or intend to hold any Carphone Shares through such a company or trust arrangement. They should also seek professional advice in a situation where there is potential for a double charge to United Kingdom inheritance tax and an equivalent tax in another country or if they are in any doubt about their United Kingdom inheritance tax position.

**Stamp duty and SDRT**

The statements below are intended as a general guide to the current position. They do not apply to certain intermediaries who are not liable to stamp duty or SDRT or to persons connected with depositary arrangements or clearance services who may be liable at higher rates.

Except in relation to depositary receipt systems and clearance services (to which special rules apply), no stamp duty or SDRT will arise on the issue of the Carphone Shares pursuant to the Merger.

Any agreement to sell Carphone Shares will normally give rise to a liability on the purchaser to SDRT, at the rate of 0.5 per cent. of the actual consideration paid. If an instrument of transfer of the Carphone Shares is subsequently produced it will generally be subject to stamp duty at the rate of 0.5 per cent. of the actual consideration paid (rounded up to the nearest £5). When such stamp duty is paid, the SDRT charge will be cancelled and any SDRT already paid will be refunded. Stamp duty is usually paid by the purchaser.

Where Carphone Shares are held in uncertificated form within CREST, a transfer of shares through CREST will generally be subject to SDRT (rather than stamp duty) at the rate of 0.5 per cent. of the value of the consideration given. CREST is obliged to collect SDRT on relevant transactions settled within the CREST system. Special rules apply in connection with clearance services.

**The statements above are general in character and are intended only as a general guide to certain aspects of current law and HMRC. They apply to the beneficial owners of Carphone Shares who are resident in the United Kingdom for tax purposes and who hold shares as investments and may not apply to certain classes of tax payers (such as dealers in securities). Those who are subject to taxation in a jurisdiction other than in the United Kingdom are strongly advised to consult their own professional advisers.**

# PART XI

# CARPHONE DIRECTORS, PROPOSED DIRECTORS, RESPONSIBLE PERSONS, CORPORATE GOVERNANCE AND EMPLOYEES

1. **Responsibility**

The Carphone Directors and the Proposed Directors, whose names appear below at paragraphs 2.1 and 2.5 respectively, and the Company accept responsibility for the information contained in this document. To the best of the knowledge of the Carphone Directors, the Proposed Directors and the Company (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

2. **Carphone Directors and Proposed Directors**

***Carphone Directors***

2.1 The following table sets out information relating to each of the Carphone Directors as at the date of this document:

| Name | Current position |
|---|---|
| Sir Charles Dunstone | Chairman |
| Roger Taylor | Deputy Chairman |
| Andrew Harrison | Chief Executive Officer |
| Nigel Langstaff | Chief Financial Officer(1) |
| John Gildersleeve | Independent Non-executive Director |
| John Allwood | Non-executive Director and Senior Independent Director(1) |
| Baroness Morgan of Huyton | Independent Non-executive Director |
| Gerry Murphy | Independent Non-executive Director |

Notes:
(1) Nigel Langstaff and John Allwood will retire as Carphone Directors with effect from the Effective Date.

2.2 The business address of the Carphone Directors is 1 Portal Way, London W3 6RS.

2.3 Set out below are the business experience and principal business activities performed outside of Carphone by the Carphone Directors, as well as the dates of their initial appointment as directors of the Company.

***Sir Charles Dunstone*** is the founder of Carphone and has been Chairman of Carphone since 28 January 2010. He was chief executive officer of Old Carphone Warehouse from 1989 to 2010 where he led the growth of Carphone both before and after its flotation on the London Stock Exchange in 2000 to become one of Europe's largest independent telecommunications retailers. 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*** is Deputy Chairman of Carphone 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 Old 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*** was appointed Chief Executive Officer of Carphone on 24 July 2013. He has worked for Carphone 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 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*** has been Chief Financial Officer of Carphone since 28 January 2010, with responsibility for the Carphone Group's finance functions. He previously held roles within Old 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 Carphone Group's businesses and has played a key role in the growth of Carphone to date. He is also a director of Virgin Mobile France.

***John Gildersleeve*** is a non-executive Director and joined the Carphone 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 to 2010 and was non-executive chairman between 2005 and 2010. He was appointed as 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 and was previously an executive director of Tesco plc until he retired in February 2004. He is also a non-executive director of Pick n Pay Stores Limited which is listed on the Johannesburg Stock Exchange in South Africa. John has also been recently appointed as the non-executive deputy Chairman and Senior Independent Director of Spire Healthcare Group plc which, on 25 June 2014, announced its intention to float on the main market of the London Stock Exchange.

***John Allwood*** joined the Carphone 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 and a director of the Exeter University Retirement Benefit Scheme. He is also a proposed non-executive director of IMImobile plc which, on 12 June 2014, announced its intention to float on the AIM market of the London Stock Exchange.

***Baroness Morgan of Huyton*** joined the Carphone 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 2001 to 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. She 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.

***Gerry Murphy*** joined the Carphone Board as a Non-executive Director on 2 April 2014. He 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 & 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 & Assurance Faculty of the Institute of Chartered Accountants in England & Wales. He is also a proposed non-executive director of Liberty Living plc which, on 2 June 2014, announced its intention to float on the main market of the London Stock Exchange.

***Proposed Directors***

2.4 The Proposed Directors will become directors of Dixons Carphone if the Merger becomes Effective with effect from the Effective Date.

2.5 The following table sets out information relating to each of the Proposed Directors as at the date of this document:

| Name | Current position at Dixons/Carphone |
|---|---|
| John Allan | Chairman, Dixons |
| Sebastian James | Chief Executive Officer, Dixons |
| Humphrey Singer | Chief Financial Officer, Dixons |
| Katie Bickerstaffe | Chief Executive Officer UK/Ireland, Dixons |
| Graham Stapleton | Chief Executive Officer UK/Ireland, Carphone |
| Tim How | Non-executive Director, Dixons |
| Jock Lennox | Non-executive Director, Dixons |
| Andrea Gisle Joosen | Non-executive Director, Dixons |

2.6 The business address of the Proposed Directors, will following the Merger becoming Effective, be 1 Portal Way, London W3 6RS.

2.7 Set out below are the business experience and principal business activities performed outside of Dixons by the Proposed Directors, as well as the dates of their initial appointment as directors of Dixons.

***John Allan, CBE*** joined the Dixons Board as a non-executive director on 23 June 2009 and was appointed Chairman of Dixons on 2 September 2009. He is also Chairman of WorldPay and the DHL UK Foundation, non-executive director of Royal Mail Group and a senior advisor to Alix Partners. He is a regent of the University of Edinburgh. He was previously Chief Executive of Exel plc and, following its acquisition by Deutsche Post, a member of its management board and subsequently Chief Financial Officer of Deutsche Post. He has extensive board experience having been Chairman of Samsonite Corporation and Care UK Health & Social Care Holdings Limited, a director of BET plc and a non-executive director of PHS Group plc, ISS A/S, National Grid plc, Wolseley plc, Hamleys plc, 3i plc and Connell plc and a non-executive member of the Home Office Supervisory Board. He has also served on the supervisory boards of both Lufthansa AG and Deutsche Postbank. His early career was with Lever Brothers, Bristol-Myers Company Ltd and Fine Fare Ltd. It is proposed that John Allan will be Co-Deputy Chairman and Senior Independent Director of Dixons Carphone following the Merger becoming Effective.

***Sebastian James*** joined the Dixons Board on 20 February 2012 and is currently the Group Chief Executive of Dixons. He joined the Dixons Group in April 2008 and held various roles before his appointment to the Dixons Board including Operations Director. He is an advisor to the government on the building and maintenance of schools, a Trustee of Save the Children and was previously Chairman of INK Publishing (Holdings) Limited. Prior to joining the Dixons Group he was Chief Executive of Synergy Insurance Services Limited, a private equity backed insurance company. He has wide retail experience and was Strategy Director responsible for developing and implementing the turnaround strategy at Mothercare plc in 2003. He started his career at The Boston Consulting Group having completed an MBA at INSEAD and an MA at Oxford University. It is proposed that Sebastian James will be Chief Executive Officer of Dixons Carphone following the Merger becoming Effective.

***Humphrey Singer*** joined the Dixons Board on 1 July 2011 and is currently the Finance Director of Dixons. Since joining the Dixons Group in 2007, he has held a number of finance roles, namely Finance Director of Currys, Group Financial Controller and Finance Director of the UK & Ireland division. Prior to joining the Dixons Group, he was Finance Director of Coca Cola Enterprises (UK) Ltd and prior to that also held a number of finance roles at Coca Cola Enterprises (UK) Ltd and Cadbury Schweppes plc. It is proposed that Humphrey Singer will be Chief Financial Officer of Dixons Carphone following the Merger becoming Effective.

***Katie Bickerstaffe*** joined the Dixons Board on 20 February 2012 and is currently the Chief Executive of UK & Ireland for the Dixons Group. She joined the Dixons Group as Director of Marketing, People and Property in June 2008. In addition to her executive position she is also non-executive director of Scottish and Southern Energy plc. Previously, Katie was Managing Director of Kwik Save Ltd and Group Retail Director and Group HR Director at Somerfield plc. Her earlier career included roles at Dyson Ltd, PepsiCo Inc. and Unilever plc. It is proposed that Katie Bickerstaffe will be an Executive Director of Dixons Carphone and that she will retain her responsibilities as Chief Executive Officer of UK and Ireland Dixons following the Merger becoming Effective.

***Tim How*** joined the Dixons Board as a non-executive director on 8 September 2009 and become Senior Independent Director on 9 May 2012. He is Chairman of the Dixons Remuneration Committee and a member of both the Dixons Audit Committee and the Dixons Nomination Committee. He holds a variety of external board positions including Chairman of Woburn Enterprises Limited, Senior Independent Director of Henderson Group plc and the Norfolk and Norwich University Hospitals NHS Foundation Trust, non-executive director of Roys (Wroxham) Limited and Wine and Spirit Education Trust. Former roles include Chairman of Rayner and Keeler Limited and Enotria Wine Group, and non-executive director of Peabody Capital plc. Tim served as Chief Executive of Majestic Wine plc, where he led the management buy-out of the business and subsequent Alternative Investment Market (AIM) flotation. Prior to this, he was Managing Director of Bejam Group plc. It is proposed that Tim How will be a Non-executive Director of Dixons Carphone following the Merger becoming Effective.

***Jock Lennox*** joined the Dixons Board as a non-executive director on 10 January 2012. He is Chairman of the Dixons Audit Committee and is also a member of the Dixons Nominations and Remuneration Committees. He is a Chartered Accountant and has extensive accounting and finance experience having worked for over 30 years (20 years as a partner) for EY (formerly Ernst & Young) where he led a number of relationships with international clients and held a number of leadership positions in the UK and globally. He retired from Ernst & Young in 2009 and subsequently has acted as a non-executive director of a number of companies and was formerly a council member of the Institute of Chartered Accountants of Scotland. He is currently a trustee of the Tall Ships Youth Trust and non-executive director of A&J Mucklow Group plc, Enquest plc, Hill and Smith Holdings plc and Oxford Instruments plc. It is proposed that Jock Lennox will be a Non-executive Director of Dixons Carphone following the Merger becoming Effective.

***Andrea Gisle Joosen*** joined the Dixons Board as a non-executive director on 1 March 2013 and is a member of the Dixons Audit, Nominations and Remuneration Committees. She is currently a non-executive director of ICA Gruppen AB and Neopitch AB. Former roles include Chief Executive of Boxer TV Access AB in Sweden and Managing Director (Nordic Region) of Panasonic, Chantelle AB and Twentieth Century Fox. Her early career involved several senior marketing roles with Procter & Gamble and Johnson & Johnson. It is proposed that Andrea Gisle Joosen will be a Non-executive Director of Dixons Carphone following the Merger becoming Effective.

2.8 In addition to the appointment of the Proposed Directors who are currently Dixons Directors, Graham Stapleton is also a Proposed Director and will become a director of Dixons Carphone with effect from the Effective Date. Details of the business experience and principal business activities performed outside of Carphone by Graham Stapleton are set out below:

***Graham Stapleton*** joined the Carphone Group in 2005 having previously worked for Kingfisher plc and Marks and Spencer plc. He is Chief Executive Officer of UK and Ireland and has contributed to the growth of CPW through the development of a customer-led strategy and a focus on strategic partner relationships with both network operators and hardware manufacturers. It is proposed that Graham Stapleton will be an Executive Director of Dixons Carphone and that he will retain his responsibilities as Chief Executive Officer of UK and Ireland Carphone following the Merger becoming Effective.

## 3. Carphone Directors' and Proposed Directors' interests

3.1 The direct and indirect interests (all of which are beneficial) of the Carphone Directors and the Proposed Directors in Carphone Shares as at 25 June 2014 (being the latest practicable date prior to the publication of this document) and as expected to subsist immediately following Admission are set out in the following table:

| | Interests in Carphone Shares as at 25 June 2014 | | Interests in Dixons Carphone Shares immediately following Admission | |
|---|---|---|---|---|
| **Director** | **Number of voting rights in respect of Carphone Shares** | **Percentage of issued share capital** | **Number of voting rights in respect of Dixons Carphone Shares** | **Percentage of issued share capital** |
| Sir Charles Dunstone | 135,083,481 | 23.45 | 135,083,481 | 11.72 |
| Roger Taylor | 9,808,554 | 1.70 | 9,808,554 | 0.85 |
| John Allan | — | — | 183,026 | 0.02 |
| Sebastian James | — | — | 16,906 | 0.00 |
| Andrew Harrison | 5,000,000 | 0.87 | 5,000,000 | 0.43 |
| Humphrey Singer | — | — | 14,336 | 0.00 |
| Katie Bickerstaffe | — | — | 32,341 | 0.00 |
| Graham Stapleton | 880,034 | 0.15 | 880,034 | 0.08 |
| Nigel Langstaff | 3,654,180 | 0.63 | 3,654,180 | 0.32 |
| John Gildersleeve | 122,568 | 0.02 | 122,568 | 0.01 |

| Director | Interests in Carphone Shares as at 25 June 2014 | | Interests in Dixons Carphone Shares immediately following Admission | |
|---|---|---|---|---|
| | Number of voting rights in respect of Carphone Shares | Percentage of issued share capital | Number of voting rights in respect of Dixons Carphone Shares | Percentage of issued share capital |
| John Allwood | 10,000 | 0.00 | 10,000 | 0.00 |
| Baroness Morgan of Huyton | 991 | 0.00 | 991 | 0.00 |
| Gerry Murphy | — | — | — | — |
| Tim How | — | — | 12,400 | 0.00 |
| Jock Lennox | — | — | 11,625 | 0.00 |
| Andrea Gisle Joosen | — | — | 6,076 | 0.00 |

The table above does not take account of any outstanding awards or options over Dixons Shares held by the Proposed Directors. Information on the impact of the Merger on outstanding awards and options under the Dixons Share Schemes is set out in paragraph 11 of Part XI of this document. As at the date of this document, Sebastian James, Humphrey Singer and Katie Bickerstaffe have outstanding awards or options over 12,458,591, 8,925,887 and 8,849,552 Dixons Shares respectively which are expected to be released or exercised in accordance with the proposals set out in paragraph 11 of Part XI of this document and after taking into account any applicable performance conditions, pro-rating, exercise price, tax and other associated costs they will receive 0.155 of a New Dixons Carphone Share for each Dixons Share they hold on Completion such that their final interests in Dixons Carphone Shares will be materially less than the stated number of awards or options over Dixons Shares. These interests in Dixons Carphone Shares will be announced following Completion in accordance with the Disclosure and Transparency Rules.

3.2 Taken together, the combined percentage interest of the Carphone Directors and the Proposed Directors in voting rights in respect of the issued ordinary share capital of Carphone as at 25 June 2014 (being the latest practicable date prior to the publication of this document) was approximately 26.83 per cent.

3.3 Taken together, the combined percentage interest of the Carphone Directors and the Proposed Directors in voting rights in respect of the issued ordinary share capital of Carphone immediately following Admission (not taking account of outstanding awards or options) will be approximately 13.44 per cent.

3.4 In order to participate in the CPWG Share Plan (details of which are set out in paragraph 10.3 of this Part XI below), Andrew Harrison, Nigel Langstaff and Graham Stapleton have each respectively subscribed for 700, 600 and 600 participation shares in New CPW. These interests are not included in the interests of the Carphone Directors and the Proposed Directors shown in the table in paragraph 3.1 above.

3.5 The Carphone Directors and the Proposed Directors have no interests in options over Carphone Shares.

3.6 Save as disclosed in this paragraph 3, none of the Carphone Directors or Proposed Directors nor their immediate families, or connected persons (within the meaning of section 252 of the Act) has any interests (beneficial or non-beneficial) in the share capital of Carphone or any of its subsidiaries.

3.7 Save as disclosed above and in paragraph 4 of Part XII, no other person involved in the Merger or Admission has an interest which is material to the Merger or Admission.

## 4. Carphone Directors' and Proposed Directors' remuneration and pensions

### 4.1 *Remuneration*

The remuneration (excluding pension contributions) of the Carphone Directors for the financial year ended 29 March 2014 is set out in the table below. Save for Graham Stapleton, none of the Proposed Directors received any remuneration or benefits in kind from Carphone during the financial year ended 29 March 2014.

| Director | Basic salary/ Fees £000 | Bonus £000 | Benefits in kind £000 | Total £000 |
|---|---|---|---|---|
| Sir Charles Dunstone | 240 | — | — | 240 |
| Roger Taylor | 293 | — | 5 | 298 |
| Andrew Harrison | 453 | 508 | 12 | 973 |
| Nigel Langstaff | 325 | 375 | 10 | 710 |
| John Gildersleeve | 81 | — | — | 81 |
| John Allwood | 74 | — | — | 74 |
| Baroness Morgan of Huyton | 60 | — | — | 60 |
| Gerry Murphy | — | — | — | — |
| Graham Stapleton | 333 | 399 | 9 | 741 |

### 4.2 *Pensions*

The payments made by the Carphone Group to pension schemes on behalf of Carphone Directors (in their capacity as directors and employees) for the financial year ended 29 March 2014 are set out in the table below:

| Director | £000 |
|---|---|
| Roger Taylor | 7 |
| Andrew Harrison | 23 |
| Nigel Langstaff | 16 |
| Graham Stapleton | 17 |

### 4.3 *Existing Carphone Executive Directors' service agreements*

The Company has entered into the following service agreements with the existing Carphone Executive Directors:

***Sir Charles Dunstone*** is employed as Chairman pursuant to the terms of a service agreement with Carphone dated 28 January 2010, the terms of which took effect on 29 March 2010. Under the terms of the agreement, Sir Charles is paid a basic annual salary of £240,000 and is eligible to receive a discretionary annual bonus based on both individual and Carphone Group performance. By a letter dated 26 May 2011, Sir Charles waived his contractual entitlement to receive an annual discretionary bonus in respect of the financial year ended 31 March 2011 and any subsequent financial periods unless he notifies the Company otherwise prior to approval of any such bonus by the Remuneration Committee. In addition, he is entitled to contributions towards private medical insurance subscriptions and a pension scheme contribution of five per cent. of his basic annual salary. Sir Charles' appointment is terminable by either party on not less than 12 months' written notice. Sir Charles is subject to certain non-competition and non-solicitation covenants for a period of 12 months following the termination of his employment. The agreement is governed by English law.

***Roger Taylor*** is currently employed as Deputy Chairman pursuant to the terms of a service agreement with Carphone dated 28 January 2010, the terms of which took effect on 29 March 2010. Under the terms of the agreement, Roger is paid a basic annual salary of £220,000 and is eligible to receive a discretionary annual bonus based on both individual and Carphone Group performance. In addition, he is entitled to contributions towards a health insurance scheme, life assurance cover, payment of private medical insurance subscriptions and a pension scheme contribution of five per cent. of his basic annual salary. Roger is also entitled to a monthly car allowance. Roger's appointment is terminable by either party on not less than six months' written notice. Roger is subject to certain non-competition and non-solicitation covenants for a period of 12 months following the termination of his employment. The agreement is governed by English law.

***Andrew Harrison*** is currently employed as Chief Executive Officer pursuant to the terms of a service agreement with the Company dated 29 October 2013. The agreement is terminable by either party on not less than 12 months' written notice. Andrew is paid a basic annual salary of £475,000 and is eligible to receive a discretionary annual bonus based on both individual and Carphone Group performance. In addition, he is entitled to membership of the Carphone Group health and death in service schemes and receives a contribution of five per cent. of his basic salary to a Carphone Group pension plan. Andrew also receives an annual car allowance. Andrew is subject to certain non-competition and non-solicitation covenants for a period of six months' following the termination of his employment. The agreement is governed by English law.

***Nigel Langstaff*** is currently employed as Chief Financial Officer pursuant to the terms of a service agreement with Carphone dated 20 June 2014, the terms of which took effect on 29 March 2010. Under the terms of the agreement, Nigel is paid a basic annual salary of £350,000 and is eligible to receive a discretionary annual bonus based on both individual and Carphone Group performance. In addition, he is entitled to contributions towards a health insurance scheme, life assurance cover, payment of private medical insurance subscriptions and a pension scheme contribution of 5 per cent. of his basic annual salary. Nigel is also entitled to a monthly car allowance. Nigel's appointment is terminable by either party on not less than 12 months' written notice. Nigel is subject to certain non-competition and nonsolicitation covenants for a period of 12 months following the termination of his employment. The agreement is governed by English law. Nigel will resign from the Carphone Board with effect from the Effective Date but will continue to be employed by the Company.

4.4 ***Existing Carphone Non-executive Directors' letters of appointment***

***John Gildersleeve*** currently serves as a Non-executive Director for an annual fee of £81,000 pursuant to the terms of a letter of engagement with the Company dated 28 January 2010. This appointment can be terminated by either party on three months' notice and will terminate automatically if John is removed from office by a resolution of the Carphone Shareholders or is not re-elected to office.

***John Allwood*** currently serves as a Non-executive Director and the Senior Independent Director for an annual fee of £74,000 pursuant to the terms of a letter of engagement with the Company dated 28 January 2010. This appointment can be terminated by either party on three months' notice and will terminate automatically if John is removed from office by a resolution of Carphone Shareholders or is not re-elected to office. John will resign from the Carphone Board with effect from the Effective Date.

***Baroness Morgan*** of Huyton currently serves as a Non-executive Director for an annual fee of £60,000 pursuant to the terms of a letter of engagement with the Company dated 28 January 2010. This appointment can be terminated by either party on three months' notice and will terminate automatically if she is removed from office by a resolution of Carphone Shareholders or is not re-elected to office.

***Gerry Murphy*** currently serves as a Non-executive Director for an annual fee of £55,000 pursuant to the terms of a letter of engagement with the Company dated 13 November 2013 which took effect when he joined the Carphone Board on 2 April 2014. This appointment can be terminated by either party on three months' notice and will terminate automatically if he is removed from office by a resolution of Carphone Shareholders or is not re-elected to office.

