

TELECOM *PLUS* PLC

REPORT AND ACCOUNTS

YEAR ENDED
31 MARCH 2008



Home Phone



Mobile



Gas



Electricity



Broadband



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The Utility Warehouse Discount Club

- Unlimited "Free UK Calls"
- Cheaper gas and electricity
- Guaranteed savings compared to BT
- Freephone internet technical support
- Freephone customer services
- Exclusive membership discount booklet
- Free redundancy protection
- Free accidental death cover

Membership starts at just £1.76 per month.



The Utility Warehouse Discount Club for Business

- **Office Phone** - a fixed line service which offers substantial savings on call charges and line rental
- **Office Mobile** - a range of attractive tariffs with line rental from £5 a month and low call charges
- **Broadband** - competitive prices for small- and medium-sized businesses, with free anti-virus and anti-spam protection
- **Energy** - no minimum contract term and competitive prices
- **Non-Geographic Numbers** - free set-up, no minimum contract term and a wide choice of different services (Freephone 0800, Basic Rate 0844/0845 and Higher Rate 0871)



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OUR SERVICES

Trading as the Utility Warehouse, Telecom *plus* provides a range of essential household services, giving customers the convenience of a single monthly bill and substantial savings on the cost of their utilities. Most customers are members of our discount club, giving them access to a wide range of exclusive additional benefits.

The Company works in partnership with over 19,000 independent distributors who attract new customers by personal recommendation, thus avoiding the need for expensive national advertising.

Distributors receive a small revenue share from each customer they introduce, which encourages them to focus on gathering creditworthy customers who take multiple services from us. These customers are able to benefit from unlimited free UK calls in addition to the savings they make on the individual services they have taken.

HOME PHONE

Our fixed-line telephony service gives members significant savings on both call charges and line rental compared with BT's best prices, and allows them to make unlimited free local and national calls to other members 24 hours a day, seven days a week. This service is provided using either 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.

INTERNET PHONE LINE

A new service offering customers with a broadband connection the option of extra phone lines at an extremely competitive price.

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 the UK's cheapest monthly line rental, unique loyalty bonus, a choice of free handsets and free connection.

GAS AND ELECTRICITY

We provide consistently low prices to our members, with guaranteed savings compared with the prices charged by their incumbent regional electricity supply company or British Gas.

BROADBAND

A choice of high-quality low-cost Internet services offering great value for the vast majority of domestic Internet users.

FREEPHONE

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

DIRECTORS, SECRETARY AND ADVISERS



Peter Nutting, Non-Executive Chairman

Peter, aged 72, is a former stockbroker and investment banker who has been a director and Chairman of a number of publicly listed and private companies. He was a member of the Council of Lloyds between 1990 and 1998 and Deputy Chairman of the Lloyds Regulatory Board from 1992 to 1995. He joined the Company in April 1997.



The Hon. Charles Wigoder, Chief Executive

Charles, aged 48, 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 Hateley, Finance Director

Richard, aged 43, qualified as a Chartered Accountant with Ernst & Young in 1990. He has worked for companies in the infrastructure and telecommunications sectors, including Level (3) Communications, where he was Director, Infrastructure Finance, responsible for the financial and commercial issues for the completion of the European network; the Kvaerner Group, where he was Finance Director of the Corporate Development division; and Blue Circle PLC. He joined the Company in June 2006 and was appointed Finance Director in December 2006.



Melvin Lawson, Non-Executive Director

Melvin, aged 49, is the Managing Director of A Beckman PLC, a company formerly listed on the London Stock Exchange which was taken private in 1995, and a director of Catalyst Media Group PLC and a number of other companies with a wide range of investment interests. He joined the Company in September 2006.



