

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

**REPORT AND ACCOUNTS**

**YEAR ENDED 31 MARCH 2004**



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 around 13,000 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.

 **Serviceplus** – Our fixed wire telephony service gives members significant savings on 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.

 **Mobileplus** – With a range of tariff options to suit a wide cross-section of mobile phone users, Mobileplus offers outstanding value and great savings, with a choice of free handsets, free connection and no minimum contract.

 **Electricityplus** – We offer the UK's cheapest domestic electricity to our members, with savings of around 20% per annum compared with the prices charged by their incumbent regional electricity company.

 **Gasplus** – Our members benefit from the UK's cheapest domestic gas prices saving around 30% per annum compared with British Gas prices.

 **go-plus** – 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.

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



### The Utility Warehouse Discount Club

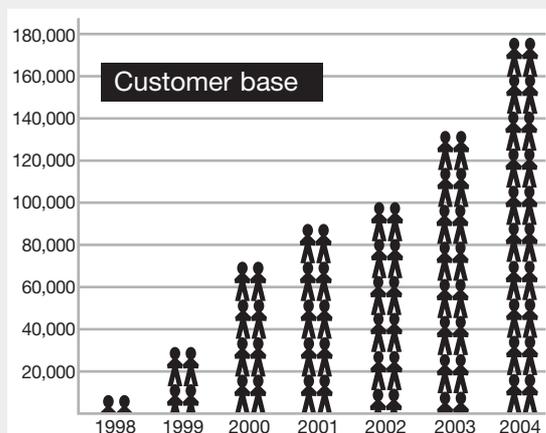
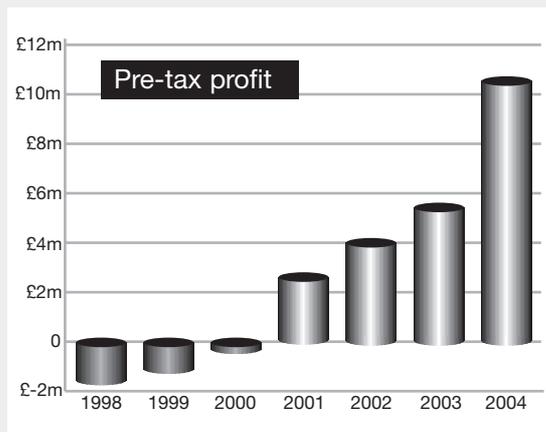
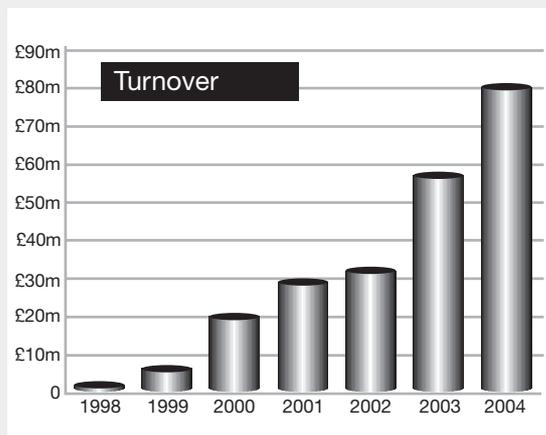
- UK's cheapest domestic gas.
- UK's cheapest domestic electricity.
- Huge mobile savings.
- Guaranteed savings compared to BT's best prices, with unlimited free calls to other club members.
- Great value internet services.
- Exclusive on-line shopping mall.
- Up to £50 "cashback" every year.

TELECOM *plus*  
PLC

# Another year of achievement...



- Turnover up 41% to £82m
- Pre-tax profit up 90% to £10.6m
- Dividend for the year up 74% to 10p per share
- Pre-tax return on capital employed now over 80%
- Over 312,000 services being supplied to more than 178,000 customers
- Over 13,000 distributors
- TML now trading profitably
- Introduction of the Utility Warehouse Discount Club



# Directors, secretary and advisers



Peter Nutting

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

Peter Nutting 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 Jove Investment Trust plc, 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 Wigoder 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.



Richard Michell

## **Richard Michell, Finance Director**

Richard Michell 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 Stella 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 Wheatley 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 a further strong set of results, reflecting significant progress across all areas of our business. We have now successfully transformed ourselves from an alternative supplier of fixed-line telephony services into the UK's first low-cost integrated multi-utility offering gas, electricity, fixed telephony, mobile telephony and internet services.

Pre-tax profits for the year rose by 90% to £10.6m (2003: £5.6m) on turnover which was ahead 41% to £82m (2003: £58m). This reflected another strong performance from our Virtual Network business where operating profits increased by 65% to £13.8m (2003: £8.4m), partially offset by a higher investment within our Distribution business of £3.5m (2003: £3.1m).

We ended the financial year with 178,000 customers (2003: 134,000), subscribing for over 312,000 services (2003: 225,000), an increase in services provided of almost 40% during the year. We are particularly encouraged by the initial response to our introduction of the Utility Warehouse Discount Club concept during October 2003 (a refinement of the new brand we had launched a year earlier), which has led to a marked increase in the average number of services being taken by each new member.