4.5 ***Dixons Carphone Executive Directors' service agreements***

***Sebastian James*** is the proposed Chief Executive Officer of Dixons Carphone with effect from Completion and will initially serve pursuant to the terms of his existing service agreement with Dixons dated 29 March 2012. The agreement is terminable on not less than 12 months' written notice by Dixons and not less than six months' written notice by Sebastian James. Sebastian is paid a basic salary of £612,000 and is entitled to participate in a non-contractual bonus scheme with a total bonus opportunity of up to 100 per cent. of base salary at maximum for the achievement of Dixons Group financial and individual performance targets. He is entitled to a pension contribution to a defined contribution pension scheme with a non-pensionable salary supplement or to an increased salary supplement in lieu of pension contribution. He is also entitled to a non-pensionable car allowance in place of a company car, life assurance cover and medical insurance. Sebastian is subject to certain non-competition and non-solicitation covenants for a period of 12 months following the termination of his employment. The agreement is governed by English law.

***Andrew Harrison*** will be the Deputy Chief Executive Officer of Dixons Carphone with effect from Completion and will initially serve pursuant to the terms of his existing service agreement with Carphone described in paragraph 4.3 above.

***Humphrey Singer*** is the proposed Chief Financial Officer of Dixons Carphone with effect from Completion and will initially serve pursuant to the terms of his existing service agreement with Dixons dated 2 September 2011 (as amended). The agreement is terminable on not less than 12 months' written notice by Dixons and not less than six months' written notice by Humphrey Singer. Humphrey is paid a basic salary of £367,200 and is entitled to participate in a non-contractual bonus scheme with a total bonus opportunity of up to 85 per cent. of base salary at maximum for the achievement of Dixons Group financial and individual performance targets. He is entitled to a pension contribution to a defined contribution pension scheme with a non-pensionable salary supplement or to an increased salary supplement in lieu of pension contribution. He is also entitled to a non-pensionable car allowance in place of a company car, life assurance cover and medical insurance. Humphrey is subject to certain non-competition and non-solicitation covenants for a period of 12 months following the termination of his employment. The agreement is governed by English law.

***Katie Bickerstaffe*** is a proposed Executive Director of Dixons Carphone with effect from Completion and will retain her current responsibilities as Chief Executive Officer of UK and Ireland Dixons and she will initially serve pursuant to the terms of her existing service agreement with Dixons dated 29 March 2012. The agreement is terminable on not less than 12 months' written notice by Dixons and not less than six months' written notice by Katie Bickerstaffe. Katie is paid a basic salary of £408,000 (calculated on a *pro rata* basis by reference to a full time equivalent of £510,000) and is entitled to participate in a non-contractual bonus scheme with a total bonus opportunity of up to 85 per cent. of base salary at maximum for the achievement of Dixons Group financial and individual performance targets. She is entitled to a pension contribution to a defined contribution pension scheme with a non-pensionable salary supplement or to an increased salary supplement in lieu of pension contribution. She is also entitled to a non-pensionable car allowance in place of a company car, life assurance cover and medical insurance. Katie is subject to certain non-competition and non-solicitation covenants for a period of 12 months following the termination of her employment. The agreement is governed by English law.

***Graham Stapleton*** is a proposed Executive Director of Dixons Carphone with effect from Completion and will retain his current responsibilities as Chief Executive Officer of UK and Ireland Carphone and he will initially serve pursuant to the terms of his existing service agreement with The Carphone Warehouse Limited dated 5 October 2011. The agreement is terminable by either party on not less than six months' written notice. Graham is paid a basic annual salary of £350,000 and is eligible to receive a discretionary annual bonus based on both individual and Carphone Group performance. In addition, he is entitled to membership of the Carphone Group health and death in service schemes and receives a contribution of five per cent. of his basic salary to a Carphone Group pension plan. Graham also receives an annual car allowance. Graham is also subject to certain non-competition and non-solicitation covenants for a period of six months following the termination of his employment. The agreement is governed by English law.

4.6 It is expected that the remuneration arrangements for all Executive Directors will be reviewed by the Remuneration Committee following the Effective Date but that, until such time, the current remuneration arrangements and service agreements as described in paragraph 4.5 above will continue to apply.

4.7 ***Dixons Carphone Non-executive Directors' letters of appointment***

***Sir Charles Dunstone*** will be Chairman of Dixons Carphone with effect from Completion pursuant to the terms of a letter of engagement with the Company dated 18 June 2014 and he will receive an annual fee of £280,000. This appointment may be terminated by either party on three months' notice and will terminate automatically if he is removed from office by a resolution of Carphone Shareholders or is not re-elected to office.

***John Allan, CBE.*** is the proposed Co-Deputy Chairman and Senior Independent Director of Dixons Carphone with effect from Completion and will be appointed pursuant to a letter of engagement with the Company dated 23 June 2014 and he will receive an annual fee of £140,000. The terms of his appointment are otherwise the same as Sir Charles Dunstone's above.

***Roger Taylor*** will be Co-Deputy Chairman of Dixons Carphone with effect from Completion pursuant to the terms of a letter of engagement with the Company dated 18 June 2014 and he will receive an annual fee of £140,000. The terms of his appointment are otherwise the same as Sir Charles Dunstone's above.

***John Gildersleeve*** will be a Non-executive Director of Dixons Carphone with effect from Completion pursuant to the terms of a letter of engagement with the Company dated 18 June 2014 and he will receive an annual fee of £80,000. The terms of his appointment are otherwise the same as Sir Charles Dunstone's above.

***Baroness Morgan of Huyton*** will be a Non-executive Director of Dixons Carphone with effect from Completion pursuant to the terms of a letter of engagement with the Company dated 18 June 2013 and she will receive an annual fee of £65,000. The terms of her appointment are otherwise the same as Sir Charles Dunstone's above.

***Gerry Murphy*** will be a Non-executive Director of Dixons Carphone with effect from Completion pursuant to the terms of a letter of engagement with the Company dated 18 June 2014 and he will receive an annual fee of £65,000. The terms of his appointment are otherwise the same as Sir Charles Dunstone's above.

***Andrea Gisle Joosen*** is a Proposed Director of Dixons Carphone and will serve as a Non-executive Director with effect from Completion pursuant to the terms of a letter of engagement with the Company dated 23 June 2014. The terms of her appointment are otherwise the same as Sir Charles Dunstone's above.

***Tim How*** is a Proposed Director of Dixons Carphone and will serve as a Non-executive Director with effect from Completion pursuant to the terms of a letter of engagement with Carphone dated 23 June 2014 and he will receive an annual fee of £65,000. The terms of his appointment are otherwise the same as Sir Charles Dunstone's above.

***Jock Lennox*** is a Proposed Director of Dixons Carphone and will serve as a Non-executive Director with effect from Completion pursuant to the terms of a letter of engagement with the Company dated 23 June 2014 and he will receive an annual fee of £75,000. The terms of his appointment are otherwise the same as Sir Charles Dunstone's above.

**5. Carphone Board structure and Corporate Governance**

5.1 Carphone is committed to, and recognises the value and importance of, high standards of corporate governance. As at the date of this document, Carphone is required to comply with and, save as disclosed in this paragraph 5, complies with the Corporate Governance Code. Following the Effective Date, save as disclosed in this paragraph 5, Dixons Carphone will continue to comply with the Corporate Governance Code.

5.2 The Carphone Board currently comprises four Executive Directors and four Non-executive Directors. Sir Charles Dunstone is the Chairman and Roger Taylor is Deputy Chairman. John Allwood is the Senior Independent Non-executive Director. Andrew Harrison is the Chief Executive Officer and Nigel Langstaff is the Chief Financial Officer. John Gildersleeve, Baroness Morgan and Gerry Murphy are also Non-executive Directors.

It is proposed that the Dixons Carphone Board shall be reconstituted immediately following the Merger becoming Effective so as to comprise five Executive Directors and nine Non-executive Directors. Sir Charles Dunstone will be the Chairman and John Allan and Roger Taylor will be Co-Deputy Chairmen. John Allan will also be the Senior Independent Non-executive Director. Sebastian James will be the Chief Executive Officer, Andrew Harrison will be the Deputy Chief Executive Officer and Humphrey Singer will be the Chief Financial Officer. Katie Bickerstaffe and Graham Stapleton will also join the board as Executive Directors and will retain their existing respective responsibilities as Chief Executive Officer of UK and Ireland Dixons and Chief Executive Officer of UK and Ireland Carphone. Baroness

Morgan, Gerry Murphy, Tim How, Jock Lennox and Andrea Gisle Joosen will also be Non-executive Directors. As from the Effective Date, the Dixons Carphone Board will comprise the following members:

| **Name** | **Role** | **Current company** |
|---|---|---|
| Sir Charles Dunstone | Chairman | Carphone |
| John Allan | Co-Deputy Chairman and Senior Independent Director | Dixons |
| Roger Taylor | Co-Deputy Chairman | Carphone |
| Sebastian James | Chief Executive Officer | Dixons |
| Andrew Harrison | Deputy Chief Executive Officer | Carphone |
| Humphrey Singer | Chief Financial Officer | Dixons |
| Katie Bickerstaffe | Executive Director | Dixons |
| Graham Stapleton | Executive Director | Carphone |
| John Gildersleeve | Non-Executive Director | Carphone |
| Baroness Morgan | Non-Executive Director | Carphone |
| Gerry Murphy | Non-Executive Director | Carphone |
| Tim How | Non-Executive Director | Dixons |
| Jock Lennox | Non-Executive Director | Dixons |
| Andrea Gisle Joosen | Non-Executive Director | Dixons |

Sir Charles Dunstone and Roger Taylor are not considered to be independent Non-executive Directors.

All of the other Non-executive Directors 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.

Therefore, at least half of the Board excluding the Chairman are independent Non-executive Directors in compliance with the Corporate Governance Code.

5.3 The Board meets formally at least six times a year, with additional meetings as required. All board papers are sent out on a timely basis with sufficient information for the Carphone Directors to be able to discharge their duties. The company secretary ensures that all board papers are sent out to non-attending directors and that, where possible, any comments they have are received beforehand, so that they can be expressed at the meeting.

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

5.4 ***Board committees***

There are three key Board committees: the Audit Committee, Remuneration Committee and Nomination Committee. 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. These Board committees will be reconstituted immediately following the Merger becoming Effective as explained below.

*Audit Committee*

The Audit Committee currently comprises the following independent Non-executive Directors: John Gildersleeve, Baroness Morgan, Gerry Murphy and John Allwood. John Allwood acts as chairman. Following the Merger, it is intended that the Audit Committee will comprise Jock Lennox (Chair), John Allan, Baroness Morgan and Gerry Murphy.

All of the committee members have extensive commercial experience. The Audit Committee meets at least three times a year.

The chairman of the Audit Committee updates the Board on any significant issues that may have arisen at the Audit Committee meeting following each Audit Committee meeting.

A representative of the external auditors and the Chief Financial Officer normally attend Audit Committee meetings. Other Carphone Directors and senior management may also attend these meetings by invitation of the committee. The external and internal 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 any Executive Directors at least once a year.

The terms of reference under which the Audit Committee operates set out the following key duties of the Audit Committee:

(a) monitor the integrity of the financial statements of Carphone and any formal announcements relating to Carphone's financial performance, reviewing significant financial reporting judgements contained in such statements and announcements;

(b) review Carphone's internal financial controls and, unless expressly addressed by a separate risk committee of the Board composed of independent directors, or by the Board itself, to review Carphone's internal control and risk management systems and approve the appointment or termination of appointment of the head of internal audit;

(c) monitor and review the effectiveness of Carphone's internal audit function;

(d) make recommendations to the Board in relation to the appointment, reappointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor, for the Board to put to the Carphone Shareholders for their approval in general meeting;

(e) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;

(f) develop and implement policies on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

(g) consider the major findings of internal investigations and management's response;

(h) consider other topics, as defined by the Board; and

(i) refer matters to the Board which, in its opinion, should be addressed at a meeting of the Board.

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

The terms of reference also state that the Audit Committee should review arrangements by which employees of the Carphone Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

*Remuneration Committee*

The Remuneration Committee currently comprises the following independent Non-executive Directors: John Gildersleeve, Baroness Morgan, Gerry Murphy and John Allwood. John Gildersleeve acts as chairman. Following the Merger, it is intended that the Remuneration Committee will comprise John Gildersleeve (Chair), Andrea Gisle Joosen, Tim How and Roger Taylor.

The Remuneration Committee meets at least twice a year. Other Carphone Directors, the company secretary, representatives from the human resources teams, and advisers attend by invitation only.

The terms of reference under which the Remuneration Committee operates state that the Remuneration Committee is authorised by the Board to:

(a) investigate the remuneration paid to the directors and senior management of other companies of a similar size in a comparable industry sector in the UK and the relative performance of such companies;

(b) obtain information on the remuneration of any employee of the Carphone Group;

(c) seek advice from the company secretary and the in-house legal and human resources departments and to obtain legal, human resources and other independent professional advice;

(d) secure the attendance of any person with relevant experience and expertise at committee meetings if it considers this appropriate;

(e) determine remuneration packages, including salaries, pensions, bonuses, share options or other long-term incentive arrangements and all other terms and conditions of service and termination payments of executive board directors within the Carphone Group and the chairman of Carphone;

(f) recommend and monitor the level and structure of remuneration including pensions and compensation payments for senior management;

(g) approve any new contract of employment of any statutory director of Carphone and any new contract of employment within the Carphone Group where the total remuneration and benefits payable to the employee in respect of salary, including bonuses, would exceed £500,000 (or its equivalent) per annum or the gross amount of compensation (ignoring mitigating or any other factors reducing the amount payable) on termination of any such contract would exceed £500,000 (or its equivalent);

(h) approve any contract of employment within the Carphone Group which has an original fixed term of two years or more taking into account any period of notice required to terminate such contract;

(i) approve any contract of employment within the Carphone Group requiring more than 12 months' notice to determine;

(j) approve the confirmation of the employment of the Executive Directors beyond the normal retirement age of 65;

(k) act as the sole body instructed and authorised to exercise any power or discretion vested in the Board under any share option or bonus or incentive schemes of whatever nature established for the benefit of employees of the Carphone Group;

(l) agree the policy for authorising claims for expenses from the chief executive and chairman of Carphone;

(m) be aware of and advise on any major changes in employee benefits structures throughout the Carphone Group;

(n) be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Remuneration Committee;

(o) report the frequency of, and attendance by members at, Remuneration Committee meetings in Carphone's annual reports;

(p) make available the Remuneration Committee's terms of reference in accordance with the Corporate Governance Code, review the same and, where necessary, update them annually;

(q) produce each year a remuneration report, including pensions, on behalf of Carphone; and

(r) review and/or determine other matters that may be delegated by the Board to the Remuneration Committee from time to time.

*Nomination Committee*

The Nomination Committee currently comprises the following Carphone Directors: John Gildersleeve and Baroness Morgan. Baroness Morgan acts as chair. Following the Merger, it is intended that the Nomination Committee will comprise Sir Charles Dunstone (Chair), John Allan, John Gildersleeve and Andrea Gisle Joosen.

The Nomination Committee meets as and when required to discuss succession planning and consider appropriate appointments to the Board and not less than twice a year. The Nomination Committee is responsible for succession planning at Board level, overseeing the selection and appointment of Carphone Directors, regularly reviewing the structure, size and composition of the Board and making its recommendations to the Board. It assists in evaluating the commitments of individual Carphone Directors and the balance of skills, knowledge and experience on the Board.

The key duties of the Nomination Committee set out in its terms of reference are to:

(a) carry out a formal selection process of candidates and then propose to the Board and make recommendations regarding appointments to the Board;

(b) be responsible for identifying and nominating, for the approval of the Board, candidates to fill vacancies as and when they arise;

(c) evaluate the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment;

(d) review annually the time required from a Non-executive Director and assess whether the Non-executive Director is spending enough time to fulfil his or her duties;

(e) consider candidates from a wide range of backgrounds;

(f) give full consideration to succession planning in the course of its work, taking into account the challenges and opportunities facing Carphone;

(g) regularly review the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations to the Board with regard to any changes;

(h) keep under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace;

(i) make a statement in the annual report about its activities; the process used for appointments and to explain if external advice or open advertising has not been used; the membership of the Nomination Committee, number of Nomination Committee meetings and attendance over the course of the year;

(j) make available its terms of reference, explaining clearly its role and the authority delegated to it by the Board; and

(k) ensure that on appointment to the Board, Non-executive Directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside Board meetings.

5.5 ***Risk management and internal control***

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

5.6 ***Model Code***

Carphone has established and, following Admission, intends to continue to comply with, a code of securities dealing equivalent to the Model Code incorporated into the Listing Rules. The code applies to the Carphone Directors, the Carphone Directors' connected persons and relevant employees of the Carphone Group.

6. **Carphone Directors' and Proposed Directors' confirmations**

6.1 John Allwood was appointed as a director of The Dunfermline Press Limited, a company incorporated and registered Scotland, at the time the company's bankers appointed receivers on 18 April 2012 and his appointment was made to assist the company's bankers restructure the company's debt facilities.

6.2 On 10 September 2012, Carphone, the sole shareholder of The Phone House Resources Limited (**"TPHR"**), a company incorporated in the Isle of Man, resolved that (as part of a corporate restructuring process) TPHR be wound up by way of a member's voluntary winding up under the Isle of Man Companies Act 1931 and that a liquidator be appointed for the purposes of such winding up. The net proceeds of the liquidation were paid to the Company and TPHR was dissolved on 11 February 2013. At the time of the liquidation, Nigel Langstaff was a director of TPHR.

6.3 On 10 September 2012, Carphone, the sole shareholder of Storm Tide Limited (**''Storm Tide''**), a company incorporated in the Isle of Man, resolved that (as part of a corporate restructuring process) Storm Tide be wound up by way of a member's voluntary winding up under the Isle of Man Companies Act 1931 and that a liquidator be appointed for the purposes of such winding up. The net proceeds of the liquidation were paid to the Company and Storm Tide was dissolved on 11 February 2013. At the time of the liquidation, Nigel Langstaff was a director of Storm Tide.

6.4 On 15 March 2012, Carphone, the sole shareholder of Telecoms Insurance Services SA (**''TIS''**), a company incorporated in Switzerland, resolved that (as part of a corporate restructuring process) TIS be wound up by way of a member's voluntary winding up under Swiss law and that a liquidator be appointed for the purposes of such winding up. TIS was liquidated on 11 September 2013 and the net proceeds of the liquidation were paid to the Company. At the time of entering liquidation, Nigel Langstaff was a director of TIS.

6.5 Tim How was a director of Downing Income VCT 4 plc at the time it entered into a members' voluntary liquidation by a special resolution passed on 12 November 2013 as part of a merger with Downing Distribution VCT 1 plc by way of a scheme of reconstruction under section 110 of the Insolvency Act 1986.

6.6 Tim How was a director of Downing Income VCT plc between October 2005 and August 2010. Downing Income VCT plc was merged with Downing Distribution VCT 1 plc by way of a scheme of reconstruction under section 110 of the Insolvency Act 1986 and put into a members' voluntary liquidation by a special resolution passed on 12 November 2013.

6.7 None of the Carphone Directors or the Proposed Directors has, during the five years prior to the date of this document been:

(a) convicted in relation to a fraudulent offence;

(b) associated with any bankruptcy, receivership or liquidation while acting in the capacity of a member of the administrative, management or supervisory body or of senior manager of any company except as otherwise disclosed in this paragraph 6;

(c) subject to any official public incrimination and/or sanction by statutory or regulatory authorities (including designated professional bodies); or

(d) disqualified by a court from acting as a member of the administrative, management or supervisory bodies of any issuer or from acting in the management or conduct of the affairs of any company.

## 7. Conflicts of interest

7.1 None of the Carphone Directors or the Proposed Directors has any actual or potential conflicts of interest between their duties to the Company or Dixons (as the case may be) and the private interests and/or other duties he/she may also have.

7.2 No Director or Proposed Director was selected to be a director of Carphone or Dixons pursuant to any arrangement or understanding with any major customer, supplier or other person having a business connection with the Carphone Group or the Dixons Group.

7.3 Under the terms of a value enhancement share scheme previously operated by the Carphone Group, Roger Taylor and Nigel Langstaff are restricted from disposing of any interest in certain Carphone Shares awarded to them under this scheme until June 2015. These restrictions apply in relation to 8,399,725 Carphone Shares held by Roger Taylor and in relation to 2,951,679 Carphone Shares held by Nigel Langstaff.

7.4 Each of the Proposed Directors of the Dixons Carphone Board has given a binding undertaking not to dispose of any of his or her beneficial holdings in shares of Dixons Carphone (or any interest therein), which he or she holds on Admission or subsequently acquires during the lock-in period. All of the Proposed Directors have given this undertaking for a period of 24 months following Completion with the exception of Katie Bickerstaffe and Graham Stapleton who have given this undertaking for a period of 12 months, in line with the undertakings received from other senior executives.

7.5 Save as disclosed in this paragraph 7, no other restrictions have been agreed by any Director or Proposed Director on the disposal within a certain period of time of his holding in Carphone securities.

