

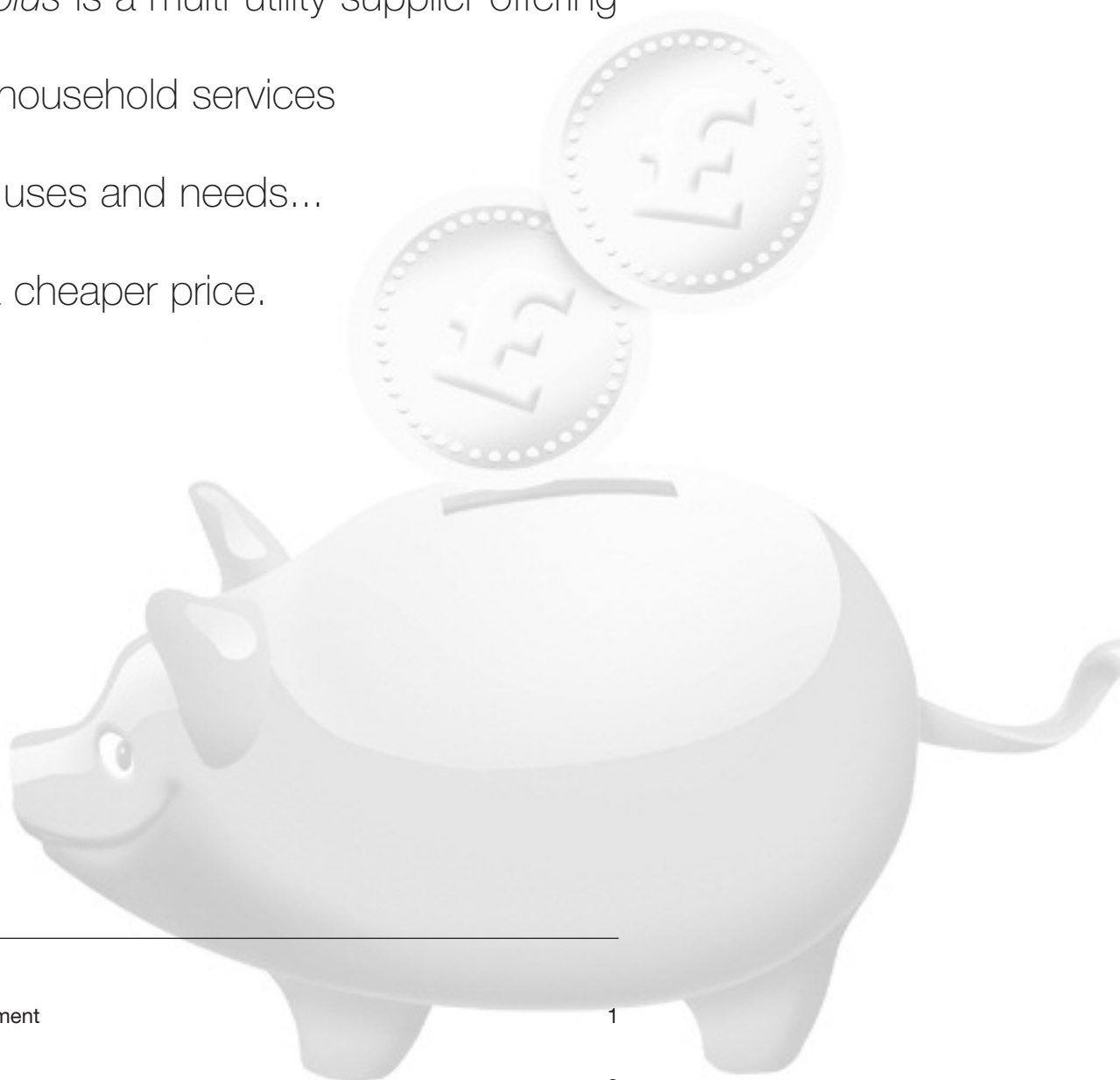
**TELECOM**  *plus*  
PLC  
the Utility Warehouse

**REPORT AND ACCOUNTS**

**YEAR ENDED 31 MARCH 2005**



Telecom *plus* is a multi-utility supplier offering  
essential household services  
everyone uses and needs...  
...but at a cheaper price.



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## Our services


Trading as the Utility Warehouse Discount Club, Telecom *plus* provide a range of essential household services, giving customers the opportunity to save substantial sums compared with the prices charged by the former monopoly suppliers.


This is achieved by keeping costs to an absolute minimum. For example, by working in partnership with over 15,000 Independent Distributors who attract new customers by personal recommendation, there is no need for expensive national advertising.


The cost savings we achieve from our integrated billing and customer service platform are shared with our customers, enabling them to benefit from the best value in the UK.


 **Home Phone** – Our fixed wire telephony service gives members significant savings on line rental and call charges compared with BT's best prices, enabling them to make unlimited free local and national calls to other members 24 hours a day, 7 days a week. We provide this service either by using Carrier Pre-Selection, or by sending members a free Smart Box which they plug into their telephone socket, automatically routing all of their calls to us.

 **Mobile Phone** – With a range of tariff options to suit a wide cross-section of mobile phone users, our Mobile Phone service offers outstanding value and great savings including an unlimited free call option, a choice of free handsets and free connection.

 **Electricity** – We offer the UK's cheapest domestic electricity to our members, with savings of around 19% per annum compared with the prices charged by their incumbent regional electricity company.

 **Gas** – Our members benefit from the UK's cheapest domestic gas prices saving around 15% per annum compared with British Gas prices.

 **Internet** – A choice of high quality low cost Internet services offering great value for the vast majority of domestic Internet users. Customers can also take advantage of our exclusive on-line shopping service (**Storeplus**), providing some of the best value on the Internet. A wide selection of goods are available including videos, white goods, cars, flowers, jewellery and much more.

 **Freephone** – A low cost Freephone service at a significant discount to the prices charged by BT, particularly for residential customers.



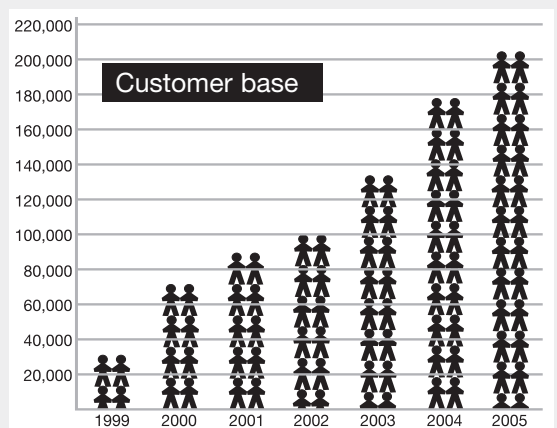
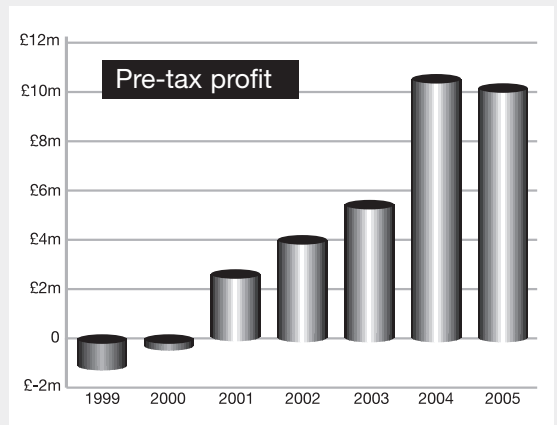
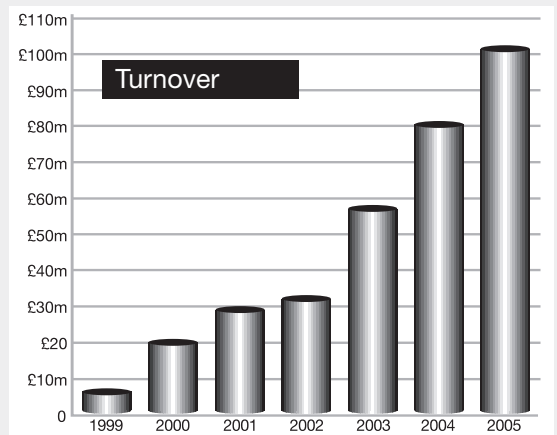
### The Utility Warehouse Discount Club

- UK's cheapest domestic gas.
- UK's cheapest domestic electricity.
- Huge mobile savings.
- Guaranteed savings compared to BT's best prices, with unlimited free calls to other club members.
- Great value internet services.
- Exclusive on-line shopping mall.
- Up to £50 "cashback" every year.