The supply of gas and electricity is beginning to represent a material proportion of group turnover, accounting for 19% of our Virtual Network business during the year (2003: 11%). Due to the strong demand for energy from new customers, we anticipate this will increase further to around 30% of group turnover during the current year.

The two investments which we made during 2002, TML (our wholly owned subsidiary) and Oxford Power Holdings (trading as Opus, and in which we hold a 15.8% equity interest), continue to perform in line with expectations. TML generated a contribution of around £1.2m to group profits (after goodwill amortisation of £0.5m), and Opus has recently achieved profitability at the Operating Profit Level (before direct costs relating to growing their customer base).

Confidence within our distribution channel remains high, with a steady increase in the number of new distributors joining the business. During the last quarter alone, more than 1,500 new distributors joined the Company, taking the total at the year end to almost 13,000 (2003: 10,000). I would like to thank all of them for their important contribution to the continuing growth and success of the Company.

We continue to invest heavily in our call centre facilities. This has produced a significant improvement in the levels of service provided to our customers, with over 90% of all calls being answered within 15 seconds. This is a testament to the commitment and hard work of everyone involved in this important area of our activities.

In view of our solid balance sheet and continued cash generation, your Board is recommending a 69% increase in the final dividend to 5.5p (2003: 3.25p) making a total of 10p (2003: 5.75p) for the full year. This will be paid on 16 July 2004 to shareholders on the register on the 25 June 2004. The final dividend is subject to approval by shareholders at the Company's Annual General Meeting which is to be held on 15 July 2004. We remain committed to the continued profitable long term growth of the business and to maintaining a progressive dividend policy that reflects the Company's anticipated growth in earnings.

**Outlook**

Our recent decision to introduce free fixed-line calls between Club members has already resulted in a substantial uplift in Club membership, both from amongst our existing customers (who had not previously joined the Club), as well as from many new customers who are being referred to the Club in steadily increasing numbers by existing members. We believe this kind of promotional activity is ideally suited to the distribution channel we use, and that the costs of providing these free calls will be substantially off-set by the increased growth and resultant economies of scale within our Virtual Network business.

The combination of our unique multi-service utility proposition, the successful introduction of our new "Club" concept and the exceptional value we are providing to our customers give us great confidence in our ability to deliver sustained growth over the coming years.

Margins in fixed telephony, mobile telephony, internet and electricity all remain extremely satisfactory, however our gas supply business is suffering from severe margin pressure as a result of the sharp increase in wholesale prices which have not yet been fully reflected in end-user tariffs.

Although there are many competitors in each of our principal markets, the barriers to entry preventing others from emulating our integrated business model remain high. My Board colleagues and I continue to look forward with considerable optimism.

**Peter Nutting**  
Chairman

8 June 2004

**TELECOM *plus* PLC**  
**DIRECTORS' REPORT**  
**YEAR ENDED 31 MARCH 2004**

The directors have pleasure in presenting their report and the audited financial statements for the year to 31 March 2004.

**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.

During the year to 31 March 2004 the Company successfully launched the Utility Warehouse Discount Club and completed its transformation into a fully integrated multi-utility provider. 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.

**RESULTS AND DIVIDENDS**

The profit for the year after tax was £7,454,000 (2003: £3,981,000). An interim dividend of 4.5 pence per share (2003: 2.5 pence per share) was paid during the year and a final dividend of 5.5 pence per share (2003: 3.25 pence per share) is proposed to be paid, leaving a profit of £1,295,000 (2003: £557,000) 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 2004</u>	<u>31 March 2003</u>
John Levin*	7 February 1997	2,257,996	2,331,996
Richard Michell	3 April 1997	376,686	377,686
Peter Nutting*	3 April 1997	831,750	931,750
Keith Stella*	17 July 2000	43,500	30,000
Dominic Wheatley*	25 May 2000	238,060	268,060
Charles Wigoder	13 February 1998	13,708,541	16,353,541

\* indicates non-executive directors

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

In addition, Mr Wigoder and Mr Nutting have non beneficial interests in 1,500,000 and 20,000 shares respectively which they have given to charitable trusts. Mr Stella also has a non beneficial interest over 1,500,000 shares as a trustee of the charitable trust of which Mr Wigoder is a co-trustee.

Mr Wigoder purchased a further 40,000 shares on 6 April 2004. Other than this transaction, there have been no movements in any of the Directors' interests in the share capital of the Company between 1 April 2004 and 8 June 2004.

Mr Wheatley and Mr Stella retire by rotation and offer themselves for re-election at the forthcoming Annual General Meeting.

**CREDITORS PAYMENT POLICY**

It is the policy of the Company in the year to 31 March 2005 to pay all suppliers according to the terms agreed. At the year end trade creditors were on average 45 days old (2003: 42 days).