7.6 There are no family relationships between any of the Carphone Directors, or the Proposed Directors.

## 8. Directorships and partnerships

Save as set out below, the Carphone Directors and the Proposed Directors have not held any directorships of any company, other than those companies in the Carphone Group and the Dixons Group which are subsidiaries, or been a partner in a partnership at any time in the five years prior to the date of this document:

| Director | Current directorships/ partnerships | Former directorships/ partnerships |
|---|---|---|
| Sir Charles Dunstone | Acre 1132 Limited<br>Allied Developments Ltd<br>BoxPark Ltd<br>Clareville Capital Partners LLP<br>Five Guys JV Limited<br>Freston Road Management LLP<br>Freston Ventures Investments LLP<br>Freston Ventures Limited<br>Freston Ventures Management Limited<br>The Fulwood Academy<br>Mentmore Consulting LLP<br>Student Castle Investments LLP<br>TalkTalk<br>TalkTalk Group Limited | Connected World Services Distributions Limited<br>Core Telecommunications Limited<br>CWIAB Limited<br>Daily Mail and General Trust plc<br>Evergreen Services Holdings Limited<br>Fresh TelecomLimited<br>GEAB The Phone House AB<br>GEAB Teleshop AB<br>GEAB Telekonsult AB<br>GMS (Parking) Limited<br>Halifax Limited<br>IMD Media Limited<br>Independent Media Distribution Limited<br>Jensen International Automotive Limited<br>Macintosh Village Car Park (Management) Limited<br>Mobile Money Network Limited<br>Old Opal Telecom Limited<br>Old Carphone Warehouse<br>Opal Telecommunications plc<br>Opal Telecom Limited<br>The Phone House Holdings (UK) Limited<br>Princes Trust Trading Limited<br>Royal Parks Foundation<br>SC Adam Street Limited<br>SC Adam Street Management Limited<br>SC Great Marlborough Street Limited<br>SC Great Marlborough Street Management Limited<br>SC Leman Street Limited<br>SC Melbourne Street Limited<br>SC Melbourne Street Management Limited<br>SC Park Place Limited<br>SC Park Place Management Limited<br>SC Upper School Limited |

| Director | Current directorships/ partnerships | Former directorships/ partnerships |
|---|---|---|
| | | Shemara Refit LLP<br>Student Castle Limited<br>Talk Mobile Limited<br>TalkTalk Communications Limited<br>Youview TV Ltd |
| John Allan | The DHL UK Foundation<br>Natakate Ltd<br>Ship Midco Limited<br>Royal Mail plc | 3i Group plc<br>Care UK Health & Social Holdings Limited<br>National Grid plc<br>Rentokil Initial UK Cleaning Ltd<br>Royal Mail Group Limited<br>Worldpay (UK) Limited |
| Roger Taylor | Augusta 64 LLP<br>Freston Ventures Investments LLP<br>Freston Ventures Limited<br>Omer Telecom Limited<br>SC Jesmond Road West Limited<br>SC Jesmond Road West Management Limited<br>SC Milton Road Limited<br>SC Milton Road Management Limited<br>SC Walmgate Limited<br>Student Castle Investments LLP | Connected World Service Limited<br>Core Telecommunications Limited<br>Fresh Telecom Limited<br>GMS (Parking) Limited<br>Macintosh Village Car Park (Management) Limited<br>Old Opal Telecom Limited<br>Onetel Telecommunications Limited<br>Opal Telecom Limited<br>Opal Telecommunications plc<br>The Phone House Resources Limited<br>The Phone House Holdings (UK) Limited<br>The Phone Warehouse Spain SLU<br>TalkTalk<br>TalkTalk Communications Limited<br>TalkTalk Group Limited<br>TalkTalk Telecom Limited<br>Telco Holdings Limited<br>SC Adam Street Limited<br>SC Adam Street Management Limited<br>SC Great Marlborough Street Limited<br>SC Great Marlborough Street Management Limited<br>SC Leman Street Limited<br>SC Melbourne Street Limited<br>SC Melbourne Street Management Limited<br>SC Park Place Limited<br>SC Park Place Management Limited<br>SC Upper School Limited<br>Student Castle Limited<br>Wireless Internet Portfolio B.V. |

| Director | Current directorships/ partnerships | Former directorships/ partnerships |
| --- | --- | --- |
| Sebastian James | Betteshanger Investments Limited<br>Save The Children Fund<br>Sebastian James Associates Limited | Environcom England Limited<br>Environcom Limited<br>Esubstance Limited<br>Ink Publishing (Holdings) Limited<br>Synergy Insurance Services Holdings Limited |
| Andrew Harrison | Freston Ventures Investments LLP<br>Get Connected Helpline<br>The Invicta Film Partnership No 20 LLP | CPW Mobile Ltd<br>Geek Squad UK Ltd<br>Mobile Money Network Ltd<br>Talk Mobile Ltd |
| Nigel Langstaff | Lotuschart Limited<br>Omer Telecom Limited<br>SRPE Fund One LLP | CWIAB Limited<br>New Technology Insurance<br>Onetel Telecommunications Limited<br>Oval (2248) Limited<br>Oval (2250) Limited<br>Oval (2251) Limited<br>The Phone House Resources Limited<br>TalkTalk RB Limited<br>TalkTalk Services Limited<br>Technikos LLP<br>Telco Global Distribution Limited<br>Telco Global Limited<br>Telco Holdings Limited<br>Telecoms Insurance Services SA<br>Wavetech Limited |
| Humphrey Singer | — | — |
| Katie Bickerstaffe | SSE plc | — |
| Graham Stapleton | Make-A-Wish Foundation UK | — |
| John Gildersleeve | The British Land Company plc<br>Epocket Software 1 LLP<br>Epocket Software 2 LLP<br>Freston Ventures Investments LLP<br>Pick n Pay Stores Limited<br>Rentplus-UK Limited<br>Student Castle Investments LLP<br>TalkTalk<br>Tower No 4 LLP<br>Yukon Consulting Limited | Figleaves Global Trading Limited<br>New Look Retail Group Limited<br>Runway London Limited<br>UKFS 6 LLP<br>WM.Low & Company plc |
| John Allwood | A. Romanes & Son Limited<br>Berkshire Media Group Limited<br>Border Weeklies Limited<br>Charles Street Development Limited<br>Clyde & Forth Press Limited<br>Cook Paton Limited<br>Craig M Jeffrey Limited<br>D & J Croal Limited<br>Firth FM Holdings Limited<br>Frank Lawrance (Slough | Berlingske Media A/S<br>The Dunfermline Press Limited<br>Koninklijke Wegener N.V.<br>Mecom Finance Limited<br>Mecom Group Plc |

| Director | Current directorships/ partnerships | Former directorships/ partnerships |
|---|---|---|
| | Observer) Limited<br>M.A.D. Publishing Limited<br>Orr, Pollock & Company Limited<br>Paton Cook Limited<br>The Pepper Foundation<br>Romanes Media Group Limited<br>Romanes Media Limited<br>Romanes Media Group EBT Limited<br>TalkTalk<br>Ulster News Group Limited<br>West Independent Newspapers Limited<br>William Trimble Limited<br>Your Radio FM Limited | |
| Baroness Morgan of Huyton | Future Leaders Charitable Trust Limited<br>Schools and Teachers Innovating for Results<br>Teaching Leaders | The Mayor's Fund for London<br>Southern Cross Healthcare Group plc |
| Gerry Murphy | — | Deloitte LLP<br>Strand Friendly Society Trustees Limited |
| Tim How | Downing Income VCT 4 plc<br>Henderson Group plc<br>Roys(Wroxham),Limited<br>Wine and Spirit Education Trust<br>Woburn Enterprises Limited | Downing Income VCT plc<br>Enotria Group Limited<br>Enotria Wine Group Limited<br>Peabody (Services) Limited<br>Peabody Capital No 2 plc<br>Peabody Capital plc<br>Peabody Enterprises Limited<br>Rayner & Keeler Limited<br>The Wine and Spirit Trade Association |
| Jock Lennox | A & J Mucklow Group plc<br>Enquest plc<br>Hill & Smith Holdings plc<br>Oxford Instruments plc<br>Tall Ships Youth Trust | Golden Lane Housing Ltd |
| Andrea Gisle Joosen | ICA Gruppen AB<br>Neopitch AB | Boxer TV Access AB |

## 9. Employees

9.1 The average number of staff employed by the Carphone Group for the three years ended 31 March 2012, 31 March 2013 and 29 March 2014 is set out below:

| Financial year ended | Average number of employees |
|---|---|
| 29 March 2014 | 8,707* |
| 31 March 2013 | 22 |
| 31 March 2012 | 18 |

*The increase in the average number of employees in the financial year ended 29 March 2014 is due to the Best Buy Acquisition.

9.2 As at 25 June 2014 (being the latest practicable date prior to the publication of this document), the Carphone Group had approximately 11,000 employees. Of this number, approximately 51 per cent. were located in the United Kingdom and 49 per cent. were located overseas. Temporary employees do not represent a significant proportion of the Carphone Group's employees.

9.3 As at 29 March 2014, the employees of the Carphone Group were employed as follows:

| | |
|---|---|
| Administration | 1,511 |
| Sales and customer management | 9,657 |
| **Total** | **11,168** |

9.4 The average number of staff employed by the Dixons Group for the three years ended 31 March 2012, 31 March 2013 and 29 March 2014 is set out below:

| **Financial year ended** | **Average number of employees** |
|---|---|
| 30 April 2014 | 32,400 |
| 30 April 2013 | 35,892 |
| 28 April 2012 | 36,585 |

9.5 As at 25 June 2014 (being the latest practicable date prior to the publication of this document), the Dixons Group had 30,807 employees. Of this number, approximately 66 per cent. were located in the United Kingdom and 34 per cent. were located overseas. In addition temporary employees typically represent between two to three per cent. of the Dixons Group workforce during non-peak periods, increasing to between five and ten per cent. during peak periods.

10. **Carphone Share Schemes**

Carphone currently operates the Carphone 2010 Share Scheme, the CPW SAYE Scheme and the CPWG Share Plan as long-term incentive schemes for executive directors, senior managers and employees of the Carphone Group's businesses.

Details of the principal features of the Carphone 2010 Share Scheme, the CPW SAYE Scheme and the CPWG Share Plan are set out in paragraphs 10.1, 10.2 and 10.3 below.

Outstanding options and awards under the Carphone 2010 Share Scheme, the CPW SAYE Scheme and the CPWG Share Plan will not vest as a result of the Merger. The awards under the Carphone 2010 Share Scheme and the CPW SAYE Scheme will continue on the same terms as prior to the Merger and the awards under the CPWG Share Plan will continue on similar terms subject to any necessary adjustment to take into account the Merger including, without limitation, the impact of New Dixons Carphone Shares being issued pursuant to the Merger and the potential growth in the Combined Group.

At the Carphone General Meeting, approval will be sought from Carphone Shareholders to proposed amendments to the Carphone 2010 Share Scheme and the CPWG Share Plan, details of which are described below.

10.1 ***The Carphone 2010 Share Scheme***

The principal features of the Carphone 2010 Share Scheme are outlined below.

(a) *General*

The Carphone 2010 Share Scheme is a reward mechanism for employees of the Carphone Group's businesses.

The Carphone 2010 Share Scheme is divided into two parts: the main plan rules are unapproved for UK tax purposes and have a greater degree of flexibility than options granted under the addendum, entitled the ''UK Approved Addendum'', which has been designed to qualify for approval by HMRC under the CSOP Code of the Income Tax (Earnings & Pensions) Act 2003.

The UK Approved Addendum is intended to enable options to be granted to UK taxpayers in a tax efficient manner. The terms of options granted under the UK Approved Addendum are broadly identical to the terms of options granted under the main part of the Carphone 2010 Share Scheme except to the extent necessary to obtain or maintain HMRC approval or as set out below.

(b) *Operation*

The Carphone Board (or a duly authorised committee of the Carphone Board, which with regard to Executive Directors shall be the Remuneration Committee) is responsible for granting options to and administering the Carphone 2010 Share Scheme.

The Carphone 2010 Share Scheme is discretionary and only operates in those years that the Carphone Board determines. Currently, it is expected that options will be granted annually.

(c) *Eligibility*

Any employee or executive director of the Carphone Group is eligible to participate in the Carphone 2010 Share Scheme at the discretion of the Carphone Board. In order to be eligible for options granted under the UK Approved Addendum, executive directors additionally have to work a minimum of 25 hours per week for the Carphone Group.

(d) *Grant of options*

Options may normally only be granted in the 42 days following the announcement by Carphone of its results for any period, or following a change in the legislation relating to share option plans or where there are circumstances considered by the Carphone Board to be exceptional. Options may also be granted outside these periods in connection with the commencement of an eligible employee's employment if this is appropriate.

However, at all times, the grant of options is subject to the terms of the Model Code for transactions in securities by directors.

No options may be granted later than 10 years after the approval of the Carphone 2010 Share Scheme by Carphone Shareholders.

Options may be granted over newly issued shares, treasury shares and shares purchased in the market in conjunction with or otherwise held by an employee benefit trust.

The Carphone Board may determine that the number of shares subject to an option shall, at exercise, increase by such number of shares as could have been acquired by reinvesting the dividends which would otherwise have been received on those shares during the vesting period.

No payment is required for the grant of an option. Options are not transferable (other than on the death of a participant) without the consent of the Carphone Board. Options are not pensionable.

(e) *Individual limits*

No employee may be granted options under the Carphone 2010 Share Scheme in any financial year over shares worth more than 200 per cent. of base salary, unless the Carphone Board determines that exceptional circumstances exist which justify exceeding this limit, in which case options shall not exceed 300 per cent. of base salary.

In applying this limit no account will be taken of shares representing notional reinvestment of dividends on options or shares which have been awarded to ensure that a participant is not financially disadvantaged if they agree to satisfy the Carphone Group's social security liability in relation to their option.

Options granted under the UK Approved Addendum are subject to a statutory limit such that no employee may at any one time hold subsisting options over shares worth more than £30,000 (calculated by reference to the market value of shares at the relevant date of grant) granted under the UK Approved Addendum or any other HMRC approved company share option plan established by a Carphone Group company or a company associated with a Carphone Group company.

(f) *Option exercise price*

Options may be nil cost options if the Carphone Board so determines. If, however, an exercise price is payable, the price per share on the exercise of an option will not be less than the higher of:

- where Carphone Shares are listed on a recognised stock exchange, the closing middle market quotation for a share for the dealing day immediately preceding the date the option is to be granted or, if the Carphone Board so determines, the average of such quotations for the three dealing days (or such other number of dealing days as the Carphone Board decides) immediately preceding the date the option is to be granted; or
- where Carphone Shares are not so listed, a price agreed in advance with HMRC to be their market value; or
- where shares are to be subscribed, their nominal value.

(g) *Limits on the issue of shares*

The Carphone 2010 Share Scheme is subject to the following overall limit on the number of new Carphone Shares which may be subscribed: in any 10 year period not more than 10 per cent. of the issued ordinary share capital of Carphone from time to time may be issued or issuable pursuant to rights acquired under the Carphone 2010 Share Scheme and any other employees' share plans adopted by Carphone.

For the purposes of these limits, options or other rights to acquire shares which lapse or have been released, or options or awards which were granted prior to the Company's admission to trading on the London Stock Exchange's main market in 2010 do not count. However, shares subscribed by the trustees of an employee benefit trust to satisfy rights granted under any employees' share plans adopted by Carphone and shares transferred from treasury do count towards these limits. Where instead of paying the exercise price, an option exercise is satisfied by the number of shares representing the growth in value of a share between the exercise price and the market value at the date of exercise, only the number of shares actually issued shall count towards these limits.

(h) *Exercise of options*

Subject to the participant discharging any relevant tax liability, an option will normally be exercisable between the third and tenth anniversary of its grant provided that any specified performance condition has been satisfied. In order to align exercise dates for participants currently employed by the Dixons Group with existing participants in the Carphone 2010 Share Scheme, 60 per cent. of the first grant of options to participants from the Dixons Group may be exercised in or after June 2017. The remaining 40 per cent. will normally be exercisable between the third and tenth anniversary of its grant.

(i) *Performance conditions*

For the initial grant of options under the Carphone 2010 Share Scheme to employees, the exercise of the options was subject to continuing employment and was also subject to performance conditions.

If the Remuneration Committee considers it to be appropriate to extend participation in the Carphone 2010 Share Scheme to the Carphone Directors, options granted to the Carphone Directors would be subject to performance conditions. Prior to granting any options to the Carphone Directors, Carphone would consult with major Carphone Shareholders as to the form of the performance measures to be used and would fully disclose the performance measures adopted in the Carphone Directors' remuneration report.

The Carphone Board will regularly review any performance conditions for future option grants to ensure they are appropriate for Carphone and the prevailing recruitment market. The conditions may be varied in certain circumstances following the grant of an option so as to achieve their original purpose, taking account of the interests of the Carphone Shareholders, but not so as to make their achievement any more or less difficult to satisfy.

(j) *Leavers*

If a participant leaves employment of the Carphone Group by reason of death, injury, disability, redundancy, retirement or the sale of the business for which they work to a third party, options that have already vested on the date of cessation of employment can be exercised, in the event of death, within 12 months, and in all other circumstances, within six months following the date of cessation of employment.

If a participant leaves employment of the Carphone Group by reason of death, injury, disability, redundancy, retirement or the sale of the business for which they work to a third party, a proportion of any unvested options will vest and become exercisable depending on the time which has elapsed between the grant of that option and the date of leaving and the extent to which performance conditions have been satisfied. Alternatively, the Carphone Board may determine that any unvested options will vest and become exercisable on the original vesting date, depending on the time which has elapsed between the grant of that award and the date of leaving and the extent to which performance conditions have been satisfied at the vesting date.

In determining the proportion of an award which vests, in both cases, the Carphone Board may take into account such other factors, including the performance of Carphone and the conduct of the participant as it deems relevant. Any options that have so vested can be exercised, in the event of death, within a period of 12 months, and in all other circumstances, within six months from the day on which the options vest.

If a participant ceases to be an employee of the Carphone Group for any other reason, their option will normally lapse unless and to the extent that the Carphone Board decides otherwise.

(k) *Change of control*

In the event of a takeover, reconstruction or winding up of Carphone, a proportion of an option will vest and become exercisable depending on the time which has elapsed between the grant of that option and the change of control and the extent to which any performance conditions have been satisfied at that date. Again, in determining the proportion of an option which vests, the Carphone Board may take into account such other factors, including the performance of Carphone and the conduct of the participant as it deems relevant.

Alternatively, options may (or, if the Carphone Board so determines, shall) be exchanged for new equivalent options where appropriate. In this case any performance conditions will continue unless the Carphone Board determines otherwise.

(l) *Rights attaching to shares*

Shares allotted or transferred under the Carphone 2010 Share Scheme will rank equally with all other Carphone Shares for the time being in issue (except for rights attaching to such shares by reference to a record date prior to the exercise of the option). Carphone will apply for any new shares allotted under the Carphone 2010 Share Scheme to be admitted to listing on the Official List and to trading on the main market of the London Stock Exchange.

The Carphone Board may also satisfy options in cash provided the participant receives the same economic value as would have been provided by an option over shares.

Alternatively, the Carphone Board may determine that instead of paying any exercise price payable, an exercise of an option is satisfied by the number of shares representing the growth in value of a share between the exercise price and the market value of a share at exercise.

(m) *Variation of capital*

In the event of any variation of share capital, demerger or other corporate event, the Carphone Board may make such adjustments as it considers appropriate to the number of shares subject to options and the price payable on the exercise of options. In the case of options granted under the UK Approved Addendum, such adjustments will only be made to the extent permitted by HMRC.

(n) *Alterations to the Carphone 2010 Share Scheme*

The Carphone 2010 Share Scheme may at any time be altered by the Carphone Board in any respect. However, any alterations to the advantage of participants to the rules governing eligibility, limits on participation and the number of new shares available under the Carphone 2010 Share Scheme, terms of exercise and adjustment of options must be approved in advance by Carphone Shareholders in general meeting unless the alteration or addition is minor in nature and made to benefit the administration of the Carphone 2010 Share Scheme, to comply with the provisions of any existing or proposed legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or Carphone Group companies.

Any amendment to a key feature of the Carphone 2010 Share Scheme which affects options granted under the UK Approved Addendum will require HMRC approval before it can take effect.

(o) *Overseas employees*

The Carphone Board may grant options to overseas employees on different terms so as to take account of relevant overseas tax, securities or exchange control laws provided that the options are not overall more favourable that the terms of options granted to other employees.

(p) *Amendments to be proposed at the Carphone General Meeting*

The Carphone Group adopted the Carphone 2010 Share Scheme on 24 February 2010. At a general meeting of the Company held on 24 June 2013, Carphone Shareholders approved the extension of the life of the Carphone 2010 Share Scheme so that it currently expires on the tenth anniversary of that general meeting. At the Carphone General Meeting, Carphone Shareholders will be asked to authorise an extension of the life of the Carphone 2010 Share Scheme so that it expires on the tenth anniversary of the Carphone General Meeting.

(q) *Future grants*

Additional participants, including certain employees of the Dixons Group, will be invited to join the Carphone 2010 Share Scheme, subject to similar performance conditions to those applying under existing awards and reflecting the different starting valuations which would apply, following the Merger becoming Effective as determined by the Remuneration Committee from time to time to ensure consistent alignment with existing awards.

10.2 ***The CPW SAYE Scheme***

The principal features of the CPW SAYE Scheme are outlined below.

(a) *General*

The CPW SAYE Scheme is a Save-As-You-Earn share option scheme, designed to be a tax advantaged scheme in accordance with the SAYE Code of the Income Tax (Earnings & Pensions) Act 2003.

(b) *Administration*

The CPW SAYE Scheme shall be administered by the Carphone Board or a duly authorised committee of the Carphone Board. The Carphone Board has the power to make or vary the regulations for the administration and operation of the CPW SAYE Scheme as long as these are consistent with the rules of the CPW SAYE Scheme. The decision of the Carphone Board as to any matter, question or dispute arising from the CPW SAYE Scheme shall be final and conclusive and binding on Carphone and participants.

(c) *Eligibility*

All UK executive directors and employees of Carphone and participating companies within the Carphone Group will be eligible to participate in the CPW SAYE Scheme, so long as they have been employed for a qualifying period (which will be determined by the Carphone Board and will not be a period longer than five years).

(d) *The savings contract*

To participate in the CPW SAYE Scheme, an eligible employee must enter into a Save-As-You-Earn contract (also known as a savings contract) with an appropriate savings carrier approved by Carphone, thereby agreeing to make monthly contributions of between £5 and £500 for a specified period of three or five years. The Carphone Board has discretion to determine which of the savings contracts will be available in respect of any invitation to apply for options.

A bonus may be payable by the savings carrier after the expiration of the period, based on a multiple of the monthly contributions made by participants. However, since August 2012 no bonuses have been payable on the maturity of savings contracts. Applications to participate in the CPW SAYE Scheme may be scaled down by the Carphone Board, in accordance with procedures laid down in the rules of the CPW SAYE Scheme, if applications exceed the number of Carphone Shares available for the grant of options. Such scaling down may include reducing the level of any bonuses, reducing monthly contributions above a certain level *pro rata*, or reducing the length of savings contracts.

(e) *Option price*

Options granted to acquire Carphone Shares under the CPW SAYE Scheme will have an option price determined by the Carphone Board, which will be not less than the higher of:

(i) 80 per cent. of the middle market quotation for such Carphone Shares as derived from the daily official list of the London Stock Exchange for the dealing day (or, if so determined by the Carphone Board the average of such quotations for the three dealing days) immediately preceding the date on which invitations to apply for options are issued to employees; and

(ii) where Carphone Shares are to be subscribed, their nominal value.

(f) *Grant of options*

The number of Carphone Shares over which options may be granted must, as nearly as possible, be equal to, but not in excess of, that number of Carphone Shares which may be purchased out of the repayment proceeds (including, where the Carphone Board so allows, any bonus) of the relevant savings contract, at the option price. Invitations to apply for options may normally only be issued in the 42 days following the announcement by Carphone of its results for any period, or following a change in the SAYE Code of Income Tax (Earnings & Pensions) Act 2003 or where there are circumstances considered by the Remuneration Committee to be exceptional. No options may be granted later than 10 years after the approval of the CPW SAYE Scheme by Carphone Shareholders. No payment will be required for the grant of an option. Options are not transferable (other than to a personal representative on the death of a participant). Options will not be pensionable.

(g) *Limits on the issue of shares*

In any 10 year period, not more than 10 per cent. of the issued ordinary share capital of Carphone from time to time may be issued or issuable pursuant to rights acquired under the CPW SAYE Scheme and any other employees' share scheme adopted by Carphone. For the purposes of this limit, options or other rights to acquire shares which lapse or have been released do not count. However, shares subscribed for by the trustees of an employee benefit trust to satisfy rights granted under any employees' share scheme adopted by Carphone and shares transferred from treasury do count towards this limit.

(h) *Exercise of options*

Options will only normally be exercisable for the period of six months commencing on the maturity of the related savings contract and, if not exercised by the end of that period, the option will lapse. Earlier exercise may, however, be permitted in specified circumstances, including termination of employment as a result of death, injury, disability, redundancy, retirement or the sale of the subsidiary or business for which the participant works or in the event of a takeover of Carphone.