Richard Michell, Non-Executive Director

Richard, aged 62, is a Fellow of the Chartered Institute of Management Accountants. From 1988 to 1996 he was Treasurer of Sony Broadcast and Communication Limited, a subsidiary of Sony Corporation of Japan, which had a turnover of £250 million per annum. From 1981 to 1988 he was Finance Manager and Company Secretary for Geosource UK Limited, a subsidiary of Geosource Inc, a leading US oil exploration company. He joined the company in April 1997 as Finance Director. He is Chief Financial Officer of Minera IRL Ltd. He became a non-executive director in September 2005.



**Michael Pavia,
Non-Executive Director**

Michael, aged 61, is a Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW), and has significant experience of the energy industry, having been

group finance director of IASMO, SEEBOARD and London Electricity. He is currently a non-executive director of Thames Water, British Nuclear Fuels PLC and Salamander Energy PLC, and is a member of the Council of the ICAEW. He joined the Company in December 2006 as an independent non-executive director and meets the test of independence under section A.3.1 of the Combined Code.



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

Keith, aged 53, is a Partner with Berwin Leighton Paisner and has 30 years' experience in a broad range of work in the company and corporate

finance arena, and handling flotations, de-mergers, acquisitions and disposals for a variety of clients, ranging from FTSE 100 companies to family-run businesses, and advising the boards of listed and AIM companies extensively on their regulatory and legal obligations. He joined the Company in July 2000 as an independent non-executive director and continues to meet the test of independence under section A.3.1 of the Combined Code.

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3263464

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SECRETARY

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AUDITORS

PKF (UK) LLP
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BANKERS

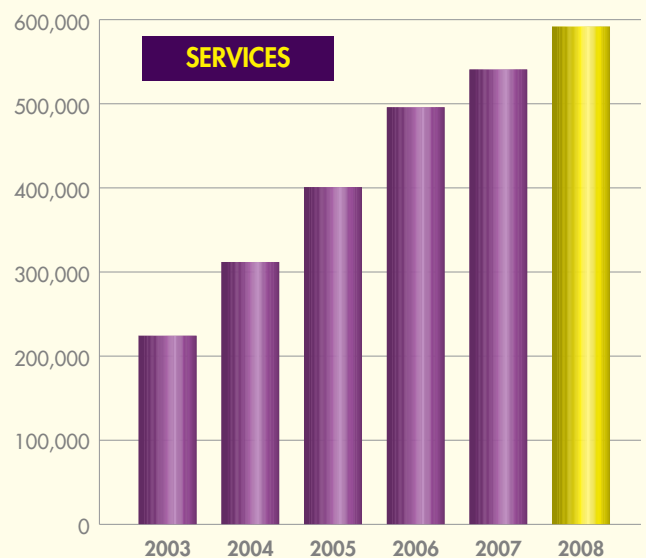
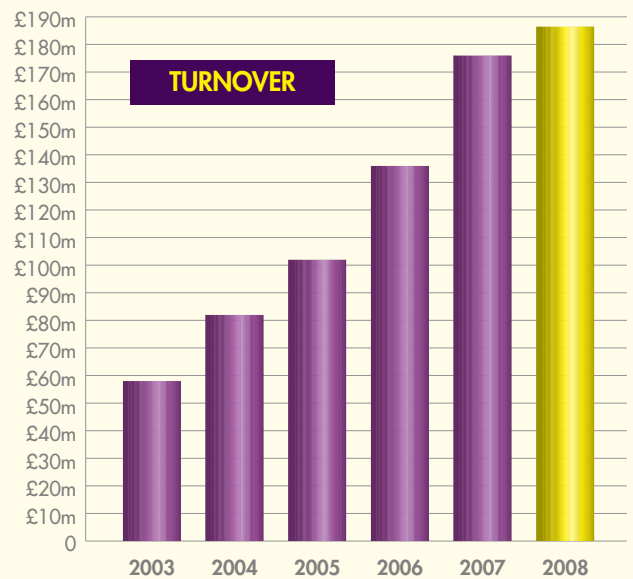
Barclays Bank plc
1 Churchill Place,
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REGISTRARS

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FINANCIAL AND OPERATING HIGHLIGHTS

- 15% annualised growth during Q4
- pre-tax profits up 45%
- cash generated £15.3m
- dividend up by 75% to 14p
- 49% increase in Business Club membership
- over 19,000 distributors



CHAIRMAN'S STATEMENT

I am delighted to report a further year of significant achievement for the Company, which has seen turnover, profitability, earnings per share and dividends all reach record levels.