**TELECOM *plus* PLC**  
**DIRECTORS' REPORT**  
**YEAR ENDED 31 MARCH 2004**  
**(Continued)**

**SUBSTANTIAL SHAREHOLDERS**

As at 8 June 2004, 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>
Optellicom Investments Limited	5,011,476	8.1%
The Standard Life Assurance Company	3,041,757	4.9%
Jupiter Asset Management Limited	2,900,000	4.7%

**AUDITORS**

PKF have signified their willingness to continue in office. A resolution to appoint them will be proposed at the Annual General Meeting.

By Order of the Board

**Brian Korel**  
Company Secretary

**TELECOM *plus* PLC**  
**CORPORATE GOVERNANCE STATEMENT**  
**YEAR ENDED 31 MARCH 2004**

The Board supports the Combined Code produced by the Committee on Corporate Governance 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.

**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 two 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.

**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.

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 6 and 7.

**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 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 and the results of the audit, 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.

**TELECOM *plus* PLC**  
**CORPORATE GOVERNANCE STATEMENT**  
**YEAR ENDED 31 MARCH 2004**  
**(Continued)**

**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. 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 and 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 is 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.

**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 has reviewed the need for an internal audit function and has 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 section 1 of the Combined Code throughout the year.

**TELECOM *plus* PLC**  
**DIRECTORS' REMUNERATION REPORT**  
**YEAR ENDED 31 MARCH 2004**

This report 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 Remuneration Committee meets regularly to review the level of remuneration of the directors of the Company. The committee is composed of three non-executive directors, P. Nutting (Chairman of the Committee), D. Wheatley and K. Stella.

**Remuneration policy**

The remuneration of directors is decided having regard to their performance and to the level of remuneration of directors with the same responsibilities in other companies of a similar size and type. Changes in the remuneration of directors are decided by the committee in consultation with the Chief Executive. The overall level of remuneration of other employees is also approved by the committee in the same way. There are no plans to make changes to this procedure.

**Components of remuneration**

All 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. In recognition of the contribution made by Mr Stella to the affairs of the Company during the year, the Board awarded him a bonus of £10,000 to be applied to the purchase of shares in the Company. 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.

**Directors' remuneration**

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

	<u>Basic</u> <u>Salary &amp;</u> <u>Fees</u> <u>£'000</u>	<u>Bonus</u> <u>£'000</u>	<u>Benefits in</u> <u>Kind</u> <u>£'000</u>	<u>Pension</u> <u>Contributions</u> <u>£'000</u>	<u>2004</u> <u>Total</u> <u>£'000</u>	<u>2003</u> <u>Total</u> <u>£'000</u>
John Levin	-	-	-	-	-	-
Richard Michell	89	-	2	6	97	96
Peter Nutting, Chairman	15	-	-	-	15	15
Keith Stella	12	10	-	-	22	12
Dominic Wheatley	12	-	-	-	12	12
Charles Wigoder	180	105	2	18	305	255
	308	115	4	24	451	390

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.

**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.

**TELECOM *plus* PLC**  
**DIRECTORS' REMUNERATION REPORT**  
**YEAR ENDED 31 MARCH 2004**  
**(Continued)**

**Directors' contracts of service**

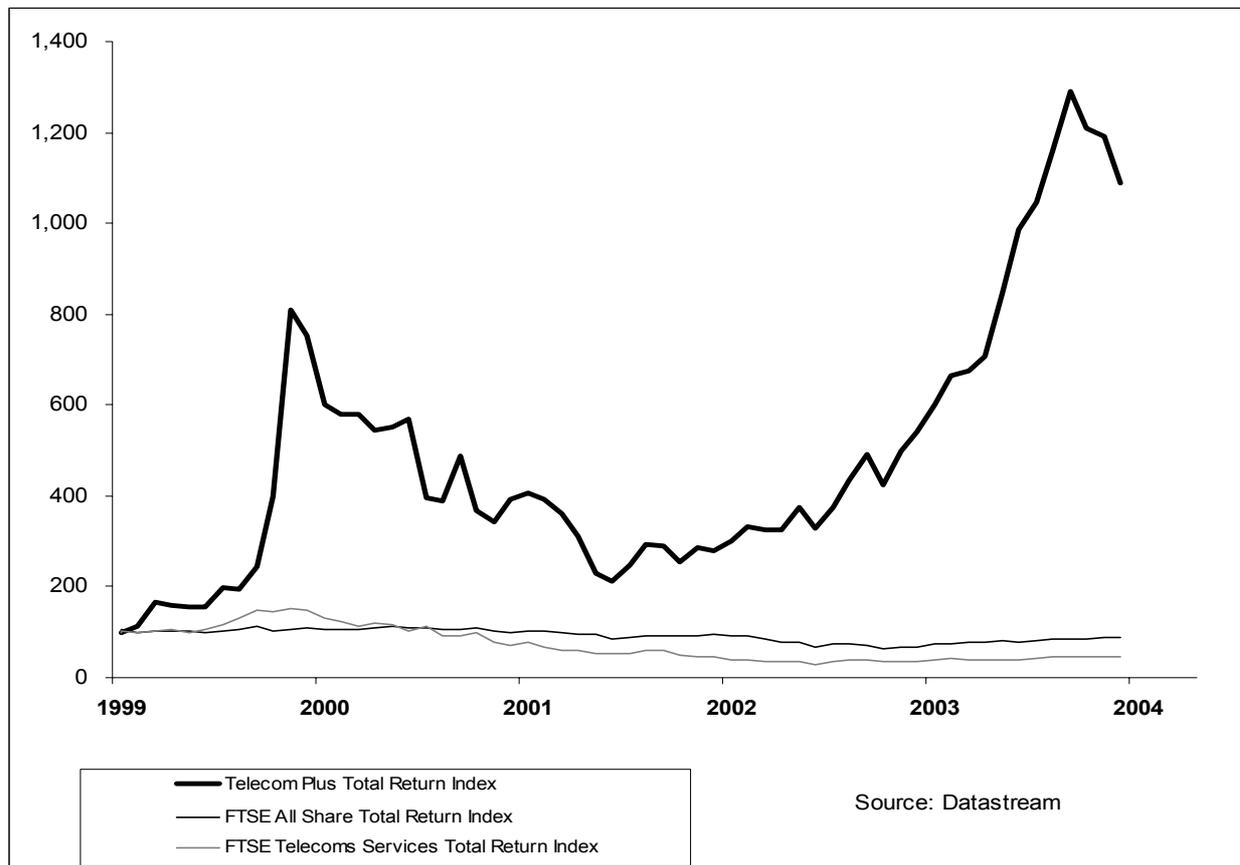
There are Service Contracts or Letters of Appointment for Peter Nutting (4 April 1997), Charles Wigoder (31 March 1998), Richard Michell (4 April 1997), John Levin (4 April 1997), Dominic Wheatley (17 July 2000) and Keith Stella (17 July 2000). All of these provide notice periods of three months on either 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 All Share Index and the FTSE Telecom Services Index for the period from 1 April 1999 to 31 March 2004. 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**  
8 June 2004