Another  
year of  
achievement...



- 🐷 Turnover up 25% to £102m
- 🐷 Dividend for the year up 10% to 11p per share
- 🐷 Over 401,000 services being supplied to more than 205,000 customers
- 🐷 Over 15,000 Distributors
- 🐷 New “line rental” service launched for Home Phone customers
- 🐷 Rapid expansion of Broadband into existing customer base
- 🐷 Continued growth in gas and electricity



# Directors, secretary and advisers



Peter Nutting

## **Peter Nutting, Non-Executive Chairman**

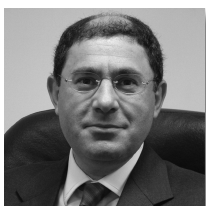
Peter has been Chairman of a number of public and private companies. He was a member of the Council of Lloyds between 1991 and 1998 and Deputy-Chairman of the Lloyds Regulatory Board from 1992 to 1994. He is currently Chairman of Hampden Agencies Ltd. He is a Director of Azuran plc, European Monthly Income Trust Ltd, ALM Ltd and a number of other companies. He joined the Company in April 1997.



The Hon Charles Wigoder

## **The Hon Charles Wigoder, Chief Executive**

Charles qualified as a Chartered Accountant with KPMG in 1984 and was subsequently employed by Kleinwort Securities as an investment analyst in the media and communication sectors. Between 1985 and 1988, he was head of corporate finance and development at Carlton Communications plc and then Quadrant Group plc. In March 1988, he left Quadrant Group to set up The Peoples Phone Company plc, which was subsequently purchased by Vodafone in December 1996. He joined the Company in February 1998.



Stephen Davis

## **Stephen Davis, Finance Director**

Stephen is a Chartered Accountant. He joined BDO Stoy Hayward (the UK's 6th largest accounting and business advisory practice) from university in 1983, and became a partner in 1991. From 1995 he was involved in leading the firm, initially as head of a strategic business unit and from 2000, on the main Board, with direct responsibility for the London office. He joined the Company in April 2005.



Richard Michell

## **Richard Michell, Executive Director**

Richard is a Fellow of the Chartered Institute of Management Accountants. From 1981 to 1988 he was Finance Manager and Company Secretary for Geosource UK Ltd, a subsidiary of Geosource Inc, a leading US oil exploration company. From 1988 to 1996 he was Treasurer of Sony Broadcast and Communication Ltd, a subsidiary of Sony Corporation of Japan. He joined the Company in April 1997.



John Levin

## **John Levin, Non-Executive Director**

John graduated with a Bachelor of Commerce (Honours) degree in Business Information Systems. He is involved in the insurance industry in the United Kingdom and specialises in Information Technology solutions. In 1992 John joined IGI Insurance Company Limited, was the Managing Director from March 1995 to March 1997 and remains a director of all the IGI Group trading companies. He is a founder of Telecom *plus* and joined the board in February 1997.



Keith Stella

## **Keith Stella, Non-Executive Director**

Keith is a Senior Partner in the Corporate Finance department with City solicitors, Berwin Leighton Paisner, and provides legal advice to a wide range of clients including a number of listed public companies. He joined the Company in July 2000.



Dominic Wheatley

## **Dominic Wheatley, Non-Executive Director**

After several years at an advertising agency, in 1984 Dominic co-founded Domark Limited, a software entertainment developer and publisher for the home computer market, which was acquired by Eidos plc in 1995. He served as Chief Operating Officer of Eidos plc and Chief Executive of Eidos Inc in the USA until 1997. He is Chairman of Highway Capital plc and Kuju plc, Chief Executive of Bright Things plc and a Director of Statpro plc. He joined the Company in May 2000.

## **Registered Office**

Dryden House,  
The Edge Business Centre,  
Humber Road,  
London NW2 6EW

## **Secretary**

Brian Korel

## **Stockbroker**

KBC Peel Hunt Ltd  
111 Old Broad Street,  
London EC2N 1PH

## **Solicitors**

Nabarro Nathanson  
Lacon House,  
Theobald's Road,  
London WC1X 8RW

## **Auditors**

PKF  
Farringdon Place,  
20 Farringdon Road,  
London EC1M 3AP

## **Bankers**

Barclays Bank plc  
54 Lombard Street,  
London EC3V 9EX

## **Registrars**

Capita Registrars  
The Registry,  
34 Beckenham Road,  
Beckenham,  
Kent BR3 4TU

**TELECOM *plus* PLC**  
**CHAIRMAN'S STATEMENT**

I am pleased to report further growth across all areas of our business.

Turnover has increased by 25% to £102m (2004: £82m), and although in line with market expectations, pre-tax profits for the year have fallen slightly to £10.1m (2004: £10.6m) due to losses in our gas supply business. The Board however remain confident in the prospects for the Company and have therefore increased the final dividend to 6p (2004: 5.5p) making a total of 11p (2004: 10p) for the year.

We ended the financial year with over 205,000 customers (2004: 178,000), subscribing for over 401,000 services (2004: 312,000), an increase in services provided of 29% during the year. This steady increase in the average number of services being taken reflects the continued success of our "Club" concept, where over half our total customers are now members.

We experienced a number of customer service issues during the first few months of 2005, primarily as a result of technical problems with our new Broadband service, which adversely affected the confidence of our distribution channel, and hence their activity. These issues have now been resolved and the activity of our distribution channel has begun to pick up over the last few weeks. Following a major overhaul of working practices, performance measurement criteria and incentives, and the recruitment of key additional members of the team, our customer service has returned to, and indeed exceeded, its previously high standards.

As a result of this renewed confidence we are seeing record levels of customers signing up for our Broadband service, which we regard as strategically important for our future growth. Indeed, our Broadband business has more than doubled over the last 6 months, albeit from a relatively small starting point.

Our Distributor base has also experienced steady growth to around 15,500 during the year (2004: 13,000) and I would like to thank all our Distributors, and indeed our staff as well, for their important contribution to the continuing growth and success of the Company.

The supply of domestic gas and electricity now represents a substantial proportion of group turnover, accounting for 40% of our Virtual Network Business during the year (2004: 19%). As explained in my statement which accompanied our interim figures, this growth from a low base during a period of rising wholesale gas prices has meant we incurred a gross loss of over £3m in our gas business during the year.

I am delighted we were able to raise £12.1m recently (net of expenses) through the issue of new shares to a small number of leading City Institutions. That we were able to do so at a difficult time for equity markets, and at a very small discount to the market price, was a significant achievement. This fundraising was necessary to support the greater working capital requirements associated with our fast growing energy supply business, together with the need for a larger capital base to undertake systematic hedging activities in order to align our long-run average commodity costs with our principal competitors. It will however take some time before this process can be completed.

Our two investments, TML (a wholly owned subsidiary) and Oxford Power Holdings (trading as Opus, and in which we hold an effective 20% equity interest) continue to perform in line with expectations. In particular, Opus is trading profitably and continuing to grow notwithstanding the difficult wholesale market conditions, and we are becoming increasingly confident in their future prospects.

We have substantially strengthened our management team over the last few months with the appointment of Stephen Davis as Group Finance Director (who joined us from BDO Stoy Hayward where he was managing partner of their London office), Andy McWilliams as Sales Director responsible for our Independent Distribution Channel (who joined us from Ocado) and Ravi Khanna as Customer Service Director. We have also filled several other key senior management posts.

The final dividend will be paid on 14 July 2005 to shareholders on the register on 24 June 2005 and is subject to approval by shareholders at the Company's Annual General Meeting which is being held on 13 July 2005.

**TELECOM *plus* PLC**  
**CHAIRMAN'S STATEMENT**  
**(Continued)**

**Outlook**

Whilst each of the markets in which we operate remains extremely competitive, we retain our unique position as the only fully integrated multi-utility supplier. Our low operating costs and efficient systems enable our customers to benefit from good value across our entire range of services, with the additional benefit of receiving just a single bill each month.