Pre-tax profits increased by 45% to £16.8m (2007: £11.6m) on group turnover of £186m (2007: £176m). This strong increase in profitability clearly demonstrates the resilience of our infrastructure-light business model, and the benefits which the business can be expected to deliver as we achieve increasing economies of scale in the future. The relatively modest rise in turnover during the period reflects the impact of lower retail energy prices last spring (which have recently been reversed following a sharp increase in the wholesale markets), as well as our decision to restructure our multi-service discount scheme to provide Club members with free telephone calls instead of the previous "Cashback" scheme.

Earnings per share increased by 42% during the year to 17.7p (2007: 12.5p). Our share buy-back programme, in which we purchased 3.1m shares at an average cost of 182p per share, improved earnings per share by 2.3% this year, however this was offset by a higher effective tax rate of 28.7% (2007: 25.7%).

Customer numbers have been moving ahead steadily since the changes we announced at our sales conference in October, with the rate of growth increasing as we moved through the first quarter of 2008. Residential Club membership increased by over 9% during the year to 158,972 (2007: 145,317) and our Business Club membership grew by almost 50% during the year to 9,537 (2007: 6,388); together, these clubs (trading under the Utility Warehouse brand) now account for over 77% (2007: 72%) of our total customer base. We are particularly encouraged by the recent strong growth in the number of services we are providing, which reached 591,981 (2007: 542,039) by the year end; of this total, over 22,000 were added during the last quarter of the year (more than twice as many as were added during the whole of the first six months), representing an annualised growth rate of more than 15%.

During the year we continued to focus on the quality of our customer base. This has shown a steady improvement as measured by the proportion of our customers who are taking more than one service which has risen from 67% to 71%, the average number of services taken by each member which has increased to 3.11 (2007: 2.95) and the average spend per customer which has grown to £824 (2007: £801). We have also invested significant additional resources in improving our UK-based customer service team. As a result, we have seen a significant reduction in customer churn over the last six months to an annualised rate of around 20%.

Oxford Power Holdings ("Opus"), in which we maintain a 20% interest, has continued to produce extremely satisfactory results. Our share of their profits increased to £939,000 (2007: £473,000) and Opus declared its first dividend on 31 March 2008. On 31 December 2007, their strong cash generation enabled Opus to repay its £2m loan to the company which we had made to them at the time of our original investment in February 2003.

Year-end net cash balances increased by £4.5m to £30.3m (2007: £25.8m), notwithstanding spending £5.7m on repurchasing shares. We still have considerable scope to repurchase further shares over the coming year, as well as continuing to increase the proportion of our earnings paid out as dividends.

CHAIRMAN'S STATEMENT

CONTINUED

Our distributors have become increasingly confident in the overall strength of our customer proposition, which combines convenience, value and a consistently high quality of customer service; this has resulted in a substantial increase in activity. We saw a net increase of over 3,000 distributors over the year (2007: net increase of 600), taking the total to around 19,600 (2007: 16,600); this represents an increase of over 18% during the year, all of which took place during the second half. The current total includes approximately 500 Community Fundraisers, a new business opportunity we introduced in October 2007 to enable local organisations (e.g. schools, sports clubs, religious bodies and charities) to raise funds by promoting the benefits of using our services within their communities.

Our infrastructure and systems were originally developed to enable us to manage a significantly larger number of customers than those currently using our services, which means we have the potential to benefit from further economies of scale by growing our customer numbers and the number of services we provide. This remains a key priority for the coming year.