**TELECOM *plus* PLC**  
**STATEMENT OF DIRECTORS' RESPONSIBILITIES**  
**REPORT AND ACCOUNTS**  
**YEAR ENDED 31 MARCH 2004**

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 Company 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 2004 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 seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read 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 2004 and 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.

London  
United Kingdom  
8 June 2004

**PKF**  
Registered Auditors

**TELECOM *plus* PLC**  
**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**YEAR ENDED 31 MARCH 2004**

	<u>Notes</u>	<u>2004</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>
<b>Turnover</b>	2	<b>81,828</b>	58,036
Cost of sales		<b>(56,590)</b>	(39,739)
		<hr/>	<hr/>
<b>Gross profit</b>		<b>25,238</b>	18,297
Sales and marketing costs		<b>(6,207)</b>	(4,543)
Administrative expenses		<b>(8,751)</b>	(8,514)
		<hr/>	<hr/>
<b>Operating profit</b>	3	<b>10,280</b>	5,240
Interest receivable		<b>372</b>	464
Interest payable	6	<b>(20)</b>	(116)
		<hr/>	<hr/>
<b>Profit on ordinary activities before taxation</b>		<b>10,632</b>	5,588
Tax on profit on ordinary activities	7	<b>(3,178)</b>	(1,607)
		<hr/>	<hr/>
<b>Profit after taxation</b>		<b>7,454</b>	3,981
Dividends	8	<b>(6,159)</b>	(3,424)
		<hr/>	<hr/>
Retained profit for the year	18	<b>1,295</b>	557
		<hr/> <hr/>	<hr/> <hr/>
Basic earnings per share	22	<b>12.2p</b>	6.8p
Diluted earnings per share	22	<b>11.9p</b>	6.6p
Dividend per share	8	<b>10.00p</b>	5.75p

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

**TELECOM *plus* PLC**  
**CONSOLIDATED BALANCE SHEET**  
**AS AT 31 MARCH 2004**

	<u>Notes</u>	£'000	<u>2004</u>	£'000	£'000	<u>2003</u>	£'000
<b>FIXED ASSETS</b>							
Tangible assets	9	1,903			1,946		
Intangible assets	10	3,742			4,198		
Investments	11	1,038			1,038		
				<b>6,683</b>			7,182
<b>CURRENT ASSETS</b>							
Stocks	12	1,146			590		
Debtors (due within one year)	13	9,164			7,994		
Debtors (due after one year)	13	2,666			2,822		
Cash		9,857			6,056		
		<b>22,833</b>			17,462		
<b>CREDITORS</b>							
Amounts falling due within one year	14	<b>(16,502)</b>			(13,418)		
<b>NET CURRENT ASSETS</b>				<b>6,331</b>			4,044
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>							
				<b>13,014</b>			11,226
<b>CREDITORS</b>							
Amounts falling due after more than one year (convertible debt instruments)	15			-			(350)
				<b>13,014</b>			10,876
<b>CAPITAL AND RESERVES</b>							
Called up share capital	17			3,076			3,002
Share premium account	18			6,625			5,856
Profit and loss account	18			3,313			2,018
<b>SHAREHOLDERS' FUNDS</b>	19			<b>13,014</b>			10,876

Approved by the board on 8 June 2004.