We have recently begun to provide line rental to our domestic customers, removing the need for them to maintain any direct billing relationship with BT. Around 6,000 customers are already benefiting from this enhancement to our standard Home Phone service. We believe this is an important strategic development for the business, which will further reduce churn and improve customer satisfaction over the medium term, as well as contributing to group profits in due course.

We will shortly be launching a new range of services and tariffs specifically targeted at the SME market under the umbrella "The Utility Warehouse Discount Club for Business". This area has obvious attractions due to our large base of Independent Distributors and the many personal relationships they typically have with this segment of the business market.

The wholesale forward price of gas for the coming winter remains close to record highs, and our average cost price for the commodity will therefore again be substantially greater this year than our competitors (who will be reaping the benefit from historical hedging activity carried out when prices were substantially lower). Although Centrica recently announced their domestic customers could expect a further price increase of around 13% this year, and we will be increasing our prices later this year as well, we still anticipate significant losses within our gas supply business during the second half of this year.

We are anticipating a significant increase in turnover during the current year as both our customer base and the number of services taken by each customer continue to grow. Profits however are expected to be slightly lower due to the continuing impact of losses in our gas business and increased customer acquisition costs. Nevertheless we remain committed to growing our energy business and are confident that we will earn significant profits from this sector in due course.

We remain focused on the profitable long term growth of the business and intend to maintain a progressive dividend policy which reflects the Company's anticipated growth in earnings. Dividend increases over the next few years will however need to be considered carefully, given the need to build our retained earnings in line with the greater working capital requirements of the business as it continues to grow.

Finally, as was announced some two months ago, Richard Michell is retiring as a full-time executive director at the end of August. Richard joined the company in April 1997, was part of the birth of the business, and has been a key member of the management team. I am delighted he will remain on the Board as a non-executive director.

**Peter Nutting**  
Chairman

9 June 2005

**TELECOM *plus* PLC**  
**DIRECTORS' REPORT**  
**YEAR ENDED 31 MARCH 2005**

The directors have pleasure in presenting their report and the audited financial statements for the year to 31 March 2005.

**PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

The principal activity of the Group is the supply of fixed telephony, mobile telephony, gas, electricity and internet services to residential and small business customers, who are acquired through a network of independent distributors.

The Group continues to expand its subscriber base and develop the systems which are required to provide its customers with a high standard of service.

A full review of business and future developments is contained in the Chairman's Statement.

**RESULTS AND DIVIDENDS**

The profit for the year after tax was £7,264,000 (2004: £7,454,000). An interim dividend of 5.0 pence per share (2004: 4.5 pence per share) was paid during the year and a final dividend of 6.0 pence per share (2004: 5.5 pence per share) is proposed to be paid, leaving a profit of £63,000 (2004: £1,295,000) to be transferred to reserves.

**DIRECTORS**

The names of directors who served during the year and their interests in the share capital of the Company at the start and end of the year are:

<u>Name</u>	<u>Date of appointment</u>	<u>Ordinary 5p shares held at</u> <u>31 March 2005</u>	<u>31 March 2004</u>
John Levin*	7 February 1997	2,257,996	2,257,996
Richard Michell	3 April 1997	376,686	376,686
Peter Nutting*	3 April 1997	851,750	851,750
Keith Stella*	17 July 2000	1,843,500	1,543,500
Dominic Wheatley*	25 May 2000	238,060	238,060
Charles Wigoder	13 February 1998	15,348,541	15,208,541

\* indicates non-executive directors

Stephen Davis was appointed a Director of the company on 11 April 2005.

In respect of the above shareholdings, Mr Wigoder and Mr Nutting and Mr Stella have non beneficial interests in 1,800,000, 20,000 and 1,800,000 shares respectively (2004: 1,500,000, 20,000 and 1,500,000).

Mr Levin's shareholding includes 2,212,996 shares owned by Sheldon Management Limited, IGI Insurance Company Limited and Shield Direct Insurance Services Limited.

On 7 April 2005 the Directors made the following purchases of shares:

John Levin	24,800
Stephen Davis	33,230
Keith Stella	4,960
Charles Wigoder	50,000

Other than these transactions, there have been no movements in any of the Directors' interests in the share capital of the Company between 1 April 2005 and 3 June 2005.

Mr Wigoder and Mr Nutting retire by rotation and offer themselves for re-election at the forthcoming Annual General Meeting. Mr Davis, who was appointed since last year, retires and offers himself for re-election at the forthcoming Annual General Meeting.

**TELECOM *plus* PLC**  
**DIRECTORS' REPORT**  
**YEAR ENDED 31 MARCH 2005**  
**(Continued)**

**POST BALANCE SHEET EVENT**

On 1 June 2005, the Company placed 6,000,000 new ordinary shares of 5p each at a price of 205p per share, which raised approximately £12,100,000 (net of issue expenses).

**CREDITORS PAYMENT POLICY**

It is the policy of the Company in the year to 31 March 2006 to pay all suppliers according to the terms agreed. At the year end trade creditors were on average 43 days old (2004: 45 days).

**DONATIONS**

The Company made charitable donations of £32,000 during the year (2004: £5,000). No political donations were made during either year.

**SUBSTANTIAL SHAREHOLDERS**

As at 3 June 2005, in addition to the Directors, the following have notified substantial shareholdings in the Company.

	<u>Number of Shares</u>	<u>Percentage of Issued Share Capital</u>
Fidelity Investments	5,997,765	8.8%
Jupiter Asset Management Limited	2,975,000	4.4%

By Order of the Board

**Brian Korel**  
Company Secretary

**TELECOM *plus* PLC**  
**CORPORATE GOVERNANCE STATEMENT**  
**YEAR ENDED 31 MARCH 2005**

The Board has complied with the revised Combined Code produced by the Committee on Corporate Governance (except where detailed below) and has applied the Principles of Good Governance in the following ways:

**The Board of Directors**

The Board meets regularly to review the progress of the Company and to discuss the measures required for its future development. Directors are provided in advance with a formal schedule of matters to be discussed at each meeting, and with the information needed to monitor the progress of the Company. Records of meetings and the decisions of the Board are maintained by the Company Secretary and are approved by the Board at the following meeting. All directors have access to the advice and services of the Company Secretary, and if required are able to take independent advice at the Company's expense in the furtherance of their duties. Any question of the removal of the Company Secretary is a matter for the Board as a whole. The members of the Board are all experienced and well qualified and further training has not been judged necessary to date. Due to the size and nature of the Company and the time required to conduct a formal evaluation of the Board, as envisaged by Section A.6 of the revised Combined Code, such an evaluation was considered inappropriate. No formal meeting took place during the year to appraise the performance of the Chairman as the Board did not consider it would be useful. The Chairman informally discusses issues with other non-executive directors periodically.

**Table of Attendance at Meetings during the year ended 31 March 2005**

Name of Director	Board Meeting	Remuneration Committee Meeting	Audit Committee Meeting	Nominations Committee Meeting
Number of meetings	9	4	4	2
Peter Nutting	8	4	4	2
Keith Stella	8	4	4	2
Dominic Wheatley	7	3	3	2
John Levin	7			1
Charles Wigoder	9			2
Richard Michell	9			

**Chairman and Chief Executive Officer**

There is a clear division of responsibilities at the head of the Company with the Chairman, Peter Nutting, responsible for running the Board, and the Chief Executive, Charles Wigoder, responsible for running the Group's business.

**Board Balance**

The Board is composed of three executive directors and four non-executive directors. The non-executive directors have wide experience and a variety of skills. All are independent of management and are free from any business or other relationship which could materially interfere with the exercise of their independent judgement. Keith Stella has agreed to act as the senior independent non-executive director.

**Supply of Information**

Information is supplied to the Board in a timely manner with Board papers and accounts being provided in advance of meetings. When the Board requests additional information it is provided.

**Re-election**

One third of all directors are required to retire by rotation at each Annual General Meeting and all newly appointed directors are required to offer themselves for election by the shareholders at the next Annual General Meeting.