Recently published customer satisfaction surveys compare us favourably against our competitors. We intend to capitalise on these positive opinions by enhancing the benefits available under our recently introduced customer referral programme through offering existing members, who successfully recommend a new customer to us, a discount on their own monthly utility bill – a discount which increases with the number of new customers they introduce. This initiative will be supported by the inbound tele-sales fulfilment team we established late last year, which enables potential new customers to sign up for our services with the minimum of effort or inconvenience.

We have also recently introduced new systems designed to encourage "New Occupiers" (potential customers who have moved into a property where we are the incumbent utility supplier) to become Club members, rather than reverting back to their previous supplier(s). Notwithstanding the slowdown in the housing market recently, this initiative is expected to have a positive impact on our net growth, as around 4% of our residential customers move home each year.

Once again I would like to thank our staff and distributors for the loyalty they have shown, and the continuing contribution they are making to the success of the Company.

DIVIDEND

We are proposing a final dividend of 10p for the year (2007: 6p) making a total for the year of 14p (2006: 8p). This represents an increase of 75% in our total payment compared with last year. The final dividend will be paid on 8 August 2008 to shareholders on the register at the close of business on 11 July 2008 and is subject to approval by shareholders at the Company's Annual General Meeting which is being held on 9 July 2008.

In the context of the strong growth and cash generation currently being achieved, and subject to unforeseen circumstances, we intend to pay a total dividend of not less than 17.5p for the current financial year and not less than 22p for the year to 31 March 2010.

SUMMARY AND OUTLOOK

The nature of our business model gives us considerable visibility over our future revenues, and it is extremely encouraging that we have been able to maintain our margins in all of the business areas in which we operate.

The forward price curves for gas and electricity suggest there are likely to be further industry-wide increases in retail energy prices this autumn. However, we remain insulated from any volatility in the wholesale energy markets under our long-term supply arrangements with npower, where they are responsible for meeting the energy requirements of our customers in accordance with a price formula designed to ensure we earn a positive margin whilst maintaining competitive retail prices.

We are still the UK's only fully integrated multi-service utility provider, able to offer our customers consistent value across a wide range of services with the added convenience of receiving a single clear and concise bill each month. Our distribution channel has demonstrated its continuing ability to gather high quality new customers, cost-effectively and in increasing volumes; this gives us a considerable competitive advantage in the domestic market.

The combination of higher growth in the number of services we provide and the lower churn which we have seen in recent months will, if these trends continue, feed through into significantly higher turnover and profits over the coming years. We would logically expect to benefit from the difficult general economic environment as consumers search for better value suppliers in order to reduce their outgoings, and the tendency amongst those whose standard of living is being squeezed to seek additional sources of income such as that provided by becoming one of our distributors. Indeed, March 2008 saw us recruit more new distributors than in any other single month during the last three years.

Since the year end we have seen a further increase in activity, with encouraging growth in the number of new services and new distributors. We are more confident than we have ever previously been in the ability of our business to deliver continuing satisfactory results.

Peter Nutting

Chairman

22 May 2008

BUSINESS REVIEW

PERFORMANCE

Overall performance for the year has been extremely encouraging in a number of key respects:

- record Group pre-tax profits and turnover of £16.8m and £186m respectively
- cash generation of £17.0m before share buy-backs of £5.7m and dividend payments of £6.8m
- significant growth in the number of distributors promoting our services
- substantial reduction in churn
- 9% increase in the number of services we provide over the full year
- successful launch of new Community Fundraiser position
- 49% increase in membership of our Business Club

The year was distinctly one of two halves. During the first six months customer numbers showed a small decline as we focussed our resources on developing the infrastructure needed to support the various sales initiatives we were planning to introduce at our annual sales conference in October. During the second half, we saw the impact of those initiatives on our business with higher distributor activity, higher customer growth and lower churn. Indeed, the annualised rate of growth in the number of new services we provide increased to over 15% during the final quarter of the year.