**Charles Wigoder** Director

**Richard Michell** Director

**TELECOM *plus* PLC**  
**COMPANY BALANCE SHEET**  
**AS AT 31 MARCH 2004**

	<u>Notes</u>	£'000	<u>2004</u>	£'000	£'000	<u>2003</u>	£'000
<b>FIXED ASSETS</b>							
Tangible assets	9	1,898			1,914		
Investments	11	2,734			5,630		
				4,632			7,544
<b>CURRENT ASSETS</b>							
Stocks	12	1,146			590		
Debtors (due within one year)	13	7,332			5,239		
Debtors (due after one year)	13	2,634			2,822		
Cash		9,605			5,603		
		20,717			14,254		
<b>CREDITORS</b>							
Amounts falling due within one year	14	(13,318)			(10,830)		
<b>NET CURRENT ASSETS</b>							
				7,399			3,424
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>							
				12,031			10,968
<b>CREDITORS</b>							
Amounts falling due after more than one year (convertible debt instruments)	15			-			(350)
				12,031			10,618
<b>CAPITAL AND RESERVES</b>							
Called up share capital	17			3,076			3,002
Share premium account	18			6,625			5,856
Profit and loss account	18			2,330			1,760
<b>SHAREHOLDERS' FUNDS</b>							
	19			12,031			10,618

Approved by the board on 8 June 2004.

**Charles Wigoder** Director

**Richard Michell** Director

**TELECOM *plus* PLC**  
**CONSOLIDATED CASH FLOW STATEMENT**  
**YEAR ENDED 31 MARCH 2004**

	<u>Notes</u>	<u>2004</u> £'000	<u>2003</u> £'000
<b>Reconciliation of operating profit to cash flow from operating activities</b>			
Operating profit		10,280	5,240
Goodwill amortisation		456	360
Depreciation		487	503
(Profit) on disposal of fixed assets		(28)	-
(Increase)/decrease in stocks		(556)	737
(Increase) in debtors		(1,014)	(2,332)
Increase in creditors		481	818
Amortisation of loan stock issue costs		24	25
		<hr/>	<hr/>
<b>Net cash flow from operating activities</b>		<b>10,130</b>	<b>5,351</b>
		<hr/> <hr/>	<hr/> <hr/>
<b>CASH FLOW STATEMENT</b>			
<b>Net cash flow from operating activities</b>		<b>10,130</b>	<b>5,351</b>
<b>Returns on investments and servicing of finance</b>	23	<b>346</b>	<b>319</b>
<b>Capital expenditure</b>	23	<b>(416)</b>	<b>(363)</b>
<b>Acquisitions</b>	23	<b>-</b>	<b>(5,461)</b>
<b>Corporation tax paid</b>		<b>(2,109)</b>	<b>(1,952)</b>
<b>Dividends paid</b>		<b>(4,717)</b>	<b>(2,903)</b>
		<hr/>	<hr/>
<b>Net cash flow before management of liquid resources and financing</b>		<b>3,234</b>	<b>(5,009)</b>
<b>Management of liquid resources</b>	23	<b>-</b>	<b>2,541</b>
<b>Financing</b>	23	<b>567</b>	<b>103</b>
		<hr/>	<hr/>
<b>Increase/(decrease) in cash</b>		<b>3,801</b>	<b>(2,365)</b>
		<hr/> <hr/>	<hr/> <hr/>
<b>Reconciliation of net cash flow to movement in net funds</b>	24		
<b>Increase/(decrease) in cash</b>		<b>3,801</b>	<b>(2,365)</b>
Conversion of loan stock to equity shares		276	1,235
Cash released from liquid resources		-	(2,541)
		<hr/>	<hr/>
<b>Movement in net funds for the year</b>		<b>4,077</b>	<b>(3,671)</b>
<b>Net funds at 1 April 2003</b>		<b>5,676</b>	<b>9,347</b>
		<hr/>	<hr/>
<b>Net funds at 31 March 2004</b>		<b>9,753</b>	<b>5,676</b>
		<hr/> <hr/>	<hr/> <hr/>

**TELECOM *plus* PLC**  
**NOTES AND ACCOUNTING POLICIES**  
**YEAR ENDED 31 MARCH 2004**

**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) **Stocks**  
Stocks are stated at the lower of cost and net realisable value.
- (e) **Deferred taxation**  
Provision is made for taxation deferred as a result of material timing differences between the incidence of income and expenditure for taxation and accounts purposes using a full provision basis in accordance with the terms of FRS 19.
- (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.
- (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 2004**