**TELECOM *plus* PLC**  
**CORPORATE GOVERNANCE STATEMENT**  
**YEAR ENDED 31 MARCH 2005**  
**(Continued)**

**Directors' Remuneration**

The Board has a Remuneration Committee whose responsibility it is to ensure that the remuneration of directors is sufficient to attract, retain and motivate people of the quality required. The Remuneration Committee is composed of three non-executive directors, including Peter Nutting (who is also chairman of this Committee). The revised Combined Code (provision B.2.1) states that the Committee should only comprise independent non-executive directors and does not define the Chairman of the Board as independent, however the Board considers that Mr. Nutting makes a valuable contribution to the Remuneration Committee due to his considerable business experience.

The Directors' Remuneration Report giving the names of the members of the committee and details of the emoluments of each director may be found on pages 8 and 9.

**Audit Committee and Auditors**

The Audit Committee is composed of three non-executive directors, P. Nutting (Chairman of the committee), D. Wheatley and K. Stella. The revised Combined Code (provision C.3.1) states that the Committee should only comprise independent non-executive directors and does not define the Chairman of the Board as independent, however the Board considers that Mr. Nutting's financial knowledge and experience is important to the Audit Committee. The committee has written terms of reference which describe the authority and duties which have been delegated to it by the Board. Among these duties are the review of the risk assessment, the internal controls, financial reporting and the results of the audit, the appointment of external auditors and the direction of the auditors to investigate any matters of concern.

In its meetings the committee receives a report on the risk assessment, the system of internal controls and its effectiveness, and uses the meeting with the auditors as a further means of evaluating these measures.

The Auditors have provided certain tax services to the Group during the year. The Audit Committee have reviewed the services provided and consider that auditor objectivity and independence are not compromised. The Audit Committee considers that auditors are best placed to provide these services.

**Nomination Committee**

The Nomination Committee is composed of P. Nutting (Chairman of the committee), D. Wheatley, J Levin, K. Stella and C Wigoder. The committee has written terms of reference which describe the authority and duties which have been delegated to it by the Board. The purpose of the Nomination Committee is to make recommendations to the Board on the appointment of new executive and non-executive directors, including making recommendations as to the composition of the Board generally and the balance between executive and non-executive directors appointed to the Board.

**Relations with Shareholders**

It is the policy of the Group to maintain a dialogue with institutional shareholders and to keep them informed about the objectives of the business. The Board considers that it is appropriate for the Chief Executive to discuss issues with major shareholders. The Chief Executive feeds back comments from major shareholders to the other directors.

Notice of the Annual General Meeting and related papers are sent to all shareholders at least 20 working days before the meeting. Separate resolutions are proposed for each issue including the adoption of the Report and Accounts, the Directors' Remuneration Report and the appointment of auditors. Proxy votes are counted and the meeting is advised of the number of proxies lodged for and against each resolution. The Chairman of the Audit, Remuneration and Nomination Committees and the remaining non-executive directors are available to answer questions. Shareholders who attend are invited to ask questions and take part in the meeting.

**Financial reporting**

The Board believes that the Report and Accounts contained in this document represent a balanced and understandable assessment of the Group's position and prospects. The directors acknowledge their responsibility for preparing the accounts and the auditors have made a statement in this regard.

**TELECOM *plus* PLC**  
**CORPORATE GOVERNANCE STATEMENT**  
**YEAR ENDED 31 MARCH 2005**  
**(Continued)**

**Internal control**

The Board of Directors has continued to review the internal controls of the Group and the principal risks which the Group faces. Measures have been taken to reduce certain risks and improve control over the assets of the Group. The Group is fully compliant with the guidance given by the Turnbull Committee. The Board acknowledges that it is responsible for the Group's system of internal control and risk management, and has completed the procedures for review and evaluation of internal controls and risk management. It is however recognised that no system can eliminate risk entirely. The Board and Audit Committee have reviewed the need for an internal audit function and have concluded that the size and nature of the Group do not justify such a function at present.

**Going concern**

The Directors believe, after making inquiries they consider to be appropriate, that the Group has adequate resources to continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

**Policy statement**

The Group has been in compliance with the revised Combined Code throughout the year, save for as referred to above. Careful consideration has been given by the Board to the departures from the revised Combined Code. In all instances, the Board has considered the commercial implications and concluded that the instances of non-compliance were not in any way to the detriment of the Company.

**TELECOM *plus* PLC**  
**DIRECTORS' REMUNERATION REPORT**  
**YEAR ENDED 31 MARCH 2005**

This report, which has been prepared in accordance with the provisions of the revised Combined Code, has been approved by the Board of Directors for submission to the shareholders for approval at the forthcoming Annual General Meeting. The section under the heading "Directors' remuneration" has been subject to external audit.

**Remuneration Committee**

The Board of Directors is responsible for establishing an overall remuneration policy for the Company. The Remuneration Committee meets regularly to review the level of remuneration of the directors and senior management of the Company and make the appropriate recommendations to the Board. The committee is composed of three non-executive directors, P. Nutting (Chairman of the Committee), D. Wheatley and K. Stella. As detailed in the Corporate Governance Statement, under the provisions of the revised Combined Code, Mr Nutting, being Chairman of the Company, is not considered to be an independent non-executive director. The Board however considers that Mr Nutting's experience is important to the Remuneration Committee.

**Remuneration policy**

The overall remuneration policy is to ensure that the company is able to attract, motivate and retain executives of the quality necessary to ensure the successful management of the company. The remuneration of directors and senior management is decided having regard to their performance, experience and/or to the level of remuneration of individuals with the same responsibilities in other companies of a similar size and type. All executive directors and senior management have share options or significant shareholdings. The non-executive directors are also significant shareholders and as such the company's remuneration policy is based on the principle that the fortunes of the directors and senior management are aligned with those of shareholders. Changes in the remuneration of directors and senior management are decided by the committee in consultation with the Chief Executive. There are no plans to make changes to this procedure.

**Components of remuneration**

All executive directors receive a basic salary. In addition, the service contracts of Mr Wigoder and Mr Michell provide for bonuses to be paid, in the case of the former the bonus is 1% of net profit before tax, in the case of the latter the bonus is discretionary and related to performance. Mr Wigoder's service contract provides for pension contributions equal to 10% of his basic salary to be paid by the Company. The Company also makes contributions into Mr Michell's personal pension plan. Both Mr Wigoder and Mr Michell were provided with private health insurance during the period.

The remuneration of the non-executive directors consists of fees for their services in connection with Board and Board Committee meetings. Their fees, which are reviewed from time to time, were determined having regard to the level of fees paid by similar sized companies, the amount of dividend income received and the demands made on their time in order to properly discharge their duties.

**Directors' remuneration**

Audited details of directors' remuneration for the year are as follows:-

	<b><u>Basic Salary &amp; Fees</u></b>	<b><u>Bonus</u></b>	<b><u>Benefits in Kind</u></b>	<b><u>Pension Contributions</u></b>	<b><u>2005 Total</u></b>	<b><u>2004 Total</u></b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
John Levin	-	-	-	-	-	-
Richard Michell	89	-	2	7	98	97
Peter Nutting, Chairman	15	-	-	-	15	15
Keith Stella	22	-	-	-	22	22
Dominic Wheatley	12	-	-	-	12	12
Charles Wigoder	180	100	1	18	299	305
	318	100	3	25	446	451

No director benefits from a long term incentive scheme. No director holds or has held any options over the shares of the Company during the year.

**TELECOM *plus* PLC**  
**DIRECTORS' REMUNERATION REPORT**  
**YEAR ENDED 31 MARCH 2005**  
**(Continued)**

**Share option schemes**

The Company has two share option schemes, one of which is available to employees, the other to the distributors of the Company.

All employees are issued with options over shares in the Company, the number of shares being in proportion to their seniority or grade of employment. The employee scheme is not subject to any performance criteria. The committee believes it is not appropriate to impose such criteria within a scheme which seeks to provide incentives to such a wide body of people.

The distributor share option scheme exists to provide incentives to the people who are most successful in gathering new customers for the Company. These people, though not employees of the Company, are nevertheless essential to the development and prosperity of the Company, and it is the opinion of the committee that the distributor share option scheme is an important factor in their motivation.