MARGINS

Margins improved during the year in our fixed telephony business, reflecting the continuing competitive pressures on the owners of network infrastructure to attract and retain call traffic from the dwindling number of substantial independent resellers like ourselves. Energy margins improved slightly over the full year, reflecting increasing economies of scale in our energy business combined with the impact of higher industry energy prices which we passed on to our customers in the final quarter of the year. Broadband margins also improved slightly, as we were able to negotiate reductions in our cost base ahead of those required to maintain competitive retail prices. Overall however the gross margin reduced slightly reflecting the increasing shift in the balance of our turnover from telephony (which has relatively high margins) towards energy (where the margins are lower), exacerbated by the recent trend towards higher retail energy prices and our introduction of "Free UK Calls" as a replacement for "Cashback".

THE MARKET

Our focus is on supplying a wide range of essential utility services (gas, electricity, fixed telephony, mobile telephony and broadband) to both domestic and small business customers. These are substantial markets and represent a considerable opportunity for further organic growth.

We remain a small operator in a market dominated by the former monopoly suppliers, however our unique position as the only integrated multi-utility supplier gives us a considerable competitive advantage. We combine a highly efficient cost base, good customer service and competitive pricing with the convenience of a single monthly bill for each customer.

We estimate that the approximate size of the UK domestic market for the principal services we provide is around £40.6bn as follows:

	Number of Households	Retail Market Value
Gas	21.5m	£11.7bn
Electricity	26.7m	£14.2bn
Home Phone - Calls	23.4m	£3.0bn
Home Phone - Line Rental (Lines)	23.4m	£2.8bn
Mobile (excluding Pre-Pay)	24.0m	£6.1bn
Broadband	15.6m	£2.8bn

Retail market values based on average prices charged by us to customers for each service during the year ended 31 March 2008. Sources for number of households: Ofgem domestic retail market report 2007; Ofcom Telecoms market report Q4:2007

OUR CUSTOMERS

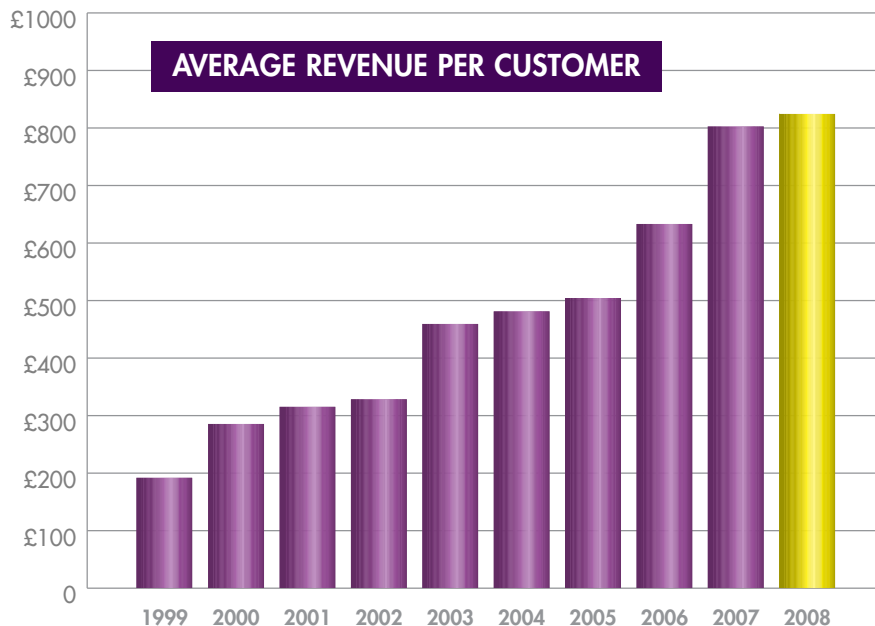
The majority of our customers choose to take advantage of our multi-service proposition, with over 77% having joined our Discount Club since its launch in October 2003.