**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>2004</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>
<i>Virtual Network</i>		
Turnover	79,004	55,187
Operating profit	13,770	8,352
Net assets	18,911	12,239
<hr/>		
<i>Distribution</i>		
Turnover	2,824	2,849
Operating loss	(3,490)	(3,112)
Net liabilities	(5,897)	(1,363)
<hr/>		
<b>3 OPERATING PROFIT</b>	<u>2004</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>
The operating profit is stated after charging:		
Depreciation - owned assets	487	503
(Profit) on disposal of fixed assets	(28)	-
Operating lease rentals - land and buildings	144	142
Auditors' remuneration - audit services	49	42
- tax services	20	25
Amortisation of goodwill	456	360
<hr/>		
<b>4 STAFF COSTS</b>	<u>2004</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>
Wages and salaries	4,291	3,400
Social security costs	451	369
Pension contributions	69	47
<hr/>		
	4,811	3,816
<hr/>		
	<u>Number</u>	<u>Number</u>
Average number employed by the Group during the period (excluding directors)	163	137
<hr/>		

**TELECOM *plus* PLC**  
**NOTES AND ACCOUNTING POLICIES**  
**YEAR ENDED 31 MARCH 2004**

<b>5 DIRECTORS' REMUNERATION</b>	<b><u>2004</u></b> <b>£'000</b>	<b><u>2003</u></b> <b>£'000</b>
The aggregate remuneration of the directors was as follows:		
Salary, fees and other benefits	427	370
Pension contributions	24	20
	451	390
	451	390

The emoluments of the highest paid director were £287,000 (2003: £240,000) and pension costs were £18,000 (2003: £15,000). 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.

<b>6 INTEREST PAYABLE</b>	<b><u>2004</u></b> <b>£'000</b>	<b><u>2003</u></b> <b>£'000</b>
Loan stock interest	20	90
Bank interest	-	26
	20	116
	20	116

<b>7 TAX ON PROFIT ON ORDINARY ACTIVITIES</b>	<b><u>2004</u></b> <b>£'000</b>	<b><u>2003</u></b> <b>£'000</b>
The tax charge comprises:-		
UK corporation tax at 30%	3,155	1,657
Adjustments in respect of prior periods	23	(50)
	3,178	1,607
	3,178	1,607

**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	10,632	5,588
	10,632	5,588
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK (30%)	3,189	1,676
Expenses not deductible for taxation purposes	3	24
Deduction in respect of share options exercised	(97)	-
Depreciation in the year more/(less than) than capital allowances	36	(131)
(Decrease)/increase in general provisions	(44)	93
Trading losses brought forward from prior years	(46)	(83)
Research and development tax relief	(23)	(30)
Goodwill amortisation	137	108
Adjustments to tax charge in respect of prior years	23	(50)
	3,178	1,607
	3,178	1,607

**Factors that may affect future tax charges**

The Group does not have any material deferred tax balances to report and this is not expected to change in the near future.

**TELECOM *plus* PLC**  
**NOTES AND ACCOUNTING POLICIES**  
**YEAR ENDED 31 MARCH 2004**

<b>8</b>	<b>DIVIDENDS</b>			<u>2004</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>	
	Interim dividend paid 4.5p (2003: 2.5p) per share			2,765	1,472	
	Final dividend proposed 5.5p (2003: 3.25p) per share			3,394	1,952	
				<hr/>	<hr/>	
				<b>6,159</b>	<b>3,424</b>	
				<hr/> <hr/>	<hr/> <hr/>	
<b>9</b>	<b>TANGIBLE FIXED ASSETS</b>					
	<b>Group</b>	<b>Freehold land and buildings</b>	<b>Leasehold improvements</b>	<b>Computer and office equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
	<b>Cost</b>					
	At 1 April 2003	980	82	1,910	337	3,309
	Additions	-	60	246	161	467
	Disposals	-	-	-	(149)	(149)
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	At 31 March 2004	980	142	2,156	349	3,627
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	<b>Depreciation</b>					
	At 1 April 2003	(45)	(52)	(1,073)	(193)	(1,363)
	Charge for the year	(20)	(24)	(377)	(66)	(487)
	Disposals	-	-	-	126	126
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	At 31 March 2004	(65)	(76)	(1,450)	(133)	(1,724)
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	<b>Net book value</b>					
	At 31 March 2004	915	66	706	216	1,903
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	At 31 March 2003	935	30	837	144	1,946
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	<b>Company</b>	<b>Freehold land and buildings</b>	<b>Leasehold improvements</b>	<b>Computer and office equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
	<b>Cost</b>					
	At 1 April 2003	980	82	1,791	337	3,190
	Additions	-	60	244	161	465
	Disposals	-	-	-	(149)	(149)
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	At 31 March 2004	980	142	2,035	349	3,506
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	<b>Depreciation</b>					
	At 1 April 2003	(45)	(52)	(986)	(193)	(1,276)
	Charge for the year	(20)	(24)	(348)	(66)	(458)
	Disposals	-	-	-	126	126
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	At 31 March 2004	(65)	(76)	(1,334)	(133)	(1,608)
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	<b>Net book value</b>					
	At 31 March 2004	915	66	701	216	1,898
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	At 31 March 2003	935	30	805	144	1,914
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Included in the cost of freehold land and buildings is land of £490,000 (2003: £490,000) which is not depreciated.