(i) *Rights attaching to Carphone Shares*

All Carphone Shares allotted or transferred under the CPW SAYE Scheme will rank equally with all other Carphone Shares for the time being in issue (save as regards any rights attaching to such shares by reference to a record date prior to the date of allotment or transfer) and Carphone will apply for any new Carphone Shares issued under the CPW SAYE Scheme to be admitted to listing on the Official List and to trading on the main market of the London Stock Exchange.

(j) *Takeover of Carphone*

In the event of a takeover, reconstruction or winding up of Carphone, options may be exercised within six months of the change of control. Alternatively, options may be exchanged for new equivalent options, where appropriate.

(k) *Variation of capital*

In the event of any rights or capitalisation issue, subdivision, consolidation, reduction or other variation of share capital, the Carphone Board may make such adjustments as it considers appropriate to the number of Carphone Shares under option and/or the price payable on the exercise of options.

(l) *Alterations to the CPW SAYE Scheme*

The Carphone Board may alter the provisions of the CPW SAYE Scheme in any respect provided that the prior approval of Carphone Shareholders in general meeting is obtained for alterations or additions to the advantage of participants to provisions relating to eligibility, limits on participation and the number of new shares available under the CPW SAYE Scheme, terms of exercise and adjustment of options. The requirement to obtain the prior approval of Carphone Shareholders will not, however, apply in relation to any alteration or addition which is minor in nature and made to benefit the administration of the CPW SAYE Scheme, to comply with the provisions of any existing or proposed legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for Carphone, any of its subsidiaries or for participants.

(m) *Overseas employees*

The Carphone Board may establish further employee share plans based on the terms of the CPW SAYE Scheme to grant awards to overseas employees on different terms so as to take account of relevant overseas tax, securities or exchange control laws provided that the awards are not overall more favourable than the terms of options granted to other employees.

(n) *Future grants*

The Dixons Carphone Board plans to issue an invitation to eligible employees to apply for options under the CPW SAYE Scheme at the next time employees are entitled to participate in the scheme which is expected to be on or around the first anniversary of the first grants made under the CPW SAYE Scheme in January 2014.

### 10.3 *The CPWG Share Plan*

The principal features of the CPWG Share Plan are outlined below.

(a) *General*

The CPWG Share Plan was adopted by Carphone on 24 June 2013 as an alternative reward mechanism for employees of the Carphone Group who will not participate in the Carphone 2010 Share Scheme. It is the intention of the Remuneration Committee that, generally, in any one year participants may only receive an award under the CPWG Share Plan and no other schemes other than a SAYE scheme which is open to all UK based employees of the Carphone Group. The CPWG Share Plan is designed to enable participants to share in the incremental value of the Carphone Group's businesses (less excluded assets) in excess of an opening valuation as determined by the Remuneration Committee at the time the awards are made.

Each award will entitle a participant to hold a fixed number of a separate class of shares in subsidiary companies that hold the Company's interests in the Carphone Group's businesses (''Participation Shares''). The Participation Shares will initially be acquired by participants at market value and such participants will be offered a loan from their employer within the Carphone Group at a commercial rate of interest. Participants will then use all of the loan to pay the Company or its relevant subsidiary for all of the Participation Shares such that no participant will personally receive the cash amount of such loan.

The vesting of awards will be subject to continued employment and the satisfaction of performance conditions and/or other specified events as determined by the Remuneration Committee. When the awards vest the Participation Shares will have a value based on the corresponding percentage they represent of the incremental value (if any) of the Carphone Group's businesses (less excluded assets) at the time of vesting in excess of the applicable opening valuation and shall then be purchased by the Company for cash and/or by the issue (or transfer) of ordinary shares in the capital of the Company. Any loan made to the participants to acquire Participation Shares will be required to be repaid at that time. If the market value of the Participation Shares is less than the amount of the outstanding loan (and any accrued interest) then the participant may be required to repay such proportion of the loan as the Remuneration Committee determines.

(b) *Eligibility*

Any Executive Director or employee of the Company and any of its subsidiaries may be invited to participate in the CPWG Share Plan. However, it is intended that the main participants will be the Executive Directors and other senior employees of the Carphone Group.

(c) *Grant of awards*

Awards under the CPWG Share Plan may only be granted within the period of 42 days following:

- the adoption of the CPWG Share Plan by the Company;
- the approval of any amendments to the CPWG Share Plan by the Company;
- the announcement by the Company of its preliminary or interim results or the results for any other financial period; or
- any day on which the Remuneration Committee determines that exceptional circumstances exist which justify the grant of awards.

No awards may be made more than 10 years after the adoption of the CPWG Share Plan. Benefits under the CPWG Share Plan will not be pensionable. Awards may not be transferred (other than on death) without the prior written agreement of the Remuneration Committee and if transferred will remain subject to the main conditions of the original award unless the Remuneration Committee determines otherwise. No other consideration other than participants paying market value for the Participation Shares will be required for the grant of an award.

(d) *Level of award*

The level of award granted to each individual will be determined by the Remuneration Committee and as advised by the external advisors to the Remuneration Committee within generally accepted market parameters recognising different levels of awards for performance including exceptional performance.

(e) *Vesting of awards*

Awards will vest subject to achievement of performance conditions set at the time of grant with vesting extending over a period of time that will normally amount to between three and five years as the Remuneration Committee determines unless the early vesting provisions apply. In order to align exercise dates with existing participants in the CPWG Share Plan, 60 per cent. of the first awards to participants following the Merger may be exercised in or after June 2017. The remaining 40 per cent. will normally be exercisable between the third and tenth anniversary of its grant.

The Remuneration Committee will determine the opening valuation. It will also decide at what regular intervals the performance conditions will be measured and what percentage of awards should vest on such dates.

The performance conditions will be based on the incremental value of the Carphone Group's businesses, less certain excluded assets in excess of the opening valuation and beyond an annual rate of return as determined by the Remuneration Committee on the amount of invested capital from time to time in the Carphone Group's businesses which will be charged from the date on which any award is made, and other performance conditions as may be determined by the Remuneration Committee. The rate of return applicable to the first awards under the CPWG Share Plan was seven per cent. and it is expected that the rate of return for awards in 2014 shall not be less than seven per cent. Each of the performance conditions will also be underpinned by TSR measures to be determined by the Remuneration Committee. Following consultation with Carphone Shareholders and the approval of the CPWG Share Plan, the Remuneration Committee exercised its powers under the rules of the CPWG Share Plan to include a cap in the rules of the CPWG Share Plan and the aggregate value to participants from any awards under the CPWG Share Plan may be subject to that cap as determined by the Remuneration Committee from time to time.

(f) *Early vesting provisions*

An unvested award will normally lapse if the participant ceases to be an employee of the Carphone Group. However, if a participant ceases to be employed in such circumstances as the Remuneration Committee determines the rules allow the awards to continue in accordance with the vesting provisions.

In such circumstances, the Remuneration Committee may also determine at its absolute discretion the extent to which awards may vest early having regard to the length of time the awards have been held and the extent to which the performance targets have been satisfied. There may also be other circumstances, for instance change of control or material sale of assets, where the Remuneration Committee may determine that awards may vest early or be based on such value as determined by the Remuneration Committee at that time.

Alternatively, if appropriate awards may be released (to the extent not lapsed) in consideration for new awards which are equivalent to the original awards but over shares in the new companies. All participants will be entitled to participate in any return of capital to Carphone Shareholders made other than normal interim and final dividends.

(g) *Plan limits*

On vesting, the purchase of Participation Shares by the Company in return for Carphone Shares may be satisfied by the issue of new Carphone Shares or the transfer of existing Carphone Shares.

No award may be granted under the CPWG Share Plan if it would cause the number of Carphone Shares that may be issued or issuable pursuant to options and awards granted in the preceding 10 years under any share scheme established by the Company, to exceed 10 per cent. of the issued ordinary share capital of the Company. If the awards are to be satisfied in cash and/or out of existing Carphone Shares in issue the percentage limit stated above will not apply. Alternatively, awards may also be satisfied by the transfer of treasury shares in which case the percentage limits in the current Association of British Insurers guidelines apply.

(h) *Adjustments to awards*

In the event of any rights issue or capitalisation, subdivision, consolidation or other variation of share capital or other exceptional event, the Remuneration Committee may make such adjustments to the awards, as they consider appropriate.

(i) *Rights attaching to shares*

The Participation Shares will carry no voting rights or rights to interim and annual dividends and their value on sale or liquidation is based on the satisfaction of the performance conditions. Generally, the Participation Shares do not offer any advantage over the rights and/or benefits attaching to Carphone Shares held by Carphone Shareholders. The Remuneration Committee will have the flexibility at grant to determine whether a participant will be entitled to receive any other rights in connection with the Participation Shares.

(j) *Alterations to the CPWG Share Plan*

The Remuneration Committee cannot alter the provisions of the CPWG Share Plan to the material advantage of current participants or eligible participants without the prior approval of the Company in general meeting unless such alterations are minor and are to benefit the administration of the CPWG Share Plan, to take account of changes in legislation or to obtain or maintain a favourable taxation, exchange control or regulatory treatment of the Company or a relevant Carphone Group company, current participant or eligible participant or where failing to make such alteration would result in a current participant or eligible participant being materially disadvantaged given the purpose for the introduction of the CPWG Share Plan.

The Remuneration Committee may also establish separate but commercially similar plans or appendices to the CPWG Share Plan for the purpose of granting awards to eligible participants who are employed by non-UK companies or who are or may become primarily liable to tax outside the United Kingdom.

(k) *Termination*

The CPWG Share Plan will terminate on the tenth anniversary of its approval by Carphone Shareholders or such earlier time as the Remuneration Committee may determine but the rights of existing participants will not be affected. Once terminated no further awards will be granted.

*(l) Amendments to be proposed at the Carphone General Meeting*

Carphone Shareholders will be asked to authorise amendments to the rules of the CPWG Share Plan in order to give the remuneration committee of Dixons Carphone the ability, in accordance with paragraphs (h) and (j) above, to amend any of the terms of awards made under that plan to existing participants and grant new awards under the CPWG Share Plan following the Merger becoming Effective to employees of the Combined Group including those currently employed by the Dixons Group, in each case in accordance with the provisions set out above and to take into account the Merger including, without limitation, the impact of New Dixons Carphone Shares being issued pursuant to the Merger and the potential growth in the Combined Group, in order to ensure that awards are consistently aligned to incentivise and reward participants for increasing shareholder value in the years following the Merger becoming Effective.

*(m) Future grants*

Following the Merger, and provided that the Carphone Shareholder authorisation referred to above is given, it is planned to grant new awards under the CPWG Share Plan to employees of the Combined Group, including Proposed Directors and other members of senior management who are currently employees of the Dixons Group. The quantum and targets of such awards will be determined by the remuneration committee of Dixons Carphone to reflect the differing starting valuations which would apply compared to existing awards, the potential growth in the Combined Group and the impact of New Dixons Carphone Shares being issued, with the aim being to have consistent alignment between the combined senior management teams.

## 11. Dixons Share Schemes

Letters are being sent to the participants in the Dixons Share Schemes explaining the effect of the Scheme on their share options and awards.

All Dixons Shares issued or transferred on the exercise of options or vesting of awards under the Dixons Share Schemes before the Scheme Record Time will be subject to the terms of the Scheme. The Scheme will not extend to Dixons Shares issued after the Scheme Record Time. It is proposed to amend the articles of association of Dixons at the Dixons General Meeting to provide that, if the Scheme becomes Effective, any Dixons Share issued or transferred after the Scheme Record Time will be automatically transferred to Dixons Carphone in consideration for the issue or transfer of Dixons Carphone Shares on the same terms as for holders of Dixons Shares before the Scheme Record Time.

Outstanding Dixons ESOP options and Dixons PSP awards which are not already exercisable or vested will vest immediately on the sanction of the Scheme by the Court to the extent that performance conditions are satisfied and, where applicable, subject to the participant entering into a lock-in commitment. Dixons PSP awards made in 2013 will be pro-rated by 50 per cent. Outstanding Dixons RRP awards will also vest on the sanction of the Scheme by the Court. Dixons ESOP options which are already vested will be able to participate in the Scheme. Any outstanding Dixons ESOP options will lapse no later than six months after the sanction of the Scheme by the Court.

Carphone will offer Dixons Sharesave participants the opportunity to rollover the options granted in 2011, 2012 and 2013, enabling them to exercise their options in full over Dixons Carphone Shares at the maturity date free of income tax for UK participants, adjusted as appropriate.

Any Dixons Sharesave options which are not rolled over and are not exercised will lapse no later than six months after the sanction of the Scheme by the Court.

The maximum number of Dixons Shares that will be exchanged for Dixons Carphone Shares will be 3,716,566,252 Dixons Shares following settlement of those options and awards over Dixons Shares which will vest as a result of the Merger. It is expected that new Dixons Shares will be issued to satisfy the vesting of awards and exercise of options up to the maximum number of 3,716,566,252 Dixons Shares. Further entitlements to receive Dixons Shares as a result of the vesting of awards and exercise of options will be satisfied by the acquisition of Dixons Shares in the market by the trustee of Dixons' employee benefit trust and/or in cash, or as otherwise agreed with Carphone.

# PART XII

# ADDITIONAL INFORMATION

1. **The Company**

1.1 Carphone was incorporated and registered in England and Wales on 15 December 2009 with registered number 07105905 as a public company limited by shares with the name New Carphone Warehouse PLC. On 25 March 2010, the name of the Company was changed to Carphone Warehouse Group Public Limited Company.

1.2 The principal legislation under which the Company operates, and pursuant to which the Carphone Shares have been, and the New Dixons Carphone Shares will be created, is the Act and regulations made thereunder.

1.3 The Company is domiciled in England and Wales and its registered and head office is 1 Portal Way, London W3 6RS (telephone number: +44 20 8617 6002).

1.4 The auditors of Carphone are, and have been throughout the period covered by the financial information in this document, Deloitte LLP. Deloitte LLP is a member firm of the Institute of Chartered Accountants in England and Wales.

2. **Share Capital**

2.1 ***Share capital summary***

(a) On 1 April 2011, being the beginning of the period covered by the financial information in this document, the issued share capital of the Company was made up as follows:

| Class of shares | Issued | | |
|---|---|---|---|
| | Number | Amount | |
| Carphone Shares | 457,054,122 | £457,054.12 | Fully paid |

(b) On 20 January 2012, the Company issued 15,700,421 Carphone Shares, after which the issued share capital of the Company was made up as follows:

| Class of shares | Issued | | |
|---|---|---|---|
| | Number | Amount | |
| Carphone Shares | 472,754,543 | £472,754.54 | Fully paid |

(c) On 30 January 2012, the Company issued 342,914,034 B redeemable preference shares of 172 pence each and 129,671,384 C irredeemable preference shares of 0.01 pence each, after which the issued share capital of the Company was made up as follows:

| Class of shares | Issued | | |
|---|---|---|---|
| | Number | Amount | |
| Carphone Shares | 472,754,543 | £472,754.54 | Fully paid |
| B Redeemable preference shares of 172 pence | 342,914,034 | £589,812,138.48 | Fully paid |
| C irredeemable preference shares of 0.01 pence | 129,671,384 | £12,967.14 | Fully paid |

(d) On 31 January 2012, all of the issued C irredeemable preference shares of 0.01 pence each were reclassified as deferred shares of 0.01 pence each in accordance with the Carphone Articles and 323,767,468 B redeemable preference shares of 172 pence each were redeemed, after which the issued share capital of the Company was made up as follows:

| Class of shares | Issued | | |
|---|---|---|---|
| | Number | Amount | |
| Carphone Shares | 472,754,543 | £472,754.54 | Fully paid |
| B Redeemable preference shares of 172 pence | 19,146,566 | £32,932,093.52 | Fully paid |
| Deferred shares of 0.01 pence | 129,671,384 | £12,967.14 | Fully paid |

(e) On 10 April 2012, 19,146,566 B redeemable preference shares of 172 pence each were redeemed, after which the issued share capital of the Company was made up as follows:

| Class of shares | Issued Number | Amount | |
|---|---|---|---|
| Carphone Shares | 472,754,543 | £472,754.54 | Fully paid |
| Deferred shares of 0.01 pence | 129,671,384 | £12,967.14 | Fully paid |

(f) Following a reduction of capital on 11 July 2012, the issued share capital of the Company was reduced by the cancellation of all of the issued deferred shares of 0.01 pence each and was made up as follows:

| Class of shares | Issued Number | Amount | |
|---|---|---|---|
| Carphone Shares | 472,754,543 | £472,754.54 | Fully paid |

(g) On 3 May 2013, the Company issued 47,228,179 Carphone Shares, after which the issued share capital of the Company was made up as follows:

| Class of shares | Issued Number | Amount | |
|---|---|---|---|
| Carphone Shares | 519,982,722 | £519,982.72 | Fully paid |

(h) On 25 June 2013, the Company issued 42,105,263 Carphone Shares, after which the issued share capital of the Company was made up as follows:

| Class of shares | Issued Number | Amount | |
|---|---|---|---|
| Carphone Shares | 562,087,985 | £562,087.99 | Fully paid |

(i) On 1 July 2013, the Company issued 9,110,875 Carphone Shares, after which the issued share capital of the Company was made up as follows:

| Class of shares | Issued Number | Amount | |
|---|---|---|---|
| Carphone Shares | 571,198,860 | £571,198.86 | Fully paid |

(j) On 19 July 2013, the Company issued 4,868,909 Carphone Shares, after which the issued share capital of the Company was made up as follows:

| Class of shares | Issued Number | Amount | |
|---|---|---|---|
| Carphone Shares | 576,067,769 | £576,067.77 | Fully paid |

(k) As at 29 March 2014, being the latest date to which audited accounts for the Company have been prepared, issued share capital of the Company, was made up as follows:

| Class of shares | Issued Number | Amount | |
|---|---|---|---|
| Carphone Shares | 576,067,769 | £576,067.77 | Fully paid |

(l) The issued share capital of the Company as at the date of publication of this document is made up as follows:

| Class of shares | Issued Number | Amount | |
|---|---|---|---|
| Carphone Shares | 576,067,769 | £576,067.77 | Fully paid |

(m) The issued share capital of the Company as it is expected to be after the issue of the New Dixons Carphone Shares (on the assumption that 576,067,769 New Dixons Carphone Shares are issued in connection with the Merger) and immediately following Admission will be made up as follows:

| Class of shares | Issued Number | Amount | |
|---|---|---|---|
| Carphone Shares | 1,152,135,538 | £1,152,135.54 | Fully paid |

(n) Details of the total number of options (all granted for nil consideration) under the Carphone Share Schemes outstanding as at 25 June 2014 (being the latest practicable date prior to the publication of this document) are as follows:

*CPW SAYE Scheme*

| Date of grant | Number of Carphone Shares under option | Exercise price (p) | Exercisable from |
|---|---|---|---|
| 10 January 2014 | 2,127,059 | 224 | 1 March 2017 |
| 10 January 2014 | 683,206 | 224 | 1 March 2019 |
| **Total** | **2,810,265** | | |

*The Carphone 2010 Share Scheme*

| Date of grant | Number of Carphone Shares under option | Exercise price (p) | Exercisable from |
|---|---|---|---|
| 17 January 2014 | 8,725,300 | — | 1 June 2017 |
| **Total** | **8,725,300** | | |

(o) The Carphone Shares are in registered form and capable of being held in uncertificated form. The International Securities Identification Number (ISIN) for the Carphone Shares is GB00B4Y7R145 and the SEDOL number for the Carphone Shares is B4Y7R14. No temporary documents of title will be issued. It is expected that definitive share certificates will be posted to those Dixons Shareholders who have requested the issue of New Dixons Carphone Shares in certificated form by 20 August 2014.

(p) The Company does not have in issue any securities not representing share capital and there are no outstanding debentures, convertible securities, exchangeable securities or securities with warrants issued or proposed to be issued by the Company.

(q) As at 25 June 2014 (being the latest practicable date prior to the publication of this document), the Company held no treasury shares.

2.2 ***Existing Carphone Shareholder authorities***

(a) Pursuant to the Act, with effect from 1 October 2009, the concept of authorised share capital was abolished and accordingly there is no limit on the maximum amount of shares that may be allotted by the Company.

(b) Pursuant to a special resolution of the Company dated 24 July 2013, the Carphone Directors are generally and unconditionally authorised, in substitution for all subsisting authorities, pursuant to section 551 of the Act, to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company:

(i) up to an aggregate nominal amount of £187,362.66;

(ii) comprising equity securities (as defined in section 560 (1) of the Act) up to an aggregate nominal amount of £374,725.32 (after deducting from such limit any relevant securities allotted under paragraph (i) above) in connection with an offer by way of a rights issue:

(A) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(B) to holders of other equity securities as required by the rights of those securities or as the Board otherwise considers necessary,

and so that the Carphone Directors may make such exclusions or other arrangements as they consider expedient in relation to fractional entitlements, record dates, legal or practical problems under the law of, or the requirements of any relevant regulatory body or stock exchange in, any territory, or any matter whatsoever, such authorities will expire at the date falling 15 months after the passing of the resolution or, if sooner, at the conclusion of the Company's annual general meeting in 2014 and provided that the Carphone Directors may, at any time before such authority expires, make offers, agreements or other arrangements which would or might require such securities to be allotted after such expiry and the Carphone Directors may allot relevant securities pursuant to any such offer, agreement or other arrangement as if such authority had not expired.

(c) Pursuant to a special resolution of the Company dated 24 July 2013, the Carphone Directors are generally and unconditionally empowered pursuant to section 570 of the Act to allot equity securities (as defined in section 560(2) of the Act) pursuant to the authority conferred by the resolution in paragraph (b) above as if section 561(1) of the Act did not apply to any such allotment, provided that this power is limited to:

  (i) the allotment of equity securities in connection with a rights issue in favour of the holders of Carphone Shares where the equity securities respectively attributable to the interests of all such holders are proportionate (as nearly as may be practicable) to the respective numbers of Carphone Shares held by them, but including, in connection with such an issue, the making of such arrangements as the Carphone Directors may deem necessary or expedient to deal with fractional entitlements or problems under the laws of any territory or the requirements of any regulatory body or any stock exchange; and

  (ii) the allotment (other than pursuant to the powers conferred pursuant to the resolution in paragraph (i) above) of equity securities up to an aggregate nominal amount equal to £28,104.40 being approximately 5 per cent. of the aggregate nominal amount of the issued share capital of the Company as at 25 June 2013 and such authority will expire on the date falling 15 months after the passing of the resolution or, if sooner, at the conclusion of the Company's annual general meeting in 2014 save that the Carphone Directors may, at any time before such expiry, make offers, agreements or other arrangements which would or might require equity securities to be allotted after such expiry and the Carphone Directors may allot equity securities pursuant to any such offer, agreement or other arrangements as if the power conferred hereby had not expired.