On average each member takes 3.11 services (2007: 2.95) with 83% taking two or more services, and 55% taking three or more services. These figures are illustrated by the analysis below, which demonstrates the effectiveness of our Club concept in encouraging customers to subscribe for additional services:

	Members	Non-Members
1 Service	17%	61%
2 Services	28%	29%
3 Services	17%	7%
4 Services	16%	2%
5 Services	18%	1%
6 Services	3%	-
7 Services	1%	-

At the year end we had 168,509 members and 49,348 non-members. Non-members relate to customers gathered prior to the launch of our Discount Club in October 2003 or who have moved into a property where we were the incumbent utility supplier, and have not yet applied to join the Discount Club.

This growth in services has led to a further increase in average revenue per customer, notwithstanding considerable price deflation in the fixed telephony markets over the last ten years and the reduction in retail energy prices in Spring 2007.



We enjoy high levels of overall customer satisfaction, as evidenced by the relatively low churn we experience. Our overall monthly churn has fallen to around 1.8% during recent months, which compares with an average within the energy industry (amongst customers who have switched away from their original supplier) of around 5% per month.

We substantially increased the range of benefits available to our members during the year, with the introduction of an exclusive discount booklet providing savings on a wide range of everyday purchases. We also introduced new premium membership categories with enhanced benefits for those members choosing to participate, including free Accidental Death Cover and freephone technical support. We are encouraged that over 10% of all new customers who have joined since our October sales conference have chosen one of the premium membership categories.

BUSINESS REVIEW

CONTINUED

SERVICES

Our range of essential utility services includes fixed telephony (calls and line rental), mobile telephony, gas, electricity and broadband. At the year end we supplied a total of 591,981 services (2007: 542,039), representing an increase of over 9% during the course of the year.

Services	2008	2007
Gas	113,761	98,095
Electricity	133,873	115,643
Home phone	155,035	158,896
Fixed line rental	87,108	71,557
Freephone	10,282	10,670
Mobile	36,358	40,418
Broadband	55,564	46,760
Total	591,981	542,039

As can be seen from the above table, we experienced a small reduction in the number of mobile and home phone telephony services, partly due to the increasing tendency of our main competitors to tie customers into onerous long-term contracts whenever possible, offset by strong growth in the number of customers to whom we supply gas, electricity, broadband and fixed line rental.

Included within the above figures are 9,537 members of our Business Club, who are taking in aggregate over 26,000 services and contributing £11.1m (2007: £5.8m) to Group turnover. We are extremely encouraged by this strong performance, and the continuing enthusiastic response of our distribution channel to this opportunity. In order to support their activities in this segment of the market, we launched a new sales tool in March 2008 which enables them to provide potential business customers with a comprehensive personalised proposal covering our full range of services, clearly setting out the benefits and savings the customer will receive from us. This should assist our distributors to increase their penetration into this profitable sector of the UK market, where there are over one million home-based, small and medium-sized businesses. The introduction of this new sales tool gives us considerable confidence that this sector of the market will make an increasingly significant contribution to the Group in due course.

CUSTOMER SERVICE

We pride ourselves on delivering first-class customer service through a single call centre, based in the UK. Our policy is to ensure that the first person a customer speaks to is able to resolve any issues with their account, irrespective of how many different services we are providing to them.

We continue to invest in improving our customer service resources, and have developed specialist teams capable of dealing with some of the more complicated problems which arise due to continuing inefficiencies in the standard industry processes for switching customers between suppliers. We are also developing our range of qualitative and quantitative performance measurement tools for our Call Centre, so that we can further improve the overall quality of our members' customer service experience.

OUR PEOPLE

We rely on the combined efforts of over 300 employees to manage relationships with both our customers and distributors, and deliver a consistently high quality of service at all times. We pay considerable attention to recruiting and retaining appropriate people.

The combination of valuing and developing our staff, our service-oriented culture and the day-to-day reinforcement of our core values are key competitive advantages in enabling us to attract and retain a motivated, talented and diverse workforce. Opportunities for employment, training, career progression and promotion are determined on the basis of each individual's ability, attitude and track record, irrespective of their gender, ethnic origin, nationality, age, religion, sexual orientation or disability.