**TELECOM *plus* PLC**  
**NOTES AND ACCOUNTING POLICIES**  
**YEAR ENDED 31 MARCH 2004**

<b>10</b>	<b>INTANGIBLE FIXED ASSETS</b>	<b><u>Goodwill</u></b> <b>£'000</b>
	<b>Cost</b>	
	At 1 April 2003	4,558
		<hr/>
	At 31 March 2004	4,558
		<hr/>
	<b>Amortisation</b>	
	At 1 April 2003	360
	Charge for the year	456
		<hr/>
	At 31 March 2004	816
		<hr/>
	<b>Net book value</b>	
	At 31 March 2004	3,742
		<hr/>
	At 31 March 2003	4,198
		<hr/>

**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 2003	1,038
	<hr/>
At 31 March 2004	1,038
	<hr/>

<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>Cost</b>			
At 1 April 2003	4,592	1,038	5,630
Less amount repaid	(2,896)	-	(2,896)
	<hr/>	<hr/>	<hr/>
At 31 March 2004	1,696	1,038	2,734
	<hr/>	<hr/>	<hr/>

**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 2004**

12	STOCKS	Group		Company	
		<u>2004</u> £'000	<u>2003</u> £'000	<u>2004</u> £'000	<u>2003</u> £'000
	<b>Stocks comprise the following:</b>				
	Mobile phones, smart boxes and related equipment	1,005	515	1,005	515
	Marketing materials	141	75	141	75
		1,146	590	1,146	590
		1,146	590	1,146	590
13	DEBTORS	Group		Company	
		<u>2004</u> £'000	<u>2003</u> £'000	<u>2004</u> £'000	<u>2003</u> £'000
	Due within one year:				
	Trade debtors	658	1,357	330	192
	Other debtors	928	1,154	869	1,097
	Prepayments and accrued income	7,578	5,483	6,133	3,950
		9,164	7,994	7,332	5,239
	Due after one year:				
	Other debtors	2,666	2,822	2,634	2,822
		11,830	10,816	9,966	8,061
		11,830	10,816	9,966	8,061

**TELECOM *plus* PLC**  
**NOTES AND ACCOUNTING POLICIES**  
**YEAR ENDED 31 MARCH 2004**

14 CREDITORS DUE WITHIN ONE YEAR	Group		Company	
	<u>2004</u> £'000	<u>2003</u> £'000	<u>2004</u> £'000	<u>2003</u> £'000
Trade creditors	3,640	5,330	2,194	3,096
Corporation tax	1,794	725	1,284	725
Other taxation and social security	600	778	158	170
Amounts due to subsidiary undertaking	-	-	-	826
Accruals and deferred income	6,976	4,633	6,190	4,061
9.5% redeemable convertible unsecured loan stock 2004	98	-	98	-
Dividends	3,394	1,952	3,394	1,952
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>16,502</b>	<b>13,418</b>	<b>13,318</b>	<b>10,830</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**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 is payable on 30 June and 31 December. The loan stock may be converted 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 the bonds will take place at par on 30 June 2004 unless the loan stock has been previously purchased or converted.

Loan stock issued	<b>2,650</b>	2,650
Loan stock converted	<b>(2,546)</b>	(2,270)
	<hr/>	<hr/>
	<b>104</b>	380
Unamortised issue costs (originally £124,000)	<b>(6)</b>	(30)
	<hr/>	<hr/>
Balance at 31 March 2004	<b>98</b>	350
	<hr/> <hr/>	<hr/> <hr/>

15 CREDITORS DUE AFTER ONE YEAR	Group		Company	
	<u>2004</u> £'000	<u>2003</u> £'000	<u>2004</u> £'000	<u>2003</u> £'000
9.5% redeemable convertible unsecured loan stock 2004	-	350	-	350
	<hr/>	<hr/>	<hr/>	<hr/>

**TELECOM *plus* PLC**  
**NOTES AND ACCOUNTING POLICIES**  
**YEAR ENDED 31 MARCH 2004**

**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 carries a fixed rate of interest.

**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 £666,000 (2003: £822,000) due from employees and distributors which earns interest at variable rates of up to 5%, and a loan to Oxford Power Holdings Limited of £2,000,000 which earns interest at 1.5% over Base Rate. At 31 March 2004 the Company had £104,000 of 9.5% redeemable convertible unsecured loan stock (2003: £380,000) as described in note 14.

**Maturity of financial liabilities**

The loan stock will be redeemed on 30 June 2004 to the extent that it has not already been converted to ordinary shares.

**Borrowing facilities**

The Group does not currently require any borrowing facilities.

**Fair values**

The Group has entered into forward contracts for a value of £14,967,000 to purchase gas and electricity for periods of up to two years. At the year end, the market value of these contracts exceeded their cost by £2,723,000.

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.