(d) Pursuant to a special resolution of the Company dated 24 July 2013 and in accordance with the Carphone Articles and section 701 of the Act, the Company is unconditionally and generally authorised for the purposes of section 693 of the Act to make market purchases (as defined in section 693(4) of the Act) of Carphone Shares provided that:

  (i) the maximum aggregate number of shares authorised to be purchased is 562,087,985;

  (ii) the minimum price which may be paid is the 0.1 pence nominal value of each share;

  (iii) the maximum price (exclusive of expenses) which may be paid for such shares is an amount no more than 5 per cent. above the average of the middle market quotations of the Company's Ordinary Shares derived from the daily official list of the London Stock Exchange for the five business days immediately before the day on which the purchase is made;

  (iv) the authority shall expire on the date falling 15 months after the passing of the resolution or, if sooner, at the conclusion of the Company's annual general meeting in 2014; and

  (v) the Company may make a contract or contracts to purchase Carphone Shares under the authority conferred prior to the expiry of this authority which will or may be executed wholly or partly after the expiry of this authority and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts.

2.3 The provisions of section 561 of the Act (to the extent not disapplied pursuant to section 570 of the Act) confer on Carphone Shareholders certain rights of pre-emption in respect of the allotment of equity securities (as defined in section 560(1) of the Act) which are, or are to be, paid up in cash and apply to the authorised but unissued equity share capital of the Company. These provisions have been disapplied to the extent referred to in paragraph 2.22.3 above.

### 2.4 *Carphone Shareholder share capital authorities to be proposed at the Carphone General Meeting*

The following resolution (together with other resolutions not relating to share capital) is set out in the Circular sent to Carphone Shareholders on or around the date of this document and it is proposed that this resolution will be voted on at the Carphone General Meeting in connection with the Merger. The Merger is conditional on the passing of the following resolution as an ordinary resolution:

**THAT:**

(a) the proposed all-share merger of Carphone Warehouse Group plc (the **"Company"** or **"Carphone"**) with Dixons Retail plc (**"Dixons"**) (the **"Merger"**), to be effected pursuant to a scheme of arrangement of Dixons (the **"Scheme"**) under Part 26 of the Companies Act 2006 (the **"Act"**) or a takeover offer (the **"Merger Offer"**) made by or on behalf of the Company for the entire issued and to be issued share capital of Dixons, substantially on the terms and subject to the conditions set out in the circular to shareholders of Carphone dated 26 June 2014 (the **"Circular"**) outlining the Merger and the prospectus prepared by the Company in connection with Admission (as defined below) dated 26 June 2014 (a copy of each of which is produced to the meeting and signed for identification purposes by the chairman of the meeting) be and is hereby approved and the directors of the Company (the **"Directors"**) (or any duly authorised committee thereof) be and are hereby authorised to: (i) take all such steps as may be necessary or desirable in connection with, and to implement, the Merger; and (ii) agree such modifications, variations, revisions, waivers or amendments to the terms and conditions of the Merger (provided that any such modifications, variations, revisions, waivers or amendments are not a material change to the terms of the Merger for the purposes of Listing Rule 10.5.2) and to any documents and arrangements relating thereto, as they may in their absolute discretion think fit; and

(b) subject to and conditional upon the Scheme becoming effective (save for any conditions relating to: (i) the delivery of the order(s) of the High Court of Justice in England and Wales (the **"Court"**) sanctioning the Scheme and confirming the reduction of capital of Dixons to the Registrar of Companies in England and Wales; (ii) registration of such order(s) by the Registrar of Companies in England and Wales; and (iii) (a) the UK Listing Authority having acknowledged to the Company or its agent (and such acknowledgment not having been withdrawn) that the application for the admission of the new ordinary shares of 0.1 pence each in the capital of the Company to be issued pursuant to the Merger (the **"New Dixons Carphone Shares"**) to listing on the premium segment of the Official List of the UK Listing Authority has been approved and (after satisfaction of any conditions to which such approval is expressed to be subject (the **"listing conditions"**)) will become effective as soon as a dealing notice has been issued by the Financial Conduct Authority and any listing conditions have been satisfied; and (b) the London Stock Exchange plc having acknowledged to the Company or its agent (and such acknowledgment not having been withdrawn) that the New Dixons Carphone Shares will be admitted to trading on the main market of the London Stock Exchange plc (**"Admission"**)), or, as the case may be, the Merger Offer becoming or being declared wholly unconditional (save for Admission), the Directors be and are hereby generally and unconditionally authorised pursuant to section 551 of the Act (in addition, to the extent unutilised, to the authority granted to the Directors at the Company's annual general meeting held on 24 July 2013, which remains in full force and effect) to exercise all the powers of the Company to allot the New Dixons Carphone Shares and to grant rights to subscribe for or to convert any security into shares in the Company (such shares and rights to subscribe for or to convert any security into shares of the Company being "**relevant securities**"), credited as fully paid, with authority to deal with fractional entitlements arising out of such allotment as they think fit and to take all such other steps as they may in their absolute discretion deem necessary, expedient or appropriate to implement such allotment, in connection with the Merger up to an aggregate nominal amount of £576,067.77 and which authority shall expire on the Long Stop Date (as defined in the Circular) (unless previously revoked, renewed, varied or extended by the Company in general meeting), save that the Company may before such expiry make an offer or enter into an agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

3. **Summary of the Carphone Articles**

The Carphone Articles, which were adopted pursuant to a special resolution of Carphone passed on 20 January 2012, contain, amongst other things, provisions to the following effect:

(a) *Objects*

Section 31 of the Act provides that the objects of a company are unrestricted unless any restrictions are set out in its articles. There are no such restrictions in the Carphone Articles and the objects of Carphone are therefore unrestricted.

(b) *Rights attaching to Carphone Shares*

(i) *Voting rights*

(A) Subject to the provisions of the Act and of the Carphone Articles and to any rights or restrictions as to voting attached to any class of shares, at any general meeting on a show of hands, every member who (being an individual) is present in person has one vote. On a vote on a show of hands, a proxy appointed by one member has one vote. On a vote on a show of hands, a proxy appointed by more than one member has one vote, if instructed to vote in the same way by all those members and is entitled to one vote for and one vote against, if instructed to vote in different ways by those members.

(B) On a poll, every member present in person or by proxy has one vote for each share of which he is the holder. A member of Carphone shall not be entitled, in respect of any share held by him, to vote (either personally or by proxy) at any general meeting of Carphone unless all amounts payable by him in respect of that share in Carphone have been paid or credited as having been paid. Subject to the provisions of the Act and the Carphone Articles and to any rights or restrictions as to voting attached to any class of shares, at any general meeting on a show of hands, every member who (being an individual) is present in person has one vote. On a vote on a show of hands, a proxy appointed by one member has one vote and a proxy appointed by more than one member has one vote, if instructed to vote in the same way by all those members, and is entitled to one vote for and one vote against, if instructed to vote in different ways by those members. On a poll, every member present in person or by proxy or (being a corporation) by a duly authorised representative has one vote for each share of which he is the holder. A member of the Company shall not be entitled, in respect of any share held by him, to vote (either personally or by proxy) at any general meeting of the Company unless all amounts payable by him in respect of that share in the Company have been paid or credited as having been paid.

(ii) *Joint holders*

In the case of joint holders of shares, only the vote of the senior holder who votes (and any proxies duly authorised by him) may be counted. For this purpose, the senior holder of a share shall be determined by the order in which the names of the joint holders stand in the register of members.

(iii) *Dividends*

Subject to the provisions of the Act and of the Carphone Articles and to any special rights attaching to any shares, Carphone may by ordinary resolution declare that out of profits available for distribution dividends be paid to members of the Company according to their respective rights and interests in the profits of the Company. However, no such dividends shall exceed the amount recommended by the Board.

Except as otherwise provided by the Carphone Articles or by the rights attached to shares, all dividends shall be apportioned and paid *pro rata* according to the amounts paid up or credited as paid up (otherwise than in advance of calls) on the shares during any portion or portions of the period in respect of which the dividend is paid.

Interim dividends may be paid provided that they appear to the Board to be justified by the profits available for distribution and the financial position of Carphone.

Unless otherwise provided by the rights attached to any share, no dividends in respect of a share shall bear interest.

The Company in general meeting may, on the recommendation of the Board, by ordinary resolution direct that payment of any dividend declared may be satisfied wholly or partly by the distribution of assets, and in particular, of fully paid shares or debentures of any other company.

The Board may, with the prior authority of an ordinary resolution of Carphone and provided the Company has sufficient undistributed profits or reserves to give effect to it, offer the holders of ordinary shares the right to elect to receive ordinary shares credited as fully paid in whole or in part instead of cash in respect of all or part of any dividend specified by the ordinary resolution. Any dividend unclaimed after a period of 12 years from the date on which the dividend became due for payment shall (if the Board so resolves) be forfeited and shall revert to Carphone.

(c) *Transfer of shares*

Save in the case of shares which have become participating securities for the purposes of the CREST Regulations, title to which may be transferred by means of a relevant system such as CREST without a written instrument, all transfers of shares must be effected by an instrument of transfer in writing in any usual form or in any other form approved by the Board. The instrument of transfer shall be executed by or on behalf of the transferor and, except in the case of fully paid shares, by or on behalf of the transferee. The Board may, in its absolute discretion, refuse to register any transfer of certificated shares unless it is:

(i) in respect of a share which is fully paid up;

(ii) in respect of a share on which Carphone has no lien;

(iii) in respect of only one class of share;

(iv) in favour of a single transferee or not more than four joint transferees;

(v) duly stamped (if required); and

(vi) delivered for registration to the registered office of the Company (or such other place as the Board may from time to time determine) accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to prove the title of the transferor and the due execution by him of the transfer or, if the transfer is executed by some other person on his behalf, the authority of that person to do so,

provided that the Board may not exercise such discretion in such a way as to prevent dealing from taking place on an open and proper basis.

The Board may, in its absolute discretion, refuse to register the transfer of an uncertificated share which is in favour of more than four persons jointly or in any other circumstances permitted by the CREST Regulations (subject to any relevant requirements of any recognised stock exchange(s) to which the shares are admitted).

If the Board refuses to register a transfer it must, within two months after the date on which the transfer was lodged with Carphone, send notice of the refusal to the transferee together with its reasons for refusal.

There exist no provisions in the Carphone Articles that would delay, defer or prevent a change in control of the Company.

The Carphone Shares issued are, and the New Dixons Carphone Shares to be issued will be, in registered form. Title to the Carphone Shares in issue or to be issued may be transferred by means of a relevant system such as CREST.

(d) *Disclosure of interests in shares*

The provisions of rule 5 of the Disclosure and Transparency Rules govern the circumstances in which a person may be required to disclose his interests in the share capital of Carphone. Amongst other things, this requires a person who is interested in 3 per cent. or more of the voting rights in respect of Carphone's issued ordinary share capital to notify his interest to Carphone (and above that level, any change in such interest equal to 1 per cent. or more). In addition, the Code contains further provisions pursuant to which a person may be required to disclose his interests in the share capital of Carphone.

Pursuant to the Carphone Articles, if a member, or any other person appearing to be interested in shares held by that member, has been issued with a notice pursuant to section 793 of the Act and has failed in relation to any shares (the **"default shares"**) to give Carphone the information thereby required within the prescribed period from the date of the notice, or, in purported compliance with such notice, has made a statement which is false or inadequate in a material particular, then the Board may, at least 14 days after service of the notice, serve on the holder of such default shares a notice (**"disenfranchisement notice"**) pursuant to which the following sanctions shall apply:

(i) the member shall not be entitled in respect of the default shares to be present or to vote (either in person or by proxy) at any general meeting or at any separate meeting of the holders of any class of shares or on any poll or to exercise any other right conferred by membership in relation to any such meeting or poll; and

(ii) where the default shares represent at least 0.25 per cent. in nominal value of their class:

(A) any dividend or other money payable in respect of the shares shall be withheld by Carphone which shall not have any obligation to pay interest on it and the member shall not be entitled to elect in the case of a scrip dividend to receive shares instead of that dividend; and

(B) subject, in the case of uncertificated shares to the CREST Regulations no transfer, other than an approved transfer, of any shares held by the member shall be registered unless:

– the member is not himself in default as regards supplying the information required; and

– the member proves to the satisfaction of the Board that no person in default as regards supplying such information is interested in any of the shares which are the subject of the transfer.

The above sanctions shall also apply to any shares in Carphone issued in respect of the default shares (whether on capitalisation, a rights issue or otherwise).

(e) *Distribution of assets on liquidation*

On a winding-up of Carphone, the surplus assets remaining after payment of all creditors shall be divided among the members in proportion to the capital which, at the commencement of the winding up, is paid up on their respective shares or the liquidator may, with the sanction of a special resolution of the Company (and any other sanction required by law), divide among the members in specie the whole or any part of the assets of the Company in such manner as shall be determined by the liquidator.

(f) *Changes in share capital*

Carphone may alter its share capital as follows:

(i) it may by ordinary resolution consolidate and divide all or any of its share capital into shares of larger amounts, cancel any shares which have not been taken or agreed to be taken by any person and sub-divide its shares or any of them into shares of smaller amounts;

(ii) subject to any consent required by law and to any rights for the time being attached to any shares, it may by special resolution reduce its share capital, any capital redemption reserve, any share premium account or other undistributable reserve in any manner; and

(iii) subject to the provisions of the Act and to any rights for the time being attached to any shares it may with the sanction of a special resolution enter into any contract for the purchase of its own shares.

(g) *Variation of rights*

Subject to the provisions of the Act and of the Carphone Articles, if at any time the share capital of the Company is divided into shares of different classes, any of the rights attached to any share or class of share in Carphone may (unless otherwise provided by the terms of issue of the shares of that class) be varied or abrogated in such manner (if any) as may be provided by those rights or, in the absence of any such provision, either with the consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of the class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class duly convened and held as provided in the Carphone Articles (but not otherwise) and may be so varied or abrogated whilst Carphone is a going concern or while Carphone is or is about to be in liquidation. The quorum for such separate general meeting of the holders of the shares of the class shall be not less than two persons present holding or representing by proxy at least one-third of the nominal amount paid up on the issued shares of the relevant class (excluding any shares of that class held as treasury shares).

(h) *General meetings*

Subject to the provisions of the Act, an annual general meeting is required to be held every year at such time and place as may be determined by the Board. The Board may convene any other general meeting whenever it thinks fit. General meetings may also be convened on the requisition of members in accordance with the Act.

Pursuant to the Act, 21 clear days' notice of every annual general meeting and 14 clear days' notice of every other general meeting is required to be given (unless, at the relevant time, either of the conditions set out in sub-section 307A(2) and sub-section 307A(3) of the Act have not been met by Carphone, in which case at least 21 clear days' notice will be required).

The accidental omission to give notice of general meeting or, in cases where it is intended that it be sent out with the notice, an instrument of proxy, or to give notice of a resolution intended to be moved at a general meeting to, or the non-receipt of any of them by, any person(s) entitled to receive the same shall not invalidate the proceeding at that meeting and shall be disregarded for the purpose of determining whether the notice of the meeting, instrument of proxy or resolution were duly given.

No business shall be transacted at any general meeting unless the requisite quorum is present when the meeting proceeds to business but the absence of a quorum shall not preclude the choice or appointment of a chairman which shall not be treated as part of the business of the meeting. Subject to the provisions of the Carphone Articles, two persons entitled to attend and vote on the business to be transacted, each being a member present in person or a proxy for a member constitutes a quorum.

With the consent of any meeting at which a quorum is present the chairman may adjourn the meeting. Notice of adjournment or of the business to be transacted at the adjourned meeting is not required unless the meeting is adjourned for 14 days or more. No business may be transacted at any adjourned meeting other than the business which might have been transacted at the meeting from which the adjournment took place.

With the consent of any general meeting at which a quorum is present the chairman may, and shall if so directed by the meeting, adjourn the meeting from time to time (or indefinitely) and from place to place as he shall determine. The chairman may, without consent of the meeting, interrupt or adjourn any general meeting if he is of the opinion that it has become necessary to do so in order to secure the proper and orderly conduct of the meeting or to give all persons entitled to do so a reasonable opportunity of speaking and voting at the meeting or to ensure that the business of the meeting is otherwise properly disposed of.

Notice of adjournment or of the business to be transacted at the adjourned meeting is not required unless the meeting is adjourned for 14 days or more, in which case at least seven clear days' notice is required. No business shall be dealt with at any adjourned meeting, the general nature of which was not stated in the notice of the original meeting.

(i) *Board authorisation of conflicts*

Subject to and in accordance with the Act and the provisions of the Articles, the Board may authorise any matter or situation in which a Director has, or can have, a direct or indirect interest that conflicts, or may possibly conflict, with the interests of the Company. Any such authorisation shall be effective only if:

(i) any requirement as to the quorum at any meeting of the Carphone Directors at which the matter is considered is met without counting either the conflicted Director or any other interested Director;

(ii) the matter or situation was agreed to and any relevant resolution was passed without counting the votes of the conflicted Carphone Director and without counting the votes of any other interested Carphone Director; and

(iii) the conflicted Carphone Director has disclosed in writing all material particulars of the matter, office, employment or position which relates to the matter or situation which is the subject of the conflict or possible conflict.

(j) *Carphone Directors' interests in contracts*

Provided permitted by the Act and provided that he has disclosed to the Board the nature and extent of his interest in accordance with the Carphone Articles, a Carphone Director, notwithstanding his office:

(i) may be party to or otherwise interested in any contract, arrangement, transaction or proposal with the Company or in which the Company is otherwise interested;

(ii) may hold any other office or position of profit under the Company (except that of auditor of the Company or of any subsidiary of the Company) and may act by himself or through his firm in a professional capacity for the Company;

(iii) may be a member of or a director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any body corporate promoted by or promoting the Company or in which the Company is otherwise interested or as regards which the Company has any powers of appointment; and

(iv) shall not, by reason of his office, be liable to account to the Company for any dividend, profit, remuneration, superannuation payment or other benefit which he derives from any such office, employment, contract, arrangement, transaction or proposal or from any interest in any such body corporate and no such contract, arrangement, transaction or proposal shall be avoided on the grounds of any Carphone Director having any such interest or receiving any such dividend, profit, remuneration, payment or benefit.

(k) *Carphone Directors' ability to vote and count for quorum*

Save as provided below, a Carphone Director shall not vote on, or be counted in the quorum in relation to, any resolution of the Board or any committee of the Board in respect of any transaction or arrangement with Carphone in which he has an interest which may reasonably be regarded as likely to give rise to a conflict of interest. A Carphone Director shall be entitled to vote (and be counted in the quorum) (subject to the terms of any authorisation given to that Carphone Director by the Board) in respect of any resolution at such meeting if the resolution relates to one of the following matters:

(i) the giving to him of any guarantee, security or indemnity in respect of money lent or obligations incurred by him at the request of or for the benefit of Carphone or any of its subsidiary undertakings;

(ii) the giving to a third party of any guarantee, security or indemnity in respect of a debt or obligation of Carphone or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part, either alone or jointly with others, under a guarantee or indemnity or by the giving of security;

(iii) where Carphone or any of its subsidiary undertakings is offering securities in which offer the Carphone Director is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which the Carphone Director is to participate;

(iv) relating to another company in which he and any persons connected with him do not to his knowledge hold an interest in shares representing 1 per cent. or more of either any class of the equity share capital, or the voting rights, in such company;

(v) relating to an arrangement for the benefit of the employees of Carphone or any of its subsidiary undertakings which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates;

(vi) concerning insurance which Carphone proposes to maintain or purchase for the benefit of Carphone Directors or for the benefit of persons including Carphone Directors;

(vii) the funding of expenditure by one or more Carphone Directors in defending proceedings against them or doing anything to enable such Directors to avoid incurring such expenditure provided that such funding is consistent with, or no more beneficial than the provisions of the Carphone Articles and is permitted pursuant to the provisions of the relevant legislation; or

(viii) the giving of an indemnity or indemnities in favour of one or more Carphone Directors which is/are consistent with, or no more beneficial than any such indemnity provided pursuant to the Carphone Articles (and provided such indemnities are permitted pursuant to the relevant legislation).

A Carphone Director may not vote or be counted in the quorum on any resolution of the Board or committee of the Board concerning his own appointment as the holder of any office or place of profit with Carphone or any company in which Carphone is interested (including fixing or varying the terms of such appointment or its termination).

Where proposals are under consideration concerning the appointments (including fixing or varying the terms of the appointment) of two or more Carphone Directors to offices or places of profit with the Company or any company in which the Company is interested, such proposals may be divided and a separate resolution considered in relation to each Carphone Director. In each case, each such Carphone Director (if not otherwise debarred from voting) is entitled to vote (and be counted in the quorum) in respect of each resolution except that resolution concerning his own appointment.

(l) *Directors*

The aggregate fees which the Carphone Directors (other than alternate directors) shall be entitled to receive for their services in the office of director shall not exceed £500,000* per annum, or such other sum as may from time to time be determined by an ordinary resolution of Carphone. Such sum (unless otherwise directed by the resolution of Carphone by which it is approved) shall be divided among the Carphone Directors in such proportions and in such manner as the Board may determine or, in default of such determination, equally (save where any Carphone Director has held office for less than the whole of the relevant period in respect of which the fees are paid).

All of the Carphone Directors are entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by them in or about the performance of their duties as directors. If by arrangement with the Board any Carphone Director performs any special duties or services outside his ordinary duties as a Carphone Director and not in his capacity as a holder of employment or executive office, he may be paid such reasonable additional remuneration which may be by a lump sum or by way of salary, commission, participation in profits or otherwise as the Board may determine.

* At the Carphone General Meeting an ordinary resolution will be proposed to increase this limit to £2,000,000 in order to accommodate the increased number of directors of the Combined Group.

(m) *Pensions and benefits*

The Board may exercise all the powers of Carphone to provide pensions or other retirement or superannuation benefits and to provide death or disability benefits or other allowances or gratuities (by insurance or otherwise) for any person who is or who has at any time been a Carphone Director or any director of a subsidiary company of Carphone or allied to or associated with Carphone or any such subsidiary or predecessor in business of Carphone or any such subsidiary (and for any member of his family including a spouse or former spouse or civil partner or former civil partner or any person who is or was dependent on him). For this purpose the Board may establish, maintain, subscribe and contribute to any scheme, institution, club, trust or fund and pay premiums.

(n) *Indemnification of Directors*

Subject to, and to the fullest extent permitted by, law, every Carphone Director and every director of any associated company, former Carphone Director, alternate Carphone Director, secretary or other officer of the Company (other than an auditor) shall be fully indemnified out of the assets of the Company against all or any part of any costs, charges, losses, damages and liabilities incurred by him in relation to anything done, omitted or alleged to have been done by him in the actual or purported execution or discharge of his duties or exercise of his powers in relation to the Company or in connection with the Company's activities as trustee of any occupational pension scheme, subject to the exclusions set out in the Carphone Articles.