**Directors' contracts of service**

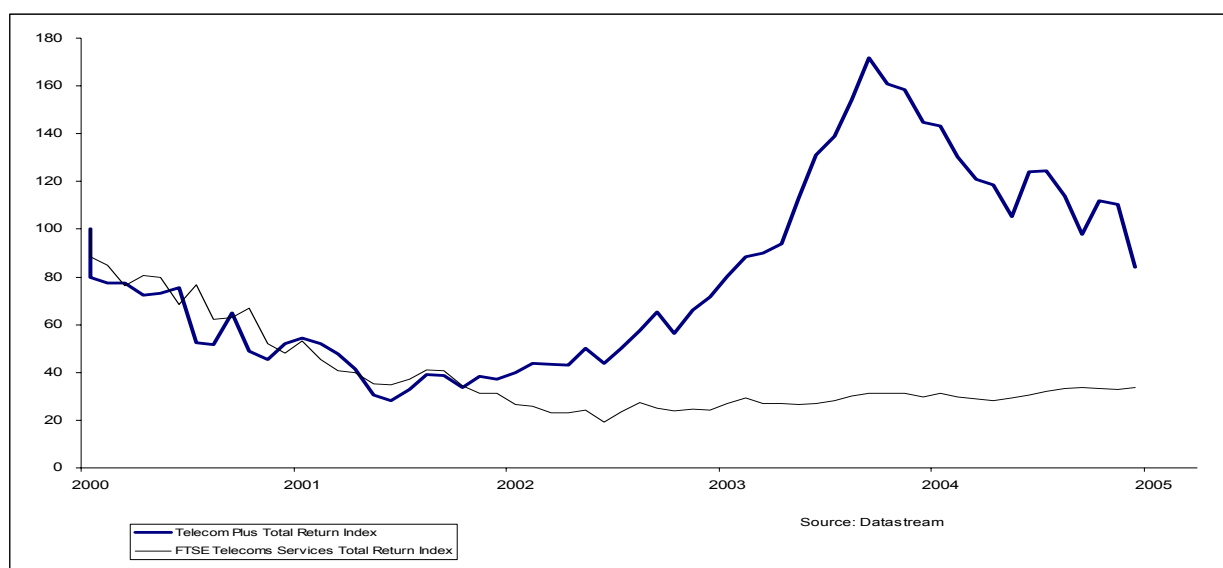
There are Service Contracts or Letters of Appointment for Peter Nutting (4 April 1997), Charles Wigoder (31 March 1998), Richard Michell (4 April 1997), John Levin (4 April 1997), Dominic Wheatley (17 July 2000) and Keith Stella (17 July 2000). All of these provide notice periods of three months on either side with the exception of Mr Wigoder in whose case the notice period is twelve months on either side. No contract provides for compensation for loss of office.

**Pension schemes**

The Company makes no contributions to the pensions of any directors except Mr Wigoder and Mr Michell. Details of payments made to the personal pension plans of Mr Wigoder and Mr Michell are shown above.

**Performance Graph showing total shareholder return**

The following graphs show the Company's performance measured by total shareholder return compared with the performance of the FTSE Telecom Services Index for the period from 1 April 2000 to 31 March 2005. The Remuneration Committee has selected these indices because they are the most appropriate for this purpose.



**P. Nutting**  
**Chairman of the Remuneration Committee**  
**On behalf of the Board**  
9 June 2005

**TELECOM *plus* PLC**  
**STATEMENT OF DIRECTORS' RESPONSIBILITIES**  
**REPORT AND ACCOUNTS**  
**YEAR ENDED 31 MARCH 2005**

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

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

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

The directors are responsible for ensuring that the directors' report, the directors' remuneration report and other information included in the annual report are prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring that the annual report includes all information required by the Listing Rules of the Financial Services Authority.

The maintenance and integrity of the Telecom *plus* plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and accordingly, the auditors accept no responsibility for any changes that may have occurred to the information contained in the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in the annual reports may differ from legislation in other jurisdictions.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TELECOM *PLUS* PLC**

We have audited the financial statements of Telecom *plus* plc for the year ended 31 March 2005 which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Group's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

### **Opinion**

In our opinion:

- the financial statements give a true and fair view of the state of the Company's and the Group's affairs as at 31 March 2005 and of the Group's profit for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

**PKF (UK) LLP**  
Registered Auditors

London, UK  
9 June 2005

**TELECOM *plus* PLC**  
**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**YEAR ENDED 31 MARCH 2005**

	<u>Notes</u>	<u>2005</u> <u>£'000</u>	<u>2004</u> <u>£'000</u>
<b>Turnover</b>	2	<b>102,467</b>	81,828
Cost of sales		<u>77,747</u>	<u>56,590</u>
<b>Gross profit</b>		<b>24,720</b>	25,238
Sales and marketing costs		<b>5,966</b>	6,207
Administrative expenses		<u>9,221</u>	<u>8,751</u>
<b>Operating profit</b>	3	<b>9,533</b>	10,280
Interest receivable		<b>533</b>	372
Interest payable	6	<u>(14)</u>	<u>(20)</u>
<b>Profit on ordinary activities before taxation</b>		<b>10,052</b>	10,632
Tax on profit on ordinary activities	7	<u>2,788</u>	<u>3,178</u>
<b>Profit after taxation</b>		<b>7,264</b>	7,454
Dividends	8	<u>7,201</u>	<u>6,159</u>
Retained profit for the year	18	<u><b>63</b></u>	<u>1,295</u>
Basic earnings per share	22	<b>11.7p</b>	12.2p
Diluted earnings per share	22	<b>11.5p</b>	11.9p
Dividend per share	8	<b>11.0p</b>	10.0p

The Group has no recognised gains or losses other than the profit for the period.

All amounts relate to continuing activities.

**TELECOM *plus* PLC**  
**CONSOLIDATED BALANCE SHEET**  
**AS AT 31 MARCH 2005**

	<u>Notes</u>	£'000	<u>2005</u>	£'000	£'000	<u>2004</u>	£'000
<b>FIXED ASSETS</b>							
Tangible assets	9	2,006			1,903		
Intangible assets	10	3,286			3,742		
Investments	11	1,038			1,038		
		-----			-----		
				<b>6,330</b>			6,683
<b>CURRENT ASSETS</b>							
Stock	12	1,134			1,146		
Debtors (due within one year)	13	15,805			9,164		
Debtors (due after one year)	13	3,112			2,666		
Cash		6,275			9,857		
		-----			-----		
		<b>26,326</b>			22,833		
<b>CREDITORS</b>							
Amounts falling due within one year	14	19,027			16,502		
		-----			-----		
<b>NET CURRENT ASSETS</b>				<b>7,299</b>			6,331
				-----			-----
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>				<b>13,629</b>			13,014
				=====			=====
 <b>CAPITAL AND RESERVES</b>							
Called up share capital	17		<b>3,108</b>				3,076
Share premium account	18		<b>7,145</b>				6,625
Profit and loss account	18		<b>3,376</b>				3,313
			-----				-----
<b>SHAREHOLDERS' FUNDS</b>	19		<b>13,629</b>				13,014
			=====				=====

Approved by the board on 9 June 2005.

**Charles Wigoder** Director

**Stephen Davis** Director

**TELECOM *plus* PLC**  
**COMPANY BALANCE SHEET**  
**AS AT 31 MARCH 2005**

	<u>Notes</u>	£'000	<u>2005</u>	£'000	£'000	<u>2004</u>	£'000
<b>FIXED ASSETS</b>							
Tangible assets	9	2,004			1,898		
Investments	11	1,746			2,734		
		-----			-----		
				<b>3,750</b>			4,632
<b>CURRENT ASSETS</b>							
Stock	12	1,134			1,146		
Debtors (due within one year)	13	13,798			7,332		
Debtors (due after one year)	13	3,112			2,634		
Cash		6,273			9,605		
		-----			-----		
		<b>24,317</b>			20,717		
<b>CREDITORS</b>							
Amounts falling due within one year	14	16,837			13,318		
		-----			-----		
<b>NET CURRENT ASSETS</b>				<b>7,480</b>			7,399
				-----			-----
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>				<b>11,230</b>			12,031
				=====			=====
<b>CAPITAL AND RESERVES</b>							
Called up share capital	17		3,108			3,076	
Share premium account	18		7,145			6,625	
Profit and loss account	18		977			2,330	
			-----			-----	
<b>SHAREHOLDERS' FUNDS</b>	19		<b>11,230</b>			12,031	
			=====			=====	

Approved by the board on 9 June 2005.