Employees are kept informed on a regular basis of the financial performance of the business and other matters of potential concern to them through internal communication channels including email and the Company's intranet service. We also have an established staff forum, which includes a representative from each department in the Company, to enable employees to give their views on any major changes being considered by management which might have a material impact on their roles within the organisation.

We continue to invest in our premises to ensure the working environment is as attractive as possible, consistent with the practical needs of running the business. We are currently mid-way through a rolling programme that will see most of our current office accommodation comprehensively refurbished.

The Company operates an HM Revenue and Customs approved employee share option plan, under which employees are granted an option to purchase shares in the Company between three and ten years from the date of grant. The exercise price is the market price at the time of granting the option. Our policy is to issue options to all employees after the satisfactory completion of their probationary period, without any performance conditions being attached to the exercise thereof. As at 31 March 2008, there were outstanding options over 1,424,000 shares which had been granted to staff, representing approximately 2% of the issued share capital of the Company.

Due to low utilisation of the subsidised crèche introduced last year, the Company has decided to replace this with a new scheme. Employees returning from maternity leave with children less than 12 months old will in future be able to benefit from a company contribution towards the cost of an external childcare service provider of their choice. We also provide facilities for staff to purchase childcare vouchers in a tax-efficient manner using a salary sacrifice scheme, in accordance with HM Revenue and Customs guidelines.

We also encourage all employees to participate in a stakeholder pension scheme operated by Legal & General. Participants can choose their own contribution level which is matched by the Company within certain limits, depending on length of service.

OUR DISTRIBUTORS

Our distributors remain one of our key strengths. In contrast to other utility suppliers, the alignment of financial interests provided by our revenue-sharing model ensures that our distributors focus their activities on finding credit-worthy and high-spending customers who will reap the maximum savings from using our services, and will thus be least likely to churn. By doing so, they maximise their own long-term income. This ensures that cases of mis-selling are generally inadvertent and extremely rare.

During the autumn, we introduced a new incentive enabling our most active distributors to earn a place on a luxury holiday or to receive Gift Vouchers from a choice of leading retailers.

BUSINESS REVIEW

CONTINUED

Our Car Plan, which provides eligible distributors with a subsidised fully branded Mini remains extremely popular, and we have now supplied over 100 cars following the extension of the programme last Autumn to bring it within reach of a substantially larger number of distributors. Owners find these helpful in raising their local profile, resulting in enquiries from both potential new customers and distributors.

Distributors have generally seen a considerable increase in their average earnings from each customer during the last two years as a result of the growth in the number of services taken combined with rising energy prices. The largest increases in earnings have however been achieved by those who have been working consistently at building their personal and group customer numbers. Our unique market position continues to make this predominantly part-time career extremely attractive to potential new recruits.

We have continued to improve our national training programme (the "College of Excellence") during the year with the introduction of new Goal Setting Courses, Accelerator Courses and an enhanced Leadership training module. These are designed to help our distributors maximise their potential and provide our next generation of leaders with the additional skills they will need. We have also increased the frequency of our "Career Opportunity Presentations" and "Getting Started" training sessions, as well as growing the number of venues at which they are offered, in line with the demands of the strong growth we have seen in the number of new distributors joining the business.

THE ENVIRONMENT

The environment is becoming an increasingly important concern and we participate in programmes to help reduce the environmental impact of our activities.

We operate an energy efficiency helpline to provide advice on how customers can reduce their energy usage, and we also participate actively in the "Shred-it" recycling programme, with a certificated saving of 88 trees during 2007. We also participate in a mobile phone recycling scheme which sends old handsets to less developed parts of the world for re-use, rather than disposing of them in landfill sites.

PRINCIPAL RISKS

The Group faces various risk factors, both internal and external, which could have a material impact on long-term performance.

Reputation risk

Telecom *plus's* reputation amongst our business partners, suppliers, shareholders and customers is fundamental to the future success of the Group. Failure to meet expectations in terms of the services we provide, the way that we do business or in our financial performance could have a material effect on the Group. These risks are mitigated through our focus on quality customer service, the training of our staff and our systems of internal control and risk management.