(o) *Borrowing powers*

Subject to the provisions of the relevant legislation and to the provisions set out in the Carphone Articles, the Board may exercise all the powers of Carphone to borrow money to guarantee, to indemnify and to mortgage or charge its undertaking, property, assets (present or future) and uncalled capital, or any part or parts thereof and, subject to the provisions of the relevant legislation, to issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of Carphone or any third party. The aggregate amount for the time being outstanding in respect of monies borrowed by Carphone and its subsidiary undertakings and for the time being owing to persons outside Carphone and its subsidiary undertakings shall not at any time, without the previous sanction of an ordinary resolution of Carphone, exceed a sum equal to five times the aggregate of:

(i) the amount paid up on the issued share capital of Carphone; and

(ii) the total of the capital and revenue reserves of the Carphone Group (including any share premium account, capital redemption reserve and credit balance on the profit and loss account) in each case, whether or not such amounts are available for distribution, all as shown in the relevant balance sheet of the Carphone Group but after certain adjustments as set out in the Carphone Articles.

4. **Major Carphone Shareholders**

4.1 In addition to the interests of the Carphone Directors set out in Part XI of this document, as at 25 June 2014 (being the latest practicable date prior to the publication of this document), insofar as it is known to the Company, the following persons are, or will be at Admission, interested directly or indirectly in 3 per cent. or more of the voting rights in respect of the issued ordinary share capital of the Company based on the assumption that the holdings of such persons in Carphone or Dixons (as relevant) as at 25 June 2014 (being the latest practicable date prior to the publication of this document) do not change, up to 576,067,769 New Dixons Carphone Shares are issued in connection with the Merger and that no other issues of Carphone Shares occur between the date of this document and Admission:

| | As at 25 June 2014 | | Immediately following Admission | |
|---|---|---|---|---|
| **Name** | **Number of Carphone Shares** | **Percentage of issued Carphone Shares** | **Number of Dixons Carphone Shares** | **Percentage of issued Dixons Carphone Shares** |
| Sir Charles Dunstone | 135,083,481 | 23.45 | 135,083,481 | 11.72 |
| David P J Ross | 56,388,699 | 9.79 | 56,388,699 | 4.89 |
| M&G Investment Management Ltd | 37,398,599 | 6.49 | 38,408,065 | 3.33 |
| Odey Asset Management LLP | 34,132,735 | 5.93 | 34,141,901 | 2.96 |
| Kames Capital | 29,793,129 | 5.17 | 29,793,129 | 2.59 |
| BlackRock, Inc. | 27,011,855 | 4.69 | 46,075,022 | 4.00 |
| Newton Investment Management Ltd | 22,329,216 | 3.88 | 37,981,175 | 3.30 |
| Capital World Investors | 22,195,000 | 3.85 | 22,195,000 | 1.93 |
| Aviva Investors | 20,754,999 | 3.60 | 23,295,249 | 2.02 |
| Standard Life Investments | 1,461,381 | 0.25 | 52,549,921 | 4.56 |

4.2 Save as disclosed above, the Carphone Directors are not aware of any person who is interested directly or indirectly in 3 per cent. or more of the existing issued share capital of the Company.

4.3 As at 25 June 2014 (being the latest practicable date prior to the publication of this document), the Company was not aware of any person or persons who directly or indirectly, jointly or severally, exercise or could exercise control over the Company, nor is it aware of any arrangements the operation of which may result in a change in control of the Company.

4.4 The Company's share capital consists of one class of ordinary shares with equal voting rights (subject to the Articles). None of the Company's major shareholders has or will have different voting rights attached to the shares they hold in the Company.

5. **Related party transactions**

5.1 Save as disclosed in the financial information set out in the related party note to the financial information of the Carphone Group for the financial years ended 31 March 2012, 31 March 2013 and 29 March 2014 which is set out in Part VII of this document and in the related party note to the financial information of the Dixons Group for the financial years ended 30 April 2012, 30 April 2013 and 30 April 2014 which is set out in Part VIII of this document, and save as set out in paragraphs 5.2 and 5.3 of this Part XII, neither the Carphone Group nor the Dixons Group has entered into any related party transactions of the kind set out in the Standards adopted according to Regulation (EC) No 1606/2002 during the relevant periods or during the period between 30 March 2014 (in the case of the Carphone Group) or 1 May 2014 (in the case of the Dixons Group) and 25 June 2014 (being the latest practicable date prior to the publication of this document).

5.2 Between 30 March 2014 and 25 June 2014 (being the latest practicable date prior to the publication of this document) the Carphone Group received interest income of £0.1 million from Virgin Mobile France.

5.3 Between 1 May 2014 and 25 June 2014 (being the latest practicable date prior to the publication of this document) the Dixons Group has not been party to any reportable transactions with related parties.

6. **Material Contracts**

6.1 The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by Carphone or another member of the Carphone Group (i) within the two years immediately preceding the date of this document and are or may be material to the Carphone Group or (ii) which contain provisions under which any member of the Carphone Group has an obligation or entitlement which is or may be material to the Carphone Group as at the date of this document.

(a) ***Implementation Agreement***

Best Buy Distributions, Best Buy UK Holdings, Best Buy, New CPW and the Company entered into the Implementation Agreement on 29 April 2013. The Implementation Agreement provided for the detailed implementation of the Best Buy Acquisition.

Best Buy Distributions and Best Buy UK Holdings agreed, subject to certain conditions, to the capital reduction and cancellation of all of the ordinary shares and deferred shares they held in New CPW, being in total 50 per cent. of the issued share capital of New CPW. In consideration of the disposal by Best Buy Distributions and Best Buy UK Holdings of their shares in New CPW pursuant to the capital reduction, New CPW agreed to pay the sum of £341 million in cash (the **''Initial Consideration''**) and deferred consideration of £50 million payable in cash in equal instalments of £25 million each on the first and second anniversary of completion of the Best Buy Acquisition (the **''Deferred Consideration''**) to Best Buy Distributions and Best Buy UK Holdings and procure that Carphone issued 42,105,263 new Carphone Shares (the **''Consideration Shares''**) to Best Buy UK Holdings such that following completion of the Best Buy Acquisition Carphone would hold 100 per cent. of the shares in New CPW. The Deferred Consideration bears interest at 2.5 per cent. per annum.

Pursuant to the Implementation Agreement, the gross consideration payable by the Carphone Group in connection with the Best Buy Acquisition was £500 million. However, payments to the Carphone Group from the Best Buy Group of approximately £29 million in respect of the prepayment or termination of the Carphone Group's other interests with the Best Buy Group pursuant to the terms of the Termination Agreement were offset against the gross consideration with the net consideration therefore being £471 million.

The net consideration for the Best Buy Acquisition was satisfied as follows:

- £341 million payable in cash on completion, funded through the net proceeds of the Placing (as defined in paragraph 6.1(f) below) and a £250 million four-year amortising sterling term loan facility;
- £80 million by the issue to the Best Buy Group of the Consideration Shares at 190 pence per share; and
- £50 million of Deferred Consideration, which bears interest at 2.5 per cent. per annum, payable to the Best Buy Group in two equal instalments of £25 million each in cash on the first and second anniversaries of completion of the Best Buy Acquisition.

Under the terms of the Implementation Agreement, each of Best Buy Distributions and Best Buy UK Holdings has undertaken to the Company (subject to certain exceptions including disposals by way of acceptance of a takeover offer for the entire issued share capital of the Company) not to dispose of the Consideration Shares held by each of them at any time during the period of 12 months from the date of completion (the **''Lock-in Period''**). Each of Best Buy, Best Buy Distributions and Best Buy UK Holdings has also agreed (subject to certain exceptions) to waive any rights to dividends payable on the Consideration Shares held by them during the Lock-in Period (**''Waived Dividends''**).

The Implementation Agreement also includes provisions giving Carphone the right during the Lock-in Period to place the Consideration Shares on behalf of members of the Best Buy Group at a price not less than the issue price (**''Original Value''**), should the

Company determine that there is sufficient demand in the market. If the aggregate of the proceeds from any sale of the Consideration Shares during the Lock-in Period and the value at the end of such period of any Consideration Shares still held by members of the Best Buy Group (**"Total Value"**) is greater than the Original Value then Carphone will retain the amount by which the Total Value exceeds the Original Value. In turn, Carphone has an obligation to compensate Best Buy UK Holdings if such Total Value is less than 80 per cent. of the Original Value (**"Minimum Value"**) by an amount equal to the difference between the Total Value and the Minimum Value. If the Total Value is greater than the Minimum Value but less than the Original Value then the Company has to compensate Best Buy UK Holdings for the amount of such difference but only up to the amount of the Waived Dividends. If the Total Value is less than the Minimum Value, any compensation up to £10 million will be paid in cash with any additional compensation being satisfied as the Company may decide in cash and/or by the issue of further shares in the Company based on the share price at that time. Carphone exercised its right to place the Consideration Shares in July 2013.

Furthermore, each of Best Buy Distributions and Best Buy UK Holdings has also agreed that any Consideration Shares and any compensation shares held by members of the Best Buy Group in the 12 months following the end of the Lock-in Period may be sold as the Best Buy Group decides, subject to an orderly market obligation.

The Implementation Agreement also includes restrictive covenants which, subject to certain exceptions, restrict the Best Buy Group from carrying on a business in certain specified jurisdictions which competes with the business of the Carphone Group. There are also mutual undertakings not to solicit employees away from one another.

The Implementation Agreement contains warranties from Best Buy, Best Buy Distributions and Best Buy UK Holdings in favour of the Company and from the Company in favour of Best Buy Distributions and Best Buy UK Holdings in relation to, amongst other things, capacity and insolvency.

The Implementation Agreement is governed by English law and is subject to the exclusive jurisdiction of the English courts.

(b) ***Termination Agreement***

Under the terms of the Implementation Agreement, Carphone, Best Buy, Best Buy Distributions, CPW Retail, Carphone Europe and New CPW, amongst others, agreed to enter into the Termination Agreement on 26 June 2013.

Pursuant to the Termination Agreement, the parties to it agreed the terms on which a number of agreements entered into between them in connection with their past and, at the time, current global business relationships should be terminated, amended or both, in each case with effect from completion of the Best Buy Acquisition.

The parties agreed to amend the Best Buy Consultancy Agreement and to terminate a shareholders' agreement between them in consideration for the payment by the Best Buy Group to the Carphone Group of approximately £29 million in respect of the prepayment or termination of the Carphone Group's interests with the Best Buy Group.

The Termination Agreement is governed by English law and is subject to the exclusive jurisdiction of the English courts.

(c) ***Geek Squad Licence Agreement***

On 29 April 2013 Best Buy International Finance Sarl, Best Buy Enterprise Services, Inc, Best Buy, New CPW and the Company entered into the Geek Squad Licence Agreement in relation to the Geek Squad brand.

Under the terms of the Geek Squad Licence Agreement the Carphone Group is granted an exclusive licence to use the Geek Squad brand in the Territories (as defined below) together with Belgium and Luxembourg in more limited circumstances.

The use of the Geek Squad brand is only subject to the payment of a royalty after an initial 10 year period. The royalty is subject to a minimum but capped at a maximum amount each year.

The Geek Squad Licence Agreement is subject to certain termination rights including upon a change of control of New CPW or the Company.

After three years from completion of the Best Buy Acquisition the Best Buy Group is permitted to use the Geek Squad brand in France, Germany, the Netherlands, Portugal, the Republic of Ireland, Spain, Sweden and the UK (the **"Territories"**) as part of any consumer electronics business operated by the Best Buy Group in the Territories. Upon a change of control any restrictions on the use of the Geek Squad brand by the Best Buy Group fall away.

The Geek Squad Licence Agreement can be terminated on notice on a per country basis where certain revenue targets for Geek Squad services are not achieved.

There is a prescribed period before any termination of the Geek Squad Licence Agreement upon a change of control of New CPW or the Company is effective with a further run off period to phase out use of the Geek Squad brand. Any termination for change of control is subject to Best Buy International Finance Sarl paying a fee to New CPW equal to the value of the Geek Squad business of the Carphone Group.

The Geek Squad Licence Agreement is governed by English law and is subject to the exclusive jurisdiction of the English courts.

(d) ***Term and revolving credit facility agreements***

The Company and the Borrowers (as defined below) have had made available to them a £650 million multi-currency term and revolving credit facility pursuant to a facility agreement dated 29 April 2013 made between, amongst others: (1) Carphone, (2) New CPW, Carphone Europe, The Carphone Warehouse Limited and Ise-Net Solutions Limited (the **"Borrowers"**); and (3) the Original Lenders (as therein defined), including Barclays Bank PLC, HSBC Bank PLC and The Royal Bank of Scotland plc (the **"Facilities Agreement"**), for the purpose of refinancing their existing facilities in full, to facilitate the Best Buy Acquisition, and for the general corporate purposes of the Borrowers. The rate of interest payable on borrowings is the aggregate of the applicable margin (ranging from 1.50 per cent. to 2.50 per cent. per annum, depending on performance against one of the financial covenants) and LIBOR (or EURIBOR in relation to any loan denominated in euro or an equivalent benchmark rate for other currencies). The term loan tranche of £250 million amortises by £25 million on 30 June 2015 and by £50 million on 30 June 2016. A commitment fee, arrangement fee, agency fee, documentation agency fee and utilisation fee are also payable under the terms of the Facilities Agreement. The Facilities Agreement contains certain customary representations, undertakings and events of default and benefits from guarantees granted by the Borrowers. The Facilities Agreement is due to expire on 29 April 2017, but will be amended, restated and extended under the terms of an Amendment and Restatement Agreement entered into on 13 May 2014 and as summarised in paragraph 6.1(e) below.

(e) ***Amendment and Restatement Agreement and New Revolving Credit Facility***

Under the terms of an Amendment and Restatement Agreement entered into on 13 May 2014 between, amongst others: (1) the Company and the Borrowers; and (2) the Lenders (as therein defined) (the **"ARA"**), the existing £650 million multi-currency term and revolving credit facility (summarised in paragraph 6.1(d) above) will be amended on Completion with certain provisions to accommodate the specific requirements of Dixons, a temporary loosening of certain covenants and some other provisions specific to the Merger but which will otherwise remain on the same terms as previously agreed and will still mature on 29 April 2017 (the **"Amended Facilities Agreement"**). A consent fee was payable in respect of the ARA.

In addition, the Company will also have made available to it a new £250 million revolving credit facility also maturing on 29 April 2017 (the **"New RCF"** with the Amended Facilities Agreement together being the **"New and Amended Facilities"**). The New RCF is to be made available for the general corporate purposes of the Combined Group. The rate of interest payable on borrowings is the aggregate of the applicable margin (ranging from 1.50 per cent. to 2.25 per cent. per annum, depending on performance against one of the financial covenants) and LIBOR (or EURIBOR in relation to any loan advanced under the New RCF denominated in Euros or an equivalent benchmark rate for other currencies). Under the terms of the New RCF, a ticking fee, an arrangement fee, an agency fee, a commitment fee and a utilisation fee are payable.

The New and Amended Facilities contain customary representations, undertakings and events of default, and the New and Amended Facilities will benefit from guarantees granted by the Borrowers of the Carphone Group and, after Completion, by certain members of the Dixons Group as well.

(f) ***Placing Agreement***

Under the terms of a placing agreement dated 30 April 2013 between (1) the Company, (2) Deutsche Bank and (3) UBS ((2) and (3) together being the **''Joint Bookrunners''**) (the **''Placing Agreement''**), the Joint Bookrunners agreed severally, subject to certain conditions, to act as agents for the Company and to use reasonable endeavours to procure subscribers for the Placing Shares at 222 pence per new Carphone Share (the **''Placing Price''**) with existing and other investors (the **''Placing''**). To the extent that any subscribers procured by the Joint Bookrunners failed to subscribe for any or all of the Placing Shares for which they had agreed to subscribe at the Placing Price, the Joint Bookrunners agreed, on the terms and subject to the conditions set out in the Placing Agreement, to subscribe for such Placing Shares at the Placing Price.

The Placing was conducted by way of an accelerated bookbuilding process and raised approximately £105 million (before expenses) through the issue of 47,228,179 Placing Shares at the Placing Price to subscribers procured by the Joint Bookrunners. The consideration for the allotment of the Placing Shares to the subscribers procured by the Joint Bookrunners was the transfer by Deutsche Bank (acting in its capacity as a subscriber for redeemable preference shares and ordinary shares in Paddington Funding Limited (a company incorporated in Jersey in connection with the Placing (**''NewCo''**)) to the Company of such shares in NewCo in accordance with the terms and conditions set out in the Subscription and Transfer Agreement (as defined in paragraph 6.1(g) below).

The Placing Agreement was conditional upon, amongst other things, the admission of the Placing Shares to listing on the standard segment of the Official List and to trading on the London Stock Exchange's main market for listed securities occurring on or before 8.00 a.m. on 3 May 2013 (or such later date as the Company and the Joint Bookrunners may have agreed, being not later than 5.00 p.m. on 31 July 2013). The Placing Agreement contains warranties from the Company in favour of the Joint Bookrunners in relation to, amongst other things, the accuracy of the information contained in certain documents issued by the Company in connection with the Placing and other matters relating to the Carphone Group and its business. In addition, the Company agreed to indemnify the Joint Bookrunners in respect of certain liabilities each may incur in respect of the Placing. The Joint Bookrunners had the right to terminate the Placing Agreement in certain circumstances prior to admission, in particular, in the event of a material breach of the warranties or a force majeure event.

Additionally, the Company agreed to pay the properly incurred costs and expenses of the Joint Bookrunners in connection with the Placing (including any applicable VAT).

(g) ***Put and Call Option Agreement and Subscription and Transfer Agreement***

In connection with the Placing, the Company, NewCo and Deutsche Bank entered into a put and call option agreement (the ''**Put and Call Option Agreement**'') and a subscription and transfer agreement (the ''**Subscription and Transfer Agreement**'') each dated 30 April 2013, in respect of the subscription and transfer of ordinary shares and redeemable preference shares in NewCo. Under the terms of the Put and Call Option Agreement the Company and Deutsche Bank agreed to subscribe for and acquire ordinary shares in NewCo and enter into put and call options in respect of the ordinary shares in NewCo acquired by Deutsche Bank that were exercisable in the event the Placing did not proceed.

Under the Subscription and Transfer Agreement, Deutsche Bank agreed to subscribe for redeemable preference shares in NewCo to an aggregate value equal to the net proceeds of the Placing. Subject to and conditional upon, amongst other things, the Placing Agreement having become unconditional, the Company agreed to allot and issue the Placing Shares (in accordance with the terms of the Placing Agreement) to subscribers procured by the Joint Bookrunners in consideration for Deutsche Bank transferring its holdings of redeemable preference shares and ordinary shares in NewCo to the Company.

Accordingly, instead of receiving cash as consideration for the issue of the Placing Shares, at the conclusion of the Placing, the Company owned the entire issued ordinary and redeemable preference share capital of NewCo whose only assets were its cash reserves, which represented an amount equivalent to the net proceeds of the Placing. The Company was able to utilise this amount equivalent to the net proceeds of the Placing by exercising its right of redemption over the redeemable preference shares it held in NewCo.

The Put and Call Option Agreement and the Subscription and Transfer Agreement each contain warranties from the Company and NewCo in favour of Deutsche Bank in relation to, amongst other things, the capacity of NewCo and the Company and the share capital of NewCo.

(h) ***Virgin JV Agreement***

The Virgin JV Agreement is an agreement dated 31 March 2006 between Bluebottle, Virgin Group Investments Limited (**''VGIL''**), Old Carphone Warehouse, The Carphone Warehouse Limited, certain management of Virgin Mobile France (**''Management''**), Omer Telecom Limited (**''Omer UK''**) and Omer Telecom SAS, as amended and restated on 24 October 2008 and 10 December 2009 (the **''Virgin JV Agreement''**).

The Virgin JV Agreement relates to a joint venture for the establishment and operation of an MVNO in France. Under the terms of the Virgin JV Agreement, The Carphone Warehouse Limited and Bluebottle each originally held 48.5 per cent. of Omer UK and Management held the remaining 3 per cent. On 13 June 2008, The Carphone Warehouse Limited transferred its entire shareholding in Omer UK to Old Carphone Warehouse. On 24 October 2008, Management transferred its entire shareholding in Omer UK to Financom SAS. On 10 December 2009, Financom SAS subscribed for 709,491 new shares in Omer UK, following which Old Carphone Warehouse and Bluebottle each held 47.5 per cent. of Omer UK and Financom SAS held 5 per cent. The joint venture business trades primarily under the name **''Virgin Mobile''** through a French branch of Omer UK and Omer Mobile SAS.

The Virgin JV Agreement contains certain restrictions, pre-emption rights and compulsory triggers relating to transfers of shares in Omer UK by Bluebottle, Old Carphone Warehouse and Financom SAS and restrictive covenants given by the shareholders including undertakings not to solicit customers, suppliers and employees away from Omer UK.

The Virgin JV Agreement also sets out certain matters which require majority or unanimous shareholder approval.

The Virgin JV Agreement contains non-tax warranties given by Old Carphone Warehouse and Management in favour of VGIL, Bluebottle and Omer UK and tax indemnities given by Old Carphone Warehouse in favour of Omer UK, which was a subsidiary of Old Carphone Warehouse prior to the Virgin JV Agreement.

The Virgin JV Agreement is governed by English law. The parties agreed to submit to the dispute resolution procedure set out in the agreement and the forums set out therein (which includes the English courts) to the exclusion of the jurisdiction of any other forum.

In March 2010, Old Carphone Warehouse transferred its entire shareholding in Omer UK to Carphone and Carphone assumed the rights and obligations of Old Carphone Warehouse under the Virgin JV Agreement.

Since that date, new shares have been issued to Management such that at 31 March 2011, the Company's shareholding in Omer UK had reduced to 47.1 per cent., in line with that of Bluebottle.

In October 2011, the Company and Bluebottle each sold 174,378 shares to Financom SAS, and as a result, the shareholding of each of the Company and Bluebottle has reduced to 46.6 per cent. each.

As at the date of this document, the Company and Bluebottle each hold a 46.3 per cent. shareholding in Omer UK, following the sale of shares to, and the exercise of share options by, Management.

(i) ***Exclusivity Agreement in relation to potential sale of Virgin Mobile France***

Carphone, Bluebottle and Financom SAS (the "**Sellers**") have entered into an exclusivity agreement with Numericable Group dated 16 May 2014 in relation to the potential sale of Virgin Mobile France to Numericable Group for an enterprise value of €325 million (the "**Exclusivity Agreement**"). The exclusivity period will expire on 28 February 2015.

Numericable Group must make a final binding offer to the Sellers within five business days of the later of the works council of Omer Telecom and the works council of Numericable Group issuing an opinion in relation to the proposed transaction in accordance with the French labour code (the "**Virgin JV Longstop Date**").

In the event that Numericable Group does not make a binding offer to the Sellers or execute a final share purchase agreement for shares in Virgin Mobile France before the Virgin JV Longstop Date it must pay €48 million to the Sellers to compensate the Sellers for the loss incurred from entering into the Exclusivity Agreement.

Until the earlier of the execution of the share purchase agreement and the Virgin JV Longstop Date, the Sellers must comply with a number of covenants set out in the draft share purchase agreement in relation to the management of the Omer group companies.

The proposed transaction is subject to the approval of the French Competition Authority.