**Charles Wigoder** Director

**Stephen Davis** Director

**TELECOM *plus* PLC**  
**CONSOLIDATED CASH FLOW STATEMENT**  
**YEAR ENDED 31 MARCH 2005**

	<u>Notes</u>	<u>2005</u> £'000	<u>2004</u> £'000
<b>Reconciliation of operating profit to cash flow from operating activities</b>			
Operating profit		9,533	10,280
Goodwill amortisation		456	456
Depreciation		538	487
(Profit) on disposal of fixed assets		(25)	(28)
Decrease/(increase) in stock		12	(556)
(Increase) in debtors		(6,887)	(1,014)
Increase in creditors		2,122	481
Amortisation of loan stock issue costs		6	24
		<hr/>	<hr/>
<b>Net cash flow from operating activities</b>		<b>5,755</b>	<b>10,130</b>
		<hr/> <hr/>	<hr/> <hr/>
<b>CASH FLOW STATEMENT</b>			
<b>Net cash flow from operating activities</b>		<b>5,755</b>	<b>10,130</b>
<b>Returns on investments and servicing of finance</b>	23	<b>519</b>	<b>346</b>
<b>Capital expenditure</b>	23	<b>(616)</b>	<b>(416)</b>
<b>Corporation tax paid</b>		<b>(3,190)</b>	<b>(2,109)</b>
<b>Dividends paid</b>		<b>(6,498)</b>	<b>(4,717)</b>
		<hr/>	<hr/>
<b>Net cash flow before management of liquid resources and financing</b>		<b>(4,030)</b>	<b>3,234</b>
<b>Financing</b>	23	<b>448</b>	<b>567</b>
		<hr/>	<hr/>
<b>(Decrease)/increase in cash</b>		<b>(3,582)</b>	<b>3,801</b>
		<hr/> <hr/>	<hr/> <hr/>
<b>Reconciliation of net cash flow to movement in net funds</b>	24		
<b>(Decrease)/increase in cash</b>		<b>(3,582)</b>	<b>3,801</b>
Conversion of loan stock to equity shares		82	276
Redemption of Loan Stock		22	-
		<hr/>	<hr/>
<b>Movement in net funds for the year</b>		<b>(3,478)</b>	<b>4,077</b>
<b>Net funds at 1 April 2004</b>		<b>9,753</b>	<b>5,676</b>
		<hr/>	<hr/>
<b>Net funds at 31 March 2005</b>		<b>6,275</b>	<b>9,753</b>
		<hr/> <hr/>	<hr/> <hr/>

**TELECOM *plus* PLC**  
**NOTES AND ACCOUNTING POLICIES**  
**YEAR ENDED 31 MARCH 2005**

**1 ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of the accounts of the Group are described below.

- (a) **Basis of accounting**  
The accounts are prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards.
- (b) **Group accounts**  
The group financial statements consolidate the accounts of Telecom *plus* PLC and its subsidiaries. The results of subsidiaries are included from the date of acquisition and up to the date of disposal.
- As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is provided for Telecom *plus* PLC.
- (c) **Depreciation**  
Depreciation is provided on all tangible fixed assets except for land, calculated to write off the cost less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:-
- |                               |                       |
|-------------------------------|-----------------------|
| Freehold buildings            | - twenty five years   |
| Leasehold improvements        | - three years         |
| Computer and office equipment | - three to five years |
| Motor vehicles                | - four years          |
- Freehold land is not depreciated.
- (d) **Stock**  
Stock is stated at the lower of cost and net realisable value.
- (e) **Deferred taxation**  
Deferred taxation is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at rates expected to apply when they reverse based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the accounts. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.
- (f) **Goodwill**  
Goodwill arising on acquisitions is capitalised, classified as an Intangible Fixed Asset on the balance sheet and amortised over its useful economic life of 10 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.
- (g) **Turnover**  
Turnover comprises the value of sales (excluding VAT) of goods and services delivered in the year in the normal course of business, including accrued income for amounts delivered but not invoiced at the year end.
- (h) **Operating lease rentals**  
All operating lease rentals are charged to the profit and loss account over the term of the lease on a straight line basis.
- (i) **Pensions**  
The Group makes contributions to certain employees' personal pension plans. These are charged to the Profit and Loss Account in the year in which they become payable.
- (j) **Investments**  
Fixed asset investments are included in the balance sheet at cost less any provision for impairment.

**TELECOM *plus* PLC**  
**NOTES AND ACCOUNTING POLICIES**  
**YEAR ENDED 31 MARCH 2005**

**2 TURNOVER AND SEGMENTAL ANALYSIS**

The activities of the Group divide into two segments: the Distribution Business, which is responsible for obtaining new customers, and the Virtual Network Business, which supplies airtime, gas, electricity and value added services to those customers. All of its activities are carried out in the UK.

	<u>2005</u> <u>£'000</u>	<u>2004</u> <u>£'000</u>
<i>Virtual Network</i>		
Turnover	99,700	79,004
Operating profit	12,066	13,770
Net assets	15,378	14,299
<hr/>		
<i>Distribution</i>		
Turnover	2,767	2,824
Operating loss	(2,533)	(3,490)
Net liabilities	(1,749)	(1,285)
<hr/>		

**3 OPERATING PROFIT**

**£'000**

**£'000**

The operating profit is stated after charging:

Depreciation	- owned assets	538	487
(Profit) on disposal of fixed assets		(25)	(28)
Operating lease rentals	- land and buildings	154	144
Auditors' remuneration	- audit services	51	49
	- tax services	16	20
Amortisation of goodwill		456	456
		<hr/>	<hr/>

**4 STAFF COSTS**

**£'000**

**£'000**

Wages and salaries	4,879	4,291
Social security costs	490	451
Pension contributions	75	69
		<hr/>
		5,444
		<hr/>

**Number**

**Number**

Average number employed by the Group during the period (excluding directors)

185

163

**5 DIRECTORS' REMUNERATION**

**£'000**

**£'000**

The aggregate remuneration of the directors was as follows:

Salary, fees and other benefits	421	427
Pension contributions	25	24
		<hr/>
		446
		<hr/>

The emoluments of the highest paid director were £281,000 (2004: £287,000) and pension costs were £18,000 (2004: £18,000). Two directors had contributions paid to their personal pension schemes. Details of directors' emoluments, pension contributions and interests in share options are included in the Directors' Remuneration Report.

**TELECOM *plus* PLC**  
**NOTES AND ACCOUNTING POLICIES**  
**YEAR ENDED 31 MARCH 2005**

6	<b>INTEREST PAYABLE</b>	<u>2005</u> <u>£'000</u>	<u>2004</u> <u>£'000</u>
	Loan stock interest	1	20
	Bank interest	13	-
		<hr/>	<hr/>
		14	20
		<hr/> <hr/>	<hr/> <hr/>
7	<b>TAX ON PROFIT ON ORDINARY ACTIVITIES</b>	<b>£'000</b>	<b>£'000</b>
	The tax charge comprises:-		
	UK corporation tax at 30%	2,979	3,155
	Adjustments in respect of prior years	9	23
		<hr/>	<hr/>
		2,988	3,178
	Deferred tax credit (note 15)	(200)	-
		<hr/>	<hr/>
		2,788	3,178
		<hr/> <hr/>	<hr/> <hr/>

**Factors affecting tax charge for the year**

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

Profit on ordinary activities before tax	10,052	10,632
	<hr/> <hr/>	<hr/> <hr/>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK (30%)	3,016	3,189
Expenses not deductible for taxation purposes	4	3
Deduction in respect of share options exercised	(126)	(97)
Depreciation charge in excess of capital allowances	28	36
(Decrease) in general provisions	(53)	(44)
Trading losses brought forward from prior years	-	(46)
Research and development tax relief	(27)	(23)
Goodwill amortisation	137	137
Adjustments in respect of prior years	9	23
	<hr/>	<hr/>
	2,988	3,178
	<hr/> <hr/>	<hr/> <hr/>