**TELECOM *plus* PLC**  
**NOTES AND ACCOUNTING POLICIES**  
**YEAR ENDED 31 MARCH 2004**

<b>17 SHARE CAPITAL</b>	<b><u>2004</u></b> <b>£'000</b>	<b><u>2003</u></b> <b>£'000</b>
<b>Issued share capital</b>		
Ordinary shares of 5p each		
Authorised – 80,000,000 (2003: 80,000,000)	4,000	4,000
	<hr/>	<hr/>
Allotted, called up and fully paid – 61,523,764 (2003: 60,047,716)	3,076	3,002
	<hr/>	<hr/>

At several dates during the year shares were allotted fully paid; 552,976 shares were allotted on conversion of loan stock at 50p and 923,072 shares were allotted for cash on exercise of share options at prices from 22p to 200p. Since the year end the Company has allotted 80,848 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:

244,993 shares at 22p exercisable between 15 July 2001 and 14 July 2005  
27,750 shares at 24.5p exercisable between 4 January 2002 and 3 January 2006  
39,400 shares at 51.5p exercisable between 1 September 2002 and 31 August 2006  
585,428 shares at 83p exercisable between 30 December 2002 and 29 December 2006  
383,790 shares at 200p exercisable between 5 July 2003 and 4 July 2007  
329,000 shares at 118p exercisable between 15 June 2004 and 14 June 2008  
457,827 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  
86,500 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

At the year end the Company's share price was 335 pence.

<b>18 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 2003	5,856	2,018	5,856	1,760
Premium on issue of shares	769	-	769	-
Retained profit for the period	-	1,295	-	570
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 March 2004	6,625	3,313	6,625	2,330
	<hr/>	<hr/>	<hr/>	<hr/>

**TELECOM *plus* PLC**  
**NOTES AND ACCOUNTING POLICIES**  
**YEAR ENDED 31 MARCH 2004**

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

	Group		Company	
	<u>2004</u> £'000	<u>2003</u> £'000	<u>2004</u> £'000	<u>2003</u> £'000
Profit for year	7,454	3,981	6,729	3,723
Dividends	(6,159)	(3,424)	(6,159)	(3,424)
New shares issued	843	1,338	843	1,338
Balance brought forward	10,876	8,981	10,618	8,981
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at year end	<u>13,014</u>	<u>10,876</u>	<u>12,031</u>	<u>10,618</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>2004</u> £'000	<u>2003</u> £'000
Leases expiring: Over 5 years	155	142
	<hr/>	<hr/>

**Capital commitments**

Since the year end, the company has contracted to purchase a new telephone system at a cost of £371,000.

**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 £7,454,000 (2003: £3,981,000) and a weighted average of 60,898,714 (2003: 58,671,471) shares in issue.

	<u>2004</u>	<u>2003</u>
Basic earnings per share	12.2p	6.8p
Diluted earnings per share	11.9p	6.6p
	<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>2004</u>		<u>2003</u>	
	Profit £'000	Shares No. 000	Profit £'000	Shares No. 000
Basic earnings	7,454	60,899	3,981	58,671
Dilutive effects - Options	-	1,591	-	1,103
Dilutive effects - Loan notes	10	208	36	761
	<hr/>	<hr/>	<hr/>	<hr/>
Diluted earnings	<u>7,464</u>	<u>62,698</u>	<u>4,017</u>	<u>60,535</u>

**TELECOM *plus* PLC**  
**NOTES AND ACCOUNTING POLICIES**  
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**23 ANALYSIS OF CASH FLOWS FOR HEADINGS  
NETTED IN THE CASHFLOW**

	<u>2004</u>		<u>2003</u>
	£'000	£'000	£'000
<b>Returns on investments and servicing of finance</b>			
Interest received	372		464
Interest paid	(26)		(145)
	<hr/>		<hr/>
		346	319
		<hr/> <hr/>	<hr/> <hr/>
<b>Capital expenditure</b>			
Purchase of tangible fixed assets	(467)		(384)
Sale of tangible fixed assets	51		21
	<hr/>		<hr/>
		(416)	(363)
		<hr/> <hr/>	<hr/> <hr/>
<b>Acquisitions</b>			
Purchase of subsidiary undertaking	-		(4,475)
Purchase of trade investments	-		(1,038)
Net cash acquired with subsidiary	-		52
	<hr/>		<hr/>
		-	(5,461)
		<hr/> <hr/>	<hr/> <hr/>
<b>Management of liquid resources</b>			
Sale of quoted corporate bonds		-	2,541
		<hr/> <hr/>	<hr/> <hr/>
<b>Financing</b>			
Issue of ordinary share capital	567		103
	<hr/>		<hr/>
<b>Net cash inflow from financing</b>		567	103
		<hr/> <hr/>	<hr/> <hr/>

**24 ANALYSIS OF CHANGES IN NET FUNDS**

	<u>31 March</u> <u>2003</u> <u>£'000</u>	<u>Cash</u> <u>flows</u> <u>£'000</u>	<u>Other</u> <u>changes</u> <u>£'000</u>	<u>31 March</u> <u>2004</u> <u>£'000</u>
Cash at bank	6,056	3,801	-	9,857
Loan stock	(380)	-	276	(104)
	<hr/>	<hr/>	<hr/>	<hr/>
	5,676	3,801	276	9,753
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

# the warehouse

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