(j) ***Joint Sponsors' Agreement***

Under the terms of a joint sponsors' agreement dated 26 June 2014 between (1) the Company and (2) the Joint Sponsors (the "**Joint Sponsors' Agreement**"), the Joint Sponsors have agreed to act as joint sponsors to the Company in connection with the Merger and Admission. The Joint Sponsors' Agreement contains warranties from the Company in favour of the Joint Sponsors in relation to, amongst other things, the accuracy of the information contained in certain documents issued by the Company in connection with the Merger and other matters relating to the Carphone Group and its business. In addition, the Company has agreed to indemnify the Joint Sponsors in respect of certain liabilities each may incur in respect of the Merger and Admission. The Joint Sponsors have the right to terminate the Joint Sponsors' Agreement in certain circumstances prior to Admission, in particular, in the event of a material breach of the warranties or a force majeure event.

6.2 The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by Dixons or another member of the Dixons Group (i) within the two years immediately preceding the date of this document and are or may be material to the Dixons Group or (ii) which contain provisions under which any member of the Dixons Group has an obligation or entitlement which is or may be material to the Dixons Group as at the date of this document.

(a) ***Facility Agreement***

Dixons and DSG Retail Limited (together, the "**Dixons Borrowers**"), Dixons, DSG International Treasury Management Limited and DSG Retail Limited (together, the "**Guarantors**"), a syndicate of lenders (the "**Lenders**") and HSBC Bank plc as facility agent (the "**Agent**"), among others, entered into a facility agreement dated 19 May 2014 (the "**Facility Agreement**"). The Facility Agreement is governed by English law.

Pursuant to the terms of the Facility Agreement, the Lenders have agreed to provide the Dixons Borrowers with a multicurrency revolving credit facility in an aggregate amount of £150 million, for drawing by way of loans.

Within five business days of the Merger becoming Effective, Dixons is under an obligation to cancel the total commitments and prepay all amounts borrowed under the Facility Agreement, together with all interest, fees and other amounts accrued under the Facility Agreement and subject to break costs if the prepayment does not take place on the last day of an interest period.

*Purpose*

The facility has been provided to finance the general working capital requirements and other corporate purposes of the Dixons Group. The facility terminates on 30 June 2018, subject to an optional extension at Dixons' request to 30 June 2019, and may be drawn until one month prior to such applicable date.

*Interest rate and fees*

The interest payable on the facility for each interest period is LIBOR (or EURIBOR in relation to drawings in euro) plus a margin. The margin for the facility is subject to a margin ratchet calculated by reference to the ratio of (i) EBITDA (after adding back rentals and other expenditure payable under operating leases with respect to plant and machinery, real estate and other assets of the Dixons Group net of income received under such leases (**''Rental and Operating Lease Expenditure''**)) to (ii) the aggregate of Rental and Operating Lease Expenditure and the consolidated net finance expenses of the Dixons Group (subject to certain exclusions and adjustments).

Default interest is chargeable as is customary. Interest periods are of one, two, three or six months, or any other period agreed by all Lenders and Dixons. Interest on loans is payable in arrears at the end of each interest period or at the end of each six month period, where the agreed interest period is greater than six months.

A commitment fee is payable quarterly in arrears on all undrawn, uncancelled amounts and is calculated on a fixed percentage of the applicable margin. A utilisation fee is payable quarterly in arrears on the aggregate of outstanding utilisations, at a rate which varies depending on the ratio of outstanding utilisations to the total Lender commitments. In addition, Dixons was required to pay to the Arranger (as defined in the Facility Agreement) an arrangement fee and is required to pay the Agent an agency fee.

*Repayment and cancellations*

The Dixons Borrowers must repay the loans at the end of each interest period, with the final repayment date of each loan to be no later than 30 June 2018, subject to an optional extension of the facility at Dixons' request to 30 June 2019.

Standard mandatory prepayment provisions are applicable to the Facility Agreement, including the right for each Lender to cancel its commitment following a change of control of Dixons.

Voluntary prepayments may be made upon five business days' notice, in minimum amounts of £5 million, subject to break costs if the prepayment does not take place on the last day of an interest period.

As noted above, within five business days of the Merger becoming Effective, Dixons is under an obligation to cancel the total commitments and prepay all amounts borrowed under the Facility Agreement, together with all interest, fees and other amounts accrued under the Facility Agreement and subject to break costs if the prepayment does not take place on the last day of an interest period.

*Guarantee and security*

The punctual performance of the Dixons Borrowers' obligations under the facility is required to be guaranteed by various material group companies incorporated in the United Kingdom and the Republic of Ireland, representing, among other things, not less than 90 per cent. of the aggregate EBITDA and aggregate gross assets and aggregate turnover of all members of the Dixons Group incorporated in the United Kingdom and the Republic of Ireland (other than certain subsidiaries which are excluded in accordance with the terms of the Facility Agreement).

The Facility Agreement is unsecured.

*Representations and undertakings*

The Facility Agreement contains standard representations and warranties, most of which will be repeated on the date of each utilisation request and the first day of each interest period.

The Facility Agreement also requires the Dixons Borrowers and Guarantors to comply with a number of customary undertakings, including restrictions on disposals and compliance with financial covenants which are tested quarterly. Customary materiality tests, carve outs and grace periods apply.

*Events of default*

The events of default are usual for a facility of this type, and include where DSG Retail Limited or a Guarantor ceases to be a wholly owned subsidiary of Dixons. Upon the occurrence of an event of default which is not remedied or waived, the Lenders will not be required to fund further utilisations, may cancel the available facility and may declare all outstanding utilisations to be immediately due and payable.

(b) ***2015 Notes***

On 30 July 2010, Dixons issued notes in a principal amount of £150 million with a coupon of 8.75 per cent. maturing on 3 August 2015 (the "**2015 Notes**"). Interest on the 2015 Notes is payable semi-annually in arrears on 1 February and 1 August in each year, with the first interest payment having been made on 1 February 2011.

The 2015 Notes are unsecured and rank *pari passu* in right of repayment with other unsecured indebtedness of Dixons. The 2015 Notes are unconditionally and irrevocably guaranteed on a joint and several basis by DSG Retail Limited and DSG International Treasury Management Limited.

The terms of the 2015 Notes contain a requirement for Dixons to comply with certain covenants, including a restriction on Dixons and its subsidiaries from incurring financial indebtedness, a restriction on mergers, consolidations and disposal of its assets and restrictions on the distribution of dividends and the making of certain other payments. A number of the covenants will cease to apply at a time when the 2015 Notes are given an investment grade rating by at least two specified rating agencies and no event of default is continuing.

The terms of the 2015 Notes also contain a negative pledge provision pursuant to which Dixons undertakes not to, and procures that none of its subsidiaries shall, incur or otherwise permit to subsist, as security for any debt, any security other than certain types of permitted security.

(c) ***2017 Notes***

On 19 September 2012, Dixons issued £150 million of 8.75 per cent. notes maturing on 15 September 2017 (the "**2017 Notes**"). Dixons makes semi-annual payments of interest in arrears on 15 March and 15 September of each year, with the first interest payment having been made on 15 March 2013.

The 2017 Notes are unsecured and rank *pari passu* in right of repayment with other unsecured indebtedness of Dixons. The 2017 Notes are unconditionally and irrevocably guaranteed on a joint and several basis by DSG Retail Limited and DSG International Treasury Management Limited.

The terms of the 2017 Notes contain a requirement for Dixons to comply with certain covenants, including a restriction on Dixons and its subsidiaries from incurring financial indebtedness, a restriction on mergers, consolidations and disposal of its assets and restrictions on the distribution of dividends and the making of certain other payments. A number of the covenants will cease to apply at a time when the 2017 Notes are given an investment grade rating by at least two specified rating agencies and no event of default is continuing.

The terms of the 2017 Notes also contain a negative pledge provision pursuant to which Dixons undertakes not to, and procures that none of its subsidiaries shall, incur or otherwise permit to subsist, as security for any debt, any security other than certain types of permitted security.

(d) ***Disposal of PIXmania business***

On 31 December 2013, following a strategic review of its business, Dixons completed the sale of PIXmania SAS, an online electrical goods retailer based in France, to mutares AG, a German listed industrial holding company.

As part of the disposal, Dixons has provided approximately €69 million in cash to PIXmania SAS, to fund the ongoing business activities of PIXmania SAS.

Further, Dixons has granted market standard representations and warranties as regards PIXmania SAS and its subsidiaries.

(e) ***Contribution of UniEuro into the Italian Electronics group***

On 10 October 2013, DSG European Investments Limited (**"DSG EI"**) and Venice Holdings S.r.l. (**"Venice"**) entered into a contribution agreement (**"Contribution Agreement"**), as further amended and supplemented on 29 November 2013, pursuant to which DSG EI and Venice agreed to contribute their respective Italian wholly owned subsidiaries, UniEuro S.p.A. (**"UniEuro"**) and SGM Distribuzione S.r.l (which trades as Marco Polo in Italy) (**"SGM"**), both active in Italy in the wholesale and retail sale of household appliances, into Italian Electronics S.r.l. (**"IE"**), a newly incorporated entity entirely owned by Italian Electronics Holdings S.r.l. (**"IEH"**). The entire share capital of IEH is currently held, respectively, by DSG EI and Venice with stakes equal to, approximately, 15 per cent. and 85 per cent. of IEH's share capital.

The transaction was completed on 29 November 2013. Prior to completion, the "Dixons Travel" business as carried out in Italy by UniEuro through retail shops located in certain Italian airports was transferred to Dixons Travel S.r.l., an Italian wholly-owned subsidiary of DSG Retail Limited and an indirect subsidiary of Dixons.

The Contribution Agreement contains, *inter alia*, reciprocal sets of customary representations and warranties given, respectively, by DSG EI and Venice in relation to UniEuro and SGM.

On 29 November 2013, DSG EI and Venice entered into a shareholders' agreement regulating, *inter alia*, the terms and conditions governing their relationship as direct and indirect shareholders of IEH, IE, SGM and UniEuro (the **"Shareholders' Agreement"**). The Shareholders' Agreement requires Venice to ensure that UniEuro will be managed with a view to duly perform UniEuro's obligations that are covered by certain guarantees previously issued by DSG EI in favour of UniEuro's creditors and/or other third parties (the **"DSG EI Guarantees"**), and that IEH, IE and SGM will comply with their respective obligations to counter guarantee the DSG EI Guarantees.

Additionally on 29 November 2013, DSG EI made available to IE an interest bearing facility for an amount of Euro 7,500,000 to support the activities of the new group.

(f) ***Disposal of Electroworld operations in Turkey***

On 5 September 2013, Dixons announced the sale of its Electroworld Turkey operations to Bimeks, one of the leading specialist electrical retailers in Turkey, for which Dixons received approximately 1.1 million Turkish Lira. The sale was completed on 31 October 2013.

(g) ***Disposal of Electroworld operations in Central Europe***

On 19 May 2014, Dixons announced that it had entered into an agreement to sell its Electroworld operations in the Czech Republic and Slovakia with NAY a.s., a leading electrical specialist retailer in the region.

Following completion, which is expected to take place during summer 2014, and which remains subject to certain normal conditions including competition authority clearance, Dixons expects to receive a small deferred cash consideration spread over three years.

6.3 In addition to the material contracts set out in paragraphs 6.1 and 6.2 above, Carphone and Dixons have entered into the following agreements in connection with the Merger:

(a) a mutual confidentiality agreement dated 30 January 2014 pursuant to which each of Carphone and Dixons has undertaken to keep confidential information relating to the other party and not to disclose it to third parties (other than to permitted disclosees) unless required by law or regulation. These confidentiality obligations will remain in force until completion of the Merger; and

(b) lock-in agreements dated 15 May 2014 pursuant to which each proposed member of the Dixons Carphone Board and certain other executives have given an undertaking to Carphone and Dixons not to dispose of any of his or her beneficial holdings in shares of Dixons Carphone (or any interest therein), which he or she holds on Admission or subsequently acquires during the lock-in period. All of the proposed members of the Dixons Carphone Board have given this undertaking for a period of 24 months following Completion with the exception of Katie Bickerstaffe and Graham Stapleton who have given this undertaking for a period of 12 months.

7. **Significant subsidiaries**

The principal subsidiaries and subsidiary undertakings of the Company are as follows:

| Name | Proportion of share capital held (%)[1] | Country of incorporation | Nature of business |
|---|---|---|---|
| The Carphone Warehouse Limited | 100 | England and Wales | Distribution |
| The Phone House Spain S.L.U | 100 | Spain | Distribution |
| The Phone House Deutschland GmbH | 100 | Germany | Distribution |
| The Phone House Telecom GmbH | 100 | Germany | Distribution |
| The Phone House Netherlands B.V. | 100 | Netherlands | Distribution |
| GEAB The Phone House AB | 100 | Sweden | Distribution |
| The Carphone Warehouse Limited | 100 | Ireland | Distribution |
| The Phone House Comercio e Aluguer de bens e Serviços Lda | 100 | Portugal | Distribution |
| New Technology Insurance | 100 | Ireland | Insurance |
| ISE-Net Solutions Limited | 100 | England and Wales | IT |
| New CPW | 100 | England and Wales | Holding company |
| Carphone Europe | 100 | England and Wales | Holding company |

1. The proportion of voting power held is the same as the proportion of share capital held.

Interests in joint ventures and associates are as follows:

| Name | Proportion of share capital held (%)[1] | Country of incorporation | Nature of business |
|---|---|---|---|
| Virgin Mobile France | 46.3 | England and Wales | MVNO |

1. The proportion of voting power held is the same as the proportion of share capital held.

8. **Working capital**

8.1 In the opinion of Carphone, the working capital available to the Carphone Group is sufficient for its present requirements, that is for at least the next 12 months following the date of this document.

8.2 In the opinion of Carphone, the working capital available to the Combined Group is sufficient for its present requirements, that is for at least the next 12 months following the date of this document.

9. **Litigation**

9.1 There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during a period covering at least the 12 months preceding the date of this document which may have, or have had in the recent past, significant effects on the Company's and/or the Carphone Group's financial position or profitability.

9.2 There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during a period covering at least the 12 months preceding the date of this document which may have, or have had in the recent past, significant effects on Dixons' and/or the Dixons Group's financial position or profitability.

10. **Sources and bases of selected financial information**

10.1 In this document unless otherwise stated:

(a) financial information relating to the Carphone Group has been extracted (without material adjustment) from the historical financial information set out in Part VII of this document for the financial year ended 29 March 2014 which was prepared in accordance with IFRS; and

(b) financial information relating to the Dixons Group has been extracted (without material adjustment) from the historical financial information referred to in Part VIII of this document and which is incorporated by reference into this document from the Circular, for the financial year ended 30 April 2014 which was prepared in accordance with IFRS.

10.2 Where information contained in this document originates from a third party source, it is identified where it appears in this document together with the name of its source. Such third party information has been accurately reproduced and, so far as Carphone is aware and is able to ascertain from information published by the relevant third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

## 11. Significant change

11.1 There has been no significant change in the financial or trading position of the Carphone Group since 29 March 2014, being the end of the period for which the Carphone Group's last audited consolidated accounts were published.

11.2 There has been no significant change in the financial or trading position of the Dixons Group since 30 April 2014, being the end of the period for which the Dixons Group's last audited consolidated accounts were published.

## 12. Consent

12.1 Deutsche Bank AG, London Branch, whose address is Winchester House, 1 Great Winchester Street, London EC2N 2DB, has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and references to it in the form and context in which they appear.

12.2 UBS Limited, whose address is 1 Finsbury Avenue, London EC2M 2PP, has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and references to it in the form and context in which they appear.

12.3 Deloitte LLP, whose address is 2 New Street Square, London EC4A 3BZ, has given and has not withdrawn its written consent to the issue of this document with the inclusion of its report in Part IX (Unaudited Pro Forma Financial Information of the Combined Group) in the form and context in which it appears and has authorised the content of that part of this document for the purposes of Prospectus Rule 5.5.3R(2)(f).

## 13. Property, plant and equipment

The Carphone Group's head office (located in London), its retail stores and its regional head offices are leased from third parties. Freehold property is owned in Lancashire, United Kingdom, and is used by the Carphone Group and also leased to third parties. The Carphone Group's material tangible assets are freehold land and buildings, short leasehold costs, fixtures and fittings and computer hardware, which had a net book value of £16m, £24m, £27m and £23m respectively at 29 March 2014. These assets are considered to be generally well maintained and in good condition.

The Carphone Directors believe that its properties are adequate for its present needs and that suitable additional or replacement space would be generally available to the extent required.

Save as disclosed in this document, the Carphone Group is not aware of any environmental issues that may affect the Carphone Group's utilisation of its tangible fixed assets.

## 14. Net proceeds and costs and expenses of the Merger

The total costs and expenses relating to the issue of this document, the Circular and to the negotiation, preparation and implementation of the Merger are estimated to amount to approximately £11 million and are payable by the Company. There is no offer of the Company's securities so there are no net proceeds receivable by the Company.

## 15. General

15.1 Save as disclosed in this document, the Carphone Directors are unaware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Company's and Dixon's prospects for the current financial year.

15.2 Save as disclosed in this document, there are no investments in progress and there are no future investments on which the Carphone Directors have already made firm commitments which are significant to the Carphone Group.

15.3 Save as disclosed in this document, the Carphone Directors believe that the Company is not dependent on patents or licences, industrial, commercial or financial contracts or new manufacturing processes which are material to the Company's business or profitability.

15.4 The Company is subject to the provisions of the Code, including the rules regarding mandatory takeover offers set out in the Code. Under Rule 9 of the Code, when: (i) a person acquires shares which, when taken together with shares already held by him or persons acting in concert with him (as defined in the Code), carry 30 per cent. or more of the voting rights of a company subject to the Code; or (ii) any person who, together with persons acting in concert with him, holds not less than 30 per cent. but not more than 50 per cent. of the voting rights of a company subject to the Code, and such person, or any person acting in concert with him, acquires additional shares which increases his percentage of the voting rights in the company, then, in either case, that person, together with the persons acting in concert with him, is normally required to make a general offer in cash at the highest price paid by him or any person acting in concert with him for shares in the company within the preceding 12 months for all of the remaining equity share capital of the company.

15.5 The Carphone Shares will also be subject to the compulsory acquisition procedures set out in sections 979 to 991 of the Act. Under section 979 of the Act, where an offeror makes a takeover offer and has, by virtue of acceptances of the offer, acquired or unconditionally contracted to acquire not less than 90 per cent. of the shares to which the offer relates and, in a case where the shares to which the offer relates are voting shares, not less than 90 per cent. of the voting rights carried by those shares, that offeror is entitled to compulsorily acquire the shares of any holder who has not acquired the offer on the terms of the offer.

15.6 Since 1 April 2013, there has been no takeover offer (within the meaning of Part 28 of the Act) for any Carphone Shares.

16. **Documents on display**

Copies of the following documents are available for inspection during usual business hours on any business day for a period of 12 months following Admission at the offices of Osborne Clarke, One London Wall, London EC2Y 5EB:

(a) the articles of association of the Company;

(b) the audited consolidated financial information of the Carphone Group for the three financial years ended 31 March 2012, 31 March 2013 and 29 March 2014;

(c) the audited consolidated financial information of the Dixons Group for the three financial years ended 28 April 2012, 30 April 2013 and 30 April 2014 and which are incorporated by reference into this document from the Circular;

(d) the report from the Reporting Accountants to the Company on the unaudited *pro forma* financial information referred to in Part IX of this document;

(e) the amended rules of the Carphone 2010 Share Scheme and the CPWG Share Plan;

(f) the Circular;

(g) the Scheme Document; and

(h) this document.

17. **Information incorporated by reference**

17.1 The following documents, which have been approved by, filed with or notified to the FCA, and are available for inspection in accordance with paragraph 16 of this Part XII contain information about the Carphone Group, which is relevant to this document:

(a) Carphone's Annual Report and Accounts 2013, containing Carphone's audited consolidated financial statements for the financial year ended 31 March 2013, together with the audit report in respect of that period and a discussion of Carphone's financial performance;

(b) Carphone's Annual Report and Accounts 2012, containing Carphone's audited consolidated financial statements for the financial year ended 31 March 2012, together with the audit report in respect of that period and a discussion of Carphone's financial performance;

The table below sets out the sections of these documents which are incorporated by reference into, and form part of, this document, and only the parts of the documents identified in the table below are incorporated into, and form part of, this document. The parts of these documents which are not incorporated by reference are either not relevant for investors or are covered elsewhere in this document. To the extent that any part of any information referred to below itself contains information which is incorporated by reference, such information shall not form part of this document.

| **Reference** | **Information incorporated by reference into this document** | **Page number(s) in reference document** |
|---|---|---|
| ***For the financial year ended 31 March 2013*** | | |
| Carphone Annual Report 2013 | Independent auditors' report | 49 |
| Carphone Annual Report 2013 | Consolidated income statement | 50 |
| Carphone Annual Report 2013 | Consolidated statement of comprehensive income | 51 |
| Carphone Annual Report 2013 | Consolidated statement of changes in equity | 51 |
| Carphone Annual Report 2013 | Consolidated balance sheet | 52 |
| Carphone Annual Report 2013 | Consolidated cash flow statement | 53 |
| Carphone Annual Report 2013 | Notes to the financial information | 54-77 |
| ***For the financial year ended 31 March 2012*** | | |
| Carphone Annual Report 2012 | Independent auditors' report | 50 |
| Carphone Annual Report 2012 | Consolidated income statement | 51 |
| Carphone Annual Report 2012 | Consolidated statement of comprehensive income | 52 |
| Carphone Annual Report 2012 | Consolidated statement of changes in equity | 52 |
| Carphone Annual Report 2012 | Consolidated balance sheet | 53 |
| Carphone Annual Report 2012 | Consolidated cash flow statement | 54 |
| Carphone Annual Report 2012 | Notes to the financial information | 55-78 |

17.2 The table below sets out the sections of the Circular which are incorporated by reference into, and form part of, this document, and only the parts of the Circular identified in the table below are incorporated into, and form part of, this document. The parts of the Circular which are not incorporated by reference are either not relevant for investors or are covered elsewhere in this document. To the extent that any part of any information referred to below itself contains information which is incorporated by reference, such information shall not form part of this document.

| Information incorporated by reference | Document reference | Page number(s) in reference document |
|---|---|---|
| ***Information on Dixons*** | | |
| Historical consolidated financial information relating to Dixons | Circular, Part III | 29-217 |