**TELECOM *plus* PLC**  
**NOTES AND ACCOUNTING POLICIES**  
**YEAR ENDED 31 MARCH 2005**

8	DIVIDENDS	2005 £'000	2004 £'000		
	Interim dividend paid 5p (2004: 4.5p) per share	3,102	2,765		
	Final dividend proposed 6p (2004: 5.5p) per share	4,099	3,394		
		7,201	6,159		
		7,201	6,159		
9	TANGIBLE FIXED ASSETS				
Group	Freehold land and buildings £'000	Leasehold improvements £'000	Computer and office equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>					
At 1 April 2004	980	142	2,156	349	3,627
Additions	-	14	645	-	659
Disposals	-	-	(73)	(71)	(144)
	980	156	2,728	278	4,142
At 31 March 2005	980	156	2,728	278	4,142
	980	156	2,728	278	4,142
<b>Depreciation</b>					
At 1 April 2004	65	76	1,450	133	1,724
Charge for the year	20	35	416	67	538
Disposals	-	-	(73)	(53)	(126)
	85	111	1,793	147	2,136
At 31 March 2005	85	111	1,793	147	2,136
	85	111	1,793	147	2,136
<b>Net book value</b>					
At 31 March 2005	895	45	935	131	2,006
	895	45	935	131	2,006
At 31 March 2004	915	66	706	216	1,903
	915	66	706	216	1,903
Company	Freehold land and buildings £'000	Leasehold improvements £'000	Computer and office equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>					
At 1 April 2004	980	142	2,035	349	3,506
Additions	-	14	645	-	659
Disposals	-	-	(73)	(71)	(144)
	980	156	2,607	278	4,021
At 31 March 2005	980	156	2,607	278	4,021
	980	156	2,607	278	4,021
<b>Depreciation</b>					
At 1 April 2004	65	76	1,334	133	1,608
Charge for the year	20	35	413	67	535
Disposals	-	-	(73)	(53)	(126)
	85	111	1,674	147	2,017
At 31 March 2005	85	111	1,674	147	2,017
	85	111	1,674	147	2,017
<b>Net book value</b>					
At 31 March 2005	895	45	933	131	2,004
	895	45	933	131	2,004
At 31 March 2004	915	66	701	216	1,898
	915	66	701	216	1,898

Included in the cost of freehold land and buildings is land of £490,000 (2004: £490,000) which is not depreciated.

**TELECOM *plus* PLC**  
**NOTES AND ACCOUNTING POLICIES**  
**YEAR ENDED 31 MARCH 2005**

<b>10</b>	<b>INTANGIBLE FIXED ASSETS</b>	<b><u>Goodwill</u></b> <b>£'000</b>
	<b>Cost</b>	
	At 1 April 2004 and at 31 March 2005	4,558
	<b>Amortisation</b>	
	At 1 April 2004	816
	Charge for the year	456
	At 31 March 2005	1,272
	<b>Net book value</b>	
	At 31 March 2005	3,286
	At 31 March 2004	3,742

**11 INVESTMENTS**

*Fixed asset investments*

	<b>Group</b>	<b><u>Trade</u></b> <b><u>Investment</u></b> <b>£'000</b>
	<b>Cost</b>	
	At 1 April 2004	1,038
	At 31 March 2005	1,038

<b>Company</b>	<b><u>Investment</u></b> <b><u>in subsidiary</u></b> <b><u>companies</u></b> <b>£'000</b>	<b><u>Trade</u></b> <b><u>investment</u></b> <b>£'000</b>	<b><u>Total</u></b> <b>£'000</b>
<b>Shares at cost</b> at 1 April 2004 and 31 March 2005	-	1,038	1,038
<b>Loans</b>			
At 1 April 2004	1,696	-	1,696
Repayments during the year	988	-	988
At 31 March 2005	708	-	708
<b>Total</b>	<b>708</b>	<b>1,038</b>	<b>1,746</b>

**Trade investment**

The trade investment represents the cost of purchasing a 15.8% equity interest in the ordinary share capital of Oxford Power Holdings Limited (OPH). The company also holds warrants in OPH shares which if exercised, would increase its equity interest to 20%.

**Investment in subsidiary companies**

The company owns 100% of the ordinary share capital of Telecommunications Management Limited (TML), being two £1 shares. TML is incorporated in England and Wales. The principal activity of TML is the supply of fixed wire and mobile telecommunications services to business and public sector customers.

**TELECOM *plus* PLC**  
**NOTES AND ACCOUNTING POLICIES**  
**YEAR ENDED 31 MARCH 2005**

12 STOCK	Group		Company	
	<u>2005</u> £'000	<u>2004</u> £'000	<u>2005</u> £'000	<u>2004</u> £'000
<b>Stock comprises the following:</b>				
Mobile phones, smart boxes and related equipment	989	1,005	989	1,005
Marketing materials	145	141	145	141
	1,134	1,146	1,134	1,146
	1,134	1,146	1,134	1,146
13 DEBTORS	Group		Company	
	<u>2005</u> £'000	<u>2004</u> £'000	<u>2005</u> £'000	<u>2004</u> £'000
Due within one year:				
Trade debtors	560	658	259	330
Other debtors	2,379	928	1,797	869
Prepayments and accrued income	12,866	7,578	11,742	6,133
	15,805	9,164	13,798	7,332
	15,805	9,164	13,798	7,332
Due after one year:				
Other debtors	2,912	2,666	2,912	2,634
Deferred taxation asset (note 15)	200	-	200	-
	3,112	2,666	3,112	2,634
	3,112	2,666	3,112	2,634

Prepayments and accrued income includes services provided but not billed of £12,612,000 (2004: £7,483,000).

**TELECOM *plus* PLC**  
**NOTES AND ACCOUNTING POLICIES**  
**YEAR ENDED 31 MARCH 2005**

14 CREDITORS DUE WITHIN ONE YEAR	Group		Company	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	£'000	£'000	£'000	£'000
Trade creditors	5,312	3,640	4,553	2,194
Corporation tax	1,592	1,794	1,246	1,284
Other taxation and social security	520	600	151	158
Accruals and deferred income	7,504	6,976	6,788	6,190
9.5% redeemable convertible unsecured loan stock 2004	-	98	-	98
Dividends	4,099	3,394	4,099	3,394
	<u>19,027</u>	<u>16,502</u>	<u>16,837</u>	<u>13,318</u>

**9.5% redeemable convertible unsecured loan stock 2004**

On 8 June 1999 the Company issued £2.65m 9.5% redeemable convertible unsecured loan stock 2004. Interest on the loan stock was payable on 30 June and 31 December. The loan stock was convertible into ordinary shares of the Company at the rate of two ordinary shares for each £1 (nominal) of loan stock at the option of the loan stock holder, on 30 June and 31 December. Redemption of all remaining unconverted loan stock took place at par on 30 June 2004.

	Group and Company	
	<u>2005</u>	<u>2004</u>
	£'000	£'000
Loan stock issued	2,650	2,650
Loan stock converted	(2,628)	(2,546)
Loan stock redeemed	(22)	-
	<u>-</u>	<u>104</u>
Unamortised issue costs (originally £124,000)	-	(6)
	<u>-</u>	<u>98</u>
Balance at 31 March 2005	<u>-</u>	<u>98</u>

**15 DEFERRED TAXATION**

The movement on deferred taxation is as follows:

	£'000
At 1 April 2004	-
Credit to profit and loss account	200
	<u>200</u>
At 31 March 2005	<u>200</u>

	Amount recognised	
	<u>2005</u>	<u>2004</u>
	£'000	£'000
Tax effect of timing differences because of:		
Decelerated capital allowances	42	-
Other timing differences	158	-
	<u>200</u>	<u>-</u>

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**16 DERIVATIVES AND FINANCIAL INSTRUMENTS**

Treasury activities take place under procedures and policies approved and monitored by the Board. They are designed to minimise the financial risks faced by the Group which primarily arise from interest rate and liquidity risks.

**Interest rate risk**

The Group has historically financed its operations primarily through the issue of equity shares and redeemable convertible unsecured loan stock. The loan stock carried a fixed rate of interest and has now been fully redeemed or converted to equity shares.

**Liquidity risk**

The Group's treasury management policies are designed to ensure the continuity of funding. Currently the operations are strongly cash generating and the Group has significant surplus cash at the year end.