Dated: 26 June 2014

# PART XIII

# DEFINITIONS

The following definitions apply throughout this document unless the context otherwise requires:

| | |
|---|---|
| **"3G"** | third generation wireless telephony technology |
| **"4G"** | fourth generation wireless telephony technology |
| **"acquisition intangibles"** or **"acquired intangibles"** | acquired intangible assets such as customer bases, brands and other intangible assets acquired through a business combination, capitalised separately from goodwill |
| **"Act"** | the Companies Act 2006 (as amended) |
| **"Admission"** | the admission of the New Dixons Carphone Shares to listing on the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities in accordance with the Listing Rules and the Admission and Disclosure Standards respectively and references to Admission becoming "effective" shall be construed accordingly |
| **"Admission and Disclosure Standards"** | the requirements contained in the publication "Admission and Disclosure Standards" (as amended from time to time) published by the London Stock Exchange containing, among other things, the requirements to be observed by companies seeking admission to trading on the London Stock Exchange's main market for listed securities |
| **"Announcement"** | the joint announcement made by Carphone and Dixons on 15 May 2014 in relation to the Merger made pursuant to Rule 2.7 of the Code |
| **"ARPU"** | average revenue per user |
| **"Audit Committee"** | the audit committee of Carphone |
| **"B2B"** | business to business |
| **"B/C Share Scheme"** | the scheme used to return the initial proceeds from the Best Buy Mobile Disposal to Carphone Shareholders |
| **"Best Buy"** | Best Buy Co., Inc. (incorporated in the state of Minnesota), whose registered office is at 7001 Penn Avenue, South Richfield, MN 55423, United States of America |
| **"Best Buy Acquisition"** | the cancellation of the 50 per cent. stake in New CPW held by Best Buy Distributions and Best Buy UK Holdings through a capital reduction in accordance with section 642 of the Act pursuant to the terms of the Implementation Agreement which resulted in the Company being the sole shareholder of New CPW |
| **"Best Buy Consultancy Agreement"** | the consultancy agreement entered into on 25 January 2012 between CPW Consultancy and Best Buy in relation to the provision by the Carphone Group of consultancy services, principally in respect of the Best Buy Mobile business, and which was terminated by the Termination Agreement, details of which are set out in paragraph 6.1(b) of Part XII of this document |
| **"Best Buy Distributions"** | Best Buy Distributions Limited (incorporated in England and Wales under the Companies Act 1985 with registered number 06576708), whose registered office is at 100 New Bridge Street, London EC4V 6JA |
| **"Best Buy Joint Venture Transaction"** | Old Carphone Warehouse's disposal of a 50 per cent. interest in its retail and distribution business (Carphone Europe), including its economic interests in Best Buy Mobile, in June 2008 |

| | |
|---|---|
| **"Best Buy Group"** | Best Buy and any parent company and any subsidiary or joint venture undertakings of Best Buy, or such companies, from time to time, and, where the context so permits, each of them |
| **"Best Buy Mobile"** | Best Buy's retail operations in the United States and Canada in respect of mobile phones and other connected devices in which the Carphone Europe Group had a profit share arrangement |
| **"Best Buy Mobile Disposal"** | the disposal of the Carphone Group's interest in Best Buy Mobile to Best Buy in January 2012 |
| **"Best Buy UK"** | Carphone Europe's Best Buy branded "Big Box" stores and online business focussed on a broad range of consumer electronics, which was launched in the UK in April 2010 and closed in January 2012 |
| **"Best Buy UK Holdings"** | Best Buy UK Holdings LP (registered in England and Wales with registered number LP015378), whose registered office is at 1 Portal Way, London W3 6RS, acting by its general partner, New CPWM |
| **"Bluebottle"** | Bluebottle UK Limited (incorporated in England and Wales under the Companies Act 1985 with registered number 3744190), whose registered office is at The School House, 50 Brook Green, London W6 7RR |
| **"business day"** | any day (excluding Saturdays, Sundays and public holidays) on which banks are generally open for business in the City of London |
| **"Capital Reduction"** | the proposed reduction of the share capital of Dixons involving the cancellation of the Scheme Shares pursuant to the Scheme under sections 645 to 648 of the Act as described in the Scheme Document |
| **"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 |
| **"Carphone 2010 Share Scheme"** | the Carphone Warehouse Group plc 2010 Share Scheme as described in paragraph 10.1 of Part XI of this document |
| **"Carphone Articles"** | the articles of association of Carphone |
| **"Carphone Board"** | the board of directors of Carphone |
| **"Carphone Directors"** | the directors of Carphone as at the date of this document, being Sir Charles Dunstone, Roger Taylor, Andrew Harrison, Nigel Langstaff, John Gildersleeve, John Allwood, Baroness Morgan of Huyton and Gerry Murphy |
| **"Carphone Europe"** | Carphone Warehouse Europe Limited (formerly Best Buy Europe Distributions Limited) (incorporated in England and Wales under the Companies Act 1985 with registered number 06534088), a subsidiary of New CPW, whose registered office is at 1 Portal Way, London W3 6RS |
| **"Carphone Europe Group"** | Carphone Europe, its subsidiaries and its subsidiary undertakings, the business of which is principally the sale and provision of mobile and other wireless technology and services |
| **"Carphone Form of Proxy"** | the form of proxy for use at the Carphone General Meeting which accompanies the Circular |
| **"Carphone General Meeting"** | the general meeting of Carphone, to be held at the offices of Osborne Clarke, One London Wall, London EC2Y 5EB at 11.00 a.m. on 17 July 2014, notice of which is set out at the end of the Circular, and any adjournment of such meeting |

| | |
|---|---|
| **"Carphone Group"** | Carphone, its subsidiaries and its subsidiary undertakings |
| **"Carphone Shares"** | the ordinary shares of 0.1 pence each in the capital of Carphone |
| **"Carphone Shareholders"** | holders of Carphone Shares |
| **"Carphone Share Schemes"** | the share schemes operated by the Carphone Group, including the Carphone 2010 Share Scheme, the CPW SAYE Scheme and the CPWG Share Plan, as such schemes are described in paragraph 10 of Part XI of this document |
| **"certificated"** or in **"certificated form"** | where a share or other security is not in uncertificated form (that is, not in CREST) |
| **"CGU"** | cash generating unit |
| **"Circular"** | the circular sent by Carphone to Carphone Shareholders dated the same date as this document, containing details of the Merger |
| **"Code"** | the City Code on Takeovers and Mergers |
| **"Combined Group"** | the combined group following the Merger, comprising the Carphone Group and the Dixons Group |
| **"Completion"** | the time at which the Scheme becomes Effective, being the Effective Date |
| **"Conditions"** | the conditions to the implementation of the Merger (including the Scheme) which are set out in Part IV of the Scheme Document |
| **"Corporate Governance Code"** | the UK Corporate Governance Code published by the Financial Reporting Council in September 2012 |
| **"Consideration Shares"** | the 42,105,263 ordinary shares in the Company issued to Best Buy on 25 June 2013 at a price of £1.90 per share, pursuant to the terms of the Implementation Agreement and in connection with the Best Buy Acquisition |
| **"Court"** | the High Court of Justice in England and Wales |
| **"Court Meeting"** | the meeting of the Scheme Shareholders convened pursuant to an order of the Court under section 896 of the Act and to be held at the offices of Linklaters LLP, One Silk Street, London EC2Y 8HQ at 10.00 a.m. on 17 July 2014 for the purposes of considering and, if thought fit, approving the Scheme (with or without amendment) and any adjournment of such meeting |
| **"Court Orders"** | the Scheme Court Order and the Reduction Court Order |
| **"CPW"** | the continuing business of the Carphone Group, excluding its interest in Virgin Mobile France |
| **"CPW Consultancy"** | CPW Consultancy Limited (incorporated in England and Wales under the Act with registered number 7881879), whose registered office is at 1 Portal Way, London W3 6RS |
| **"CPW Retail"** | CPW Retail Holdings Limited (incorporated in England and Wales under the Act with registered number 6585729), whose registered office is at 1 Portal Way, London W3 6RS |
| **"CPW SAYE Scheme"** | the Carphone Warehouse Group plc Savings Related Share Option Scheme, as described in paragraph 10.2 of Part XI of this document |
| **"CPWG Share Plan"** | the Carphone Warehouse Group plc 2013 Share Plan, as described in paragraph 10.3 of Part XI of this document |

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| **"CREST"** | the relevant system (as defined in the CREST Regulations) of which Euroclear is the Operator (as defined in the CREST Regulations) |
| **"CREST Regulations"** | the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755) |
| **"CSOP Code"** | has the meaning given to it in section 521(3) of the Income Tax (Earnings and Pensions) Act 2003 |
| **"Daily Official List"** | the daily official list of the London Stock Exchange |
| **"Demerger"** | the demerger of the UK fixed line telecommunications division of Old Carphone Warehouse to TalkTalk Telecom Group PLC which became effective on 26 March 2010 |
| **"Deposit Agreement"** | the Deposit Agreement dated 10 March 1997, as amended and restated as of 21 January 2000, between Dixons, The Bank of New York Mellon and ADR holders, relating to the Dixons ADSs |
| **"Deutsche Bank"** | Deutsche Bank AG, London Branch of Winchester House, 1 Great Winchester Street, London EC2N 2DB |
| **"Disclosure and Transparency Rules"** | the disclosure rules and transparency rules made by the FCA pursuant to section 73A of the FSMA |
| **"Dixons"** | Dixons Retail plc (incorporated in England and Wales under the Act with registered number 03847921), whose registered office is at Maylands Avenue, Hemel Hempstead, Hertfordshire HP2 7TG |
| **"Dixons ADSs"** | American Depositary Shares representing Dixons Shares |
| **"Dixons Board"** | the board of directors of Dixons |
| **"Dixons Carphone"** | the parent company of the Combined Group from the Effective Date (being Carphone Warehouse Group plc, proposed to be renamed "Dixons Carphone plc") |
| **"Dixons Carphone Board"** | the board of directors of Dixons Carphone following the Merger |
| **"Dixons Carphone Shares"** | the ordinary shares of 0.1 pence each in the capital of Dixons Carphone |
| **"Dixons Depositary"** | The Bank of New York Mellon, as depositary for the Dixons ADS program |
| **"Dixons Directors"** | the directors of Dixons as at the date of this document |
| **"Dixons ESOP"** | the Dixons Retail plc Executive Share Option Plan 2008 |
| **"Dixons Forms of Proxy"** | as the context may require, either or both of (i) the blue form of proxy for use at the Court Meeting, and (ii) the yellow form of proxy for use at the Dixons General Meeting, each of which accompanies the Scheme Document |
| **"Dixons General Meeting"** | the general meeting of Dixons to be held at the offices of Linklaters LLP, One Silk Street, London EC2Y 8HQ at 10.15 a.m. on 17 July 2014, notice of which is set out at the end of the Scheme Document, and any adjournment of such meeting |
| **"Dixons Group"** | Dixons, its subsidiaries and its subsidiary undertakings from time to time |
| **"Dixons PSP"** | the Dixons Retail plc Performance Share Plan 2008 |
| **"Dixons RRP"** | the Dixons Retail plc Retention and Recruitment Plan |
| **"Dixons Shareholders"** | holders of Dixons Shares |
| **"Dixons Shares"** | the ordinary shares of 2.5 pence each in the capital of Dixons |
| **"Dixons Sharesave"** | the Dixons Retail plc Sharesave Plan 2008 |
| **"Dixons Share Schemes"** | the share schemes operated by the Dixons Group, being the Dixons PSP, the Dixons ESOP, the Dixons RRP and the Dixons Sharesave |

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| **"earnings"** | profit or loss after taxation, unless the context otherwise requires earnings before investment income, interest and taxation |
| **"EBIT"** | earnings before investment income, interest and taxation |
| **"EBITDA"** | earnings before investment income, interest, taxation, depreciation and amortisation |
| **"EEA State"** | a member state of the European Economic Area |
| **"Effective"** | in the context of the Merger, if the Merger is implemented by way of the Scheme, the Scheme having become effective pursuant to its terms, or if the Merger is implemented by way of a Merger Offer, the Merger Offer having been declared and become unconditional in all respects in accordance with the requirements of the Code |
| **"Effective Date"** | the date on which the Reduction Court Order (together with the Statement of Capital) is delivered to the Registrar of Companies and, if the Court so orders, registered and, accordingly, the Scheme becomes Effective |
| **"Enlarged Issued Share Capital"** | the issued share capital of Carphone at Admission, as enlarged by the issue of the New Dixons Carphone Shares |
| **"EONIA"** | the Euro Overnight Index Average |
| **"EPS"** | earnings per share (basic unless otherwise indicated) |
| **"ESOT"** | employee share ownership trust |
| **"EURIBOR"** | the Euro Interbank Offered Rate |
| **"Euroclear"** | Euroclear UK & Ireland Limited, a company incorporated under the laws of England and Wales |
| **"Exceptional Items"** | items which are considered to be one-off and so material that they require separate disclosure to avoid distortion of underlying performance |
| **"Excluded Shares"** | any Dixons Shares:<br>(i) beneficially owned by Carphone or its nominee(s); or<br>(ii) held by Dixons in treasury,<br>in each case at the Scheme Record Time |
| **"Executive Directors"** | the executive directors of Carphone being, at the date of this document, Sir Charles Dunstone, Roger Taylor, Andrew Harrison and Nigel Langstaff, and, at the date of Completion, Sebastian James, Andrew Harrison, Humphrey Singer, Katie Bickerstaffe and Graham Stapleton |
| **"Existing Carphone Shares"** | the Carphone Shares in issue as at the date of this document |
| **"FCA"** | the UK Financial Conduct Authority |
| **"FSMA"** | the Financial Services and Markets Act 2000, as amended |
| **"Full MVNO"** | form of MVNO which provides fuller control of network services, including ownership of the customer SIM and home location register |
| **"Geek Squad Licence Agreement"** | the licence agreement relating to the Geek Squad brand entered into on 29 April 2013 between Best Buy International Finance Sarl, Best Buy Enterprise Services, Inc, Best Buy, New CPW and the Company described in paragraph 6.1(c) of Part XII of this document |
| **"Headline results"** | results before the amortisation of acquisition intangibles and goodwill expense, before Exceptional Items and before the results of businesses which have been discontinued. The Headline EBIT and EBITDA of the Carphone Europe Group includes the unwinding of discounts for the time value of money |

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| | on network commissions receivable, which is included as interest income in its statutory results. The Headline revenue of Virgin Mobile France excludes contributions towards subscriber acquisition costs from network operators and customers, which is instead netted off against acquisition costs within EBITDA. The phrases "Headline earnings", "Headline EPS", "Headline EBIT", "Headline EBITDA" and "Headline revenue" should be interpreted in the same way |
| **"HMRC"** | Her Majesty's Revenue & Customs |
| **"IAS"** | International Accounting Standards |
| **"IFRS"** | International Financial Reporting Standards as adopted by the European Union |
| **"Implementation Agreement"** | the implementation agreement entered into on 29 April 2013 between the Company, Best Buy, Best Buy Distributions, Best Buy UK Holdings and New CPW relating to the implementation of the Best Buy Acquisition, described in paragraph 6.1(a) of Part XII of this document |
| **"ISIN"** | International Securities Identification Number |
| **"IT"** | information technology |
| **"Joint Sponsors"** | Deutsche Bank and UBS |
| **"LIBOR"** | the London Interbank Offered Rate |
| **"Listing Rules"** | the listing rules made by the FCA pursuant to section 73A of the FSMA |
| **"Long Stop Date"** | 31 December 2014, being the latest date by which the Scheme must become Effective (or such later date as Dixons and Carphone may agree) |
| **"London Stock Exchange"** | London Stock Exchange plc |
| **"Merger"** | the merger of Dixons and Carphone to be implemented by way of the Scheme or otherwise by way of a Merger Offer |
| **"Merger Offer"** | the implementation of the Merger by means of a takeover offer pursuant to section 974 of the Act, rather than pursuant to the Scheme |
| **"MNO"** | mobile network operator |
| **"Model Code"** | the model code on directors' dealings in securities set out in Chapter 9 of the Listing Rules |
| **"MVNO"** | mobile virtual network operator |
| **"NCA"** or **"National Competition Authority"** | National Competition Authority of another Member State of the European Union |
| **"New CPW"** | New CPW Limited (formerly New BBED Limited) (incorporated in England and Wales under the Act with registered number 7866062), the parent company of Carphone Europe, whose registered office is at 1 Portal Way, London W3 6RS |
| **"New CPWM"** | New CPWM Limited (incorporated in England and Wales under the Act with registered number 7866069), whose registered office is at 1 Portal Way, London W3 6RS |
| **"New Dixons Carphone Shares"** | the new ordinary shares of 0.1 pence each in the capital of Carphone to be issued and credited as fully paid to holders of Scheme Shares pursuant to the Scheme |
| **"Nomination Committee"** | the nomination committee of Carphone |

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| **"Non-executive Directors"** | the non-executive directors of Carphone being, at the date of this document, John Gildersleeve, John Allwood, Baroness Morgan of Huyton and Gerry Murphy and, at the date of Completion, Sir Charles Dunstone, John Allan, Roger Taylor, John Gildersleeve, Baroness Morgan of Huyton, Gerry Murphy, Tim How, Jock Lennox and Andrea Gisle Joosen |
| **"Notice of Carphone General Meeting"** | the notice of the Carphone General Meeting which is set out at the end of the Circular |
| **"OEM"** | own equipment manufacture |
| **"Official List"** | the official list maintained by the FCA |
| **"Old Carphone Warehouse"** | TalkTalk Telecom Holdings Limited (formerly The Carphone Warehouse Group PLC) (incorporated in England and Wales under the Companies Act 1985 with registered number 03253714), whose registered office is at 11 Evesham Street, London W11 4AR |
| **"Panel"** | the UK Panel on Takeovers and Mergers |
| **"Participation Plan"** | the Carphone Warehouse Group plc Participation Plan 2011 |
| **"PBT"** | profit before taxation |
| **"Placing Shares"** | the 47,228,179 ordinary shares in the Company placed with existing and other investors and issued on 3 May 2013 |
| **"Proposed Directors"** | John Allan, Sebastian James, Humphrey Singer, Katie Bickerstaffe, Graham Stapleton, Tim How, Jock Lennox and Andrea Gisle Joosen |
| **"Prospectus Directive Regulation"** | Commission Regulation (EC) No. 809/2004 |
| **"Prospectus Rules"** | the prospectus rules made by the FCA pursuant to section 73A of the FSMA |
| **"RCF"** | revolving credit facility |
| **"Reduction Court Order"** | the order of the Court confirming the Capital Reduction |
| **"Reduction Hearing"** | the hearing by the Court of the claim form to confirm the Capital Reduction under section 648 of the Act |
| **"Registrar of Companies"** | the Registrar of Companies in England and Wales |
| **"Registrars"** | Equiniti Limited (incorporated in England and Wales under the Act with registered number 06226088), whose registered office is Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA |
| **"Regulation S"** | Regulation S under the US Securities Act |
| **"Regulatory Information Service"** | any channel recognised as a channel for the dissemination of regulatory information by listed companies as defined in the Listing Rules |
| **"Remuneration Committee"** | the remuneration committee of Carphone |
| **"Reporting Accountants"** | Deloitte LLP of 2 New Street Square, London EC4A 3BZ |
| **"Resolutions"** | the resolutions to be proposed at the Carphone General Meeting, as set out in the Notice of Carphone General Meeting |
| **"Scheme"** | the scheme of arrangement proposed to be made under Part 26 of the Act between Dixons and the Scheme Shareholders to implement the Merger, with or subject to any modification, addition or condition approved or imposed by the Court and agreed by Dixons and Carphone |
| **"Scheme Court Order"** | the order of the Court sanctioning the Scheme under section 899 of the Act |

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| **"Scheme Document"** | the document dated the same date as this document sent by Dixons to the Dixons Shareholders, of which the Scheme forms part |
| **"Scheme Record Time"** | 6.00 p.m. on the business day immediately prior to the date of the Reduction Hearing |
| **"Scheme Sanction Hearing"** | the hearing by the Court of the claim form for the sanction of the Scheme |
| **"Scheme Shareholders"** | holders of a Scheme Share, and a "Scheme Shareholder" shall mean any one of the Scheme Shareholders |
| **"Scheme Shares"** | Dixons Shares:<br>(i) in issue at the date of the Scheme;<br>(ii) issued after the date of the Scheme, but before the Voting Record Time; and<br>(iii) issued at or after the Voting Record Time but on or before the Scheme Record Time on terms that the original or any subsequent holders are bound by the Scheme or in respect of which such holders shall have agreed in writing to be so bound<br>in each case, other than the Excluded Shares |
| **"SDRT"** | stamp duty reserve tax |
| **"SEC"** | the US Securities and Exchange Commission |
| **"SEDOL"** | Stock Exchange Daily Official List |
| **"Significant Interest"** | in relation to an undertaking, a direct or indirect interest of 20 per cent. or more of the total voting rights conferred by the equity share capital (as defined in section 548 of the Act) of such undertaking |
| **"SIM"** | subscriber identity module |
| **"Statement of Capital"** | the statement of capital showing, as altered by the Reduction Court Order, the information required by section 649 of the Act with respect to Dixon's share capital |
| **"TalkTalk"** | TalkTalk Telecom Group PLC (incorporated in England and Wales under the Act with registered number 07105891), whose registered office is at 11 Evesham Street, London W11 4AR |
| **"TalkTalk Group"** | TalkTalk and its subsidiaries and other investments from time to time |
| **"Termination Agreement"** | the amendment and termination agreement entered into on 26 June 2013 between, amongst others, Carphone, Best Buy, Best Buy Distributions, CPW Retail, Carphone Europe and New CPW |
| **"TSR"** | total shareholder return |
| **"UBS"** | UBS Limited (incorporated in England and Wales under the Companies Act 1985 with registered number 2035362), whose registered office is at 1 Finsbury Avenue, London EC2M 2PP |
| **"UK"** or **"United Kingdom"** | the United Kingdom of Great Britain and Northern Ireland |
| **"UK Approved Addendum"** | part of the Carphone Share Scheme, which has been designed to qualify for approval by HMRC under the CSOP Code |
| **"UK GAAP"** | United Kingdom Accounting Standards and applicable law |
| **"UK Listing Authority"** | the FCA acting in its capacity as the competent authority for the purposes of Part VI of the FSMA |
| **"UKLA Rules"** | together, the Listing Rules, the Prospectus Rules and the Disclosure and Transparency Rules |

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| **"uncertificated"** or in **"uncertificated form"** | in respect of a share or other security, where that share or other security is recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which may be transferred by means of CREST |
| **"US"** or **"United States"** | the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia |
| **"US Exchange Act"** | the United States Securities Exchange Act 1934, as amended |
| **"US Securities Act"** | the United States Securities Act 1933, as amended, and the rules and regulations promulgated under such Act |
| **"VAT"** | any value added tax imposed under directive 2006/11 2/EC, the Value Added Tax Act 1994 and/or any primary or secondary legislation supplemental to either of them and/or any equivalent tax in any other jurisdiction |
| **"Virgin Group"** | Virgin Group Investments Limited and any parent company and any subsidiary or joint venture undertakings of Virgin Group Investments Limited, or such companies, from time to time and, where the context so permits, each of them |
| **"Virgin Mobile France"** | the joint venture operating an MVNO in France between, among others, Bluebottle, Carphone and Financom SAS., operated by the French branch of Omer Telecom Limited and by Omer Mobile SAS |
| **"Voting Record Time"** | 6.00 p.m. on 15 July 2014, being the day which is two days before the date of the Court Meeting or, if such Court Meeting is adjourned, 6.00 p.m. on the day which is two days before the date of such adjourned meeting |
| **"wi-fi"** | trademark of the Wi-Fi Alliance often used as a general term for wireless networking technology that uses radio waves to provide wireless high-speed internet and network connections |

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