**Foreign currency risk**

The Group does not have any foreign currency exposure.

**Interest rate and currency profile of financial assets and liabilities**

All financial assets and liabilities are denominated in sterling. As permitted by Financial Reporting Standard 13 no further details are set out in respect of short term debtors and creditors. Debtors due after one year comprise £912,000 (2004: £666,000) due from employees and distributors which earns interest at variable rates above Base Rate, and a loan to Oxford Power Holdings Limited of £2,000,000 which earns interest at 1.5% over Base Rate.

**Borrowing facilities**

At 31 March 2005, the Group had undrawn committed bank borrowing facilities of £7,000,000 and also has a facility of £8,500,000 for Bonds, Guarantees and/or Indemnities. Bank facilities are subject to review during the year.

**Fair values**

The Group has entered into forward contracts for a cost of £24,432,000 to purchase gas and electricity for periods of up to thirty months. At the year end, the market value of these contracts exceeded their cost by £7,187,000.

The fair value of all other financial instruments is approximately equal to their book value due to their short term nature and having interest rates similar to the current market rate.

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<b>17</b>	<b>SHARE CAPITAL</b>	<u><b>2005</b></u>	<u><b>2004</b></u>
		<b>£'000</b>	<b>£'000</b>
	<b>Issued share capital</b>		
	Ordinary shares of 5p each		
	Authorised – 80,000,000 (2004: 80,000,000)	<b>4,000</b>	4,000
		<hr/>	<hr/>
	Allotted, called up and fully paid – 62,160,628 (2004: 61,523,764)	<b>3,108</b>	3,076
		<hr/>	<hr/>

At several dates during the year shares were allotted fully paid: 163,140 shares were allotted on conversion of loan stock at 50p and 473,724 shares were allotted for cash on exercise of share options at prices from 22p to 200p. Since the year end the Company issued 6,000,000 new shares by way of a placing at a price of 205 p and has allotted 81,927 shares for cash at prices from 22p to 200p.

**Share options**

The Company has two share option schemes under which options to subscribe for the Company's shares have been granted to certain employees and distributors as follows:

177,502 shares at 22p exercisable between 15 July 2001 and 14 July 2005  
22,500 shares at 24.5p exercisable between 4 January 2002 and 3 January 2006  
27,400 shares at 51.5p exercisable between 1 September 2002 and 31 August 2006  
480,293 shares at 83p exercisable between 30 December 2002 and 29 December 2006  
341,930 shares at 200p exercisable between 5 July 2003 and 4 July 2007  
171,500 shares at 118p exercisable between 15 June 2004 and 14 June 2008  
347,646 shares at 120p exercisable between 4 July 2004 and 3 July 2008  
273,500 shares at 106.5p exercisable between 25 June 2005 and 24 June 2009  
240,000 shares at 140p exercisable between 10 December 2005 and 9 December 2009  
12,000 shares at 147.5p exercisable between 20 January 2006 and 19 January 2010  
594,925 shares at 192.5p exercisable between 5 July 2006 and 4 July 2010  
83,500 shares at 201.0p exercisable between 7 July 2006 and 6 July 2010  
56,500 shares at 375.0p exercisable between 5 January 2007 and 4 January 2011  
88,000 shares at 284.0p exercisable between 14 July 2007 and 13 July 2011  
276,000 shares at 284.0p exercisable between 10 August 2007 and 9 August 2011  
26,000 shares at 202.5p exercisable between 14 December 2007 and 13 December 2011  
52,500 shares at 251.5p exercisable between 27 January 2008 and 26 January 2012  
116,000 shares at 253.0p exercisable between 7 February 2008 and 6 February 2012

At the year end the Company's share price was 187.5 pence and the range during the financial year was 176.5 pence to 355 pence.

<b>18</b>	<b>RESERVES</b>	<b>Group</b>		<b>Company</b>	
		<b>Share Premium Account £'000</b>	<b>Profit &amp; Loss Account £'000</b>	<b>Share Premium Account £'000</b>	<b>Profit &amp; Loss Account £'000</b>
	As at 1 April 2004	<b>6,625</b>	<b>3,313</b>	<b>6,625</b>	<b>2,330</b>
	Premium on issue of shares	<b>520</b>	<b>-</b>	<b>520</b>	<b>-</b>
	Retained profit/(loss) for the year	<b>-</b>	<b>63</b>	<b>-</b>	<b>(1,353)</b>
		<hr/>	<hr/>	<hr/>	<hr/>
	As at 31 March 2005	<b>7,145</b>	<b>3,376</b>	<b>7,145</b>	<b>977</b>
		<hr/>	<hr/>	<hr/>	<hr/>

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**19 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS**

	Group		Company	
	<u>2005</u> £'000	<u>2004</u> £'000	<u>2005</u> £'000	<u>2004</u> £'000
Profit for year	7,264	7,454	5,848	6,729
Dividends	(7,201)	(6,159)	(7,201)	(6,159)
New shares issued	552	843	552	843
Balance brought forward	13,014	10,876	12,031	10,618
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at year end	<u>13,629</u>	<u>13,014</u>	<u>11,230</u>	<u>12,031</u>

**20 FINANCIAL COMMITMENTS**

**Operating leases**

The Group is committed to make annual payments in respect of operating leases for land and buildings as follows:

	<u>2005</u> £'000	<u>2004</u> £'000
Leases expiring:		
Less than 5 years	10	10
Over 5 years	145	145
	<hr/>	<hr/>

**21 RELATED PARTY DISCLOSURES**

The Company has an agreement with Trialfile Limited, a company owned by Charles Wigoder, for the rent of premises at a cost of £72,000 per annum. In accordance with the exemption allowed under FRS 8 no disclosure has been made in these financial statements of any transaction with wholly owned subsidiaries.

**22 EARNINGS PER SHARE**

The calculation of basic earnings per share is based on a profit of £7,264,000 (2004: £7,454,000) and a weighted average of 61,921,044 (2004: 60,898,714) shares in issue.

	<u>2005</u>	<u>2004</u>
Basic earnings per share	11.7p	12.2p
Diluted earnings per share	11.5p	11.9p
	<hr/>	<hr/>

Diluted earnings per share assumes dilutive options and convertible loan notes have been converted into ordinary shares. The calculations are as follows:

	<u>2005</u>		<u>2004</u>	
	Profit £'000	Shares No. 000	Profit £'000	Shares No. 000
Basic earnings	7,264	61,921	7,454	60,899
Dilutive effects - Options	-	1,409	-	1,591
Dilutive effects - Loan notes	-	-	10	208
	<hr/>	<hr/>	<hr/>	<hr/>
Diluted earnings	<u>7,264</u>	<u>63,330</u>	<u>7,464</u>	<u>62,698</u>

**TELECOM *plus* PLC**  
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**23 ANALYSIS OF CASH FLOWS FOR HEADINGS  
NETTED IN THE CASHFLOW**

	<u>2005</u>		<u>2004</u>
	£'000	£'000	£'000
<b>Returns on investments and servicing of finance</b>			
Interest received	533		372
Interest paid	(14)		(26)
	<hr/>		<hr/>
		519	346
		<hr/> <hr/>	<hr/> <hr/>
<b>Capital expenditure</b>			
Purchase of tangible fixed assets	(659)		(467)
Sale of tangible fixed assets	43		51
	<hr/>		<hr/>
		(616)	(416)
		<hr/> <hr/>	<hr/> <hr/>
<b>Financing</b>			
Issue of ordinary share capital	470		567
Redemption of Loan Stock	(22)		-
	<hr/>		<hr/>
<b>Net cash inflow from financing</b>		448	567
		<hr/> <hr/>	<hr/> <hr/>

**24 ANALYSIS OF CHANGES IN NET FUNDS**

	<u>2004</u>	<u>Cash flows</u>	<u>Other</u>	<u>2005</u>
	£'000	£'000	£'000	£'000
Cash at bank	9,857	(3,582)	-	6,275
Loan stock	(104)	22	82	-
	<hr/>	<hr/>	<hr/>	<hr/>
	9,753	(3,560)	82	6,275
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>



Telecom *plus* PLC  
Dryden House  
The Edge Business Centre  
Humber Road  
London  
NW2 6EW

[www.telecomplus.co.uk](http://www.telecomplus.co.uk)