Wholesale prices

The Company does not currently own or operate any network infrastructure itself, choosing instead to purchase the capacity needed from third parties. The advantage of this approach is that the Company is not exposed to either technological risk, capacity risk or the risk of obsolescence, as it can purchase each month the exact amount of each service required to meet its customers' needs.

Whilst there is a theoretical risk that in some of the areas in which the Company operates it may be unable to secure access to the necessary infrastructure on commercially attractive terms, in practice the pricing of access to such infrastructure is either regulated (as in the energy market) or subject to significant competitive pressures (as in telephony). The profile of our customers, the significant quantities of each service they consume in aggregate, and our clearly differentiated route to market has historically proven attractive to potential partners, who compete aggressively in order to secure a share of our business.

The supply of energy, which has been accounting for an increasing proportion of our sales each year, has different risks associated with it. The wholesale price can be extremely volatile, and customer demand can be subject to considerable short term fluctuations depending on the weather. To avoid these, the Company decided in November 2005 to seek a relationship with a larger energy supplier which would preserve our integrated multi-utility business model whilst passing the substantive risks and rewards of hedging and buying energy to them. The transaction with npower which was completed on 31 March 2006 achieved these objectives, and has enabled the Company to earn a positive contribution from providing energy since that date.

Bad debt risk on energy customers

The Company has a universal supply obligation in relation to the provision of energy to domestic customers. This means that although the Company is entitled to request a reasonable deposit from a potential new customer who is not considered credit worthy, the Company is obliged to supply domestic energy to anyone who submits a properly completed application form. Where such customers subsequently fail to pay for the energy they have used ("delinquent customers"), there is likely to be a considerable delay before the Company is able to eliminate its exposure to future bad debt from them by either installing a pre-payment meter or disconnecting their supply, and the costs associated with preventing such delinquent customers from increasing their indebtedness are not always recoverable.

Bad debt risk on telephony customers

There is regular fraud within the telephony industry which arises from customers using the services without intending to pay their supplier. Although the amounts involved are generally small, larger-scale fraud is sometimes attempted involving calls to premium rate and/or international destinations. The Company has sophisticated systems to prevent material losses arising as a result of such fraud by processing all call traffic on an hourly or daily basis, and promptly disconnecting any number whose usage profile appears to be suspicious, although short delays are sometimes experienced in receiving information from our network partners.

Information technology risk

The Company is dependent on its proprietary billing and customer management software for the successful implementation of its business strategy. This software is developed and maintained in accordance with the changing needs of the business by a small team of highly skilled, motivated and experienced individuals. Back-ups of both the software and data are made on a regular basis and securely stored off-site.

Competitive risk

The Group operates in highly competitive markets and significant product innovations or increased price competition could affect our margins. In order to maintain our competitive position, we constantly focus on ways of improving our operating efficiency and keeping our cost base as low as possible.

Legislation and regulatory risk

The Group is subject to varying laws and regulations, including possible adverse effects from European regulatory intervention.

Risk management

The business continues to develop and operate a consistent and systematic risk management process, which involves risk ranking, prioritisation and subsequent evaluation, with a view to ensuring all significant risks have been identified and prioritised, and systems of control are in place to manage such risks.

Charles Wigoder

Chief Executive
22 May 2008

FINANCIAL REVIEW

OVERVIEW

Revenues of £186m (2007: £176m) were 6% higher in the financial year to 31 March 2008. The pre-tax profit was £16.8m compared with £11.6m in the last financial year. This increase in profitability, together with a £2m loan repayment received from Oxford Power Holdings, resulted in a net cash inflow from operating activities of £15.3m. Overall, our year-end net cash position increased by £4.5m from £25.8m to £30.3m.

The increase in turnover to £186m was due to the 9% increase in the number of services we provide, partially offset by the impact of lower energy prices for most of the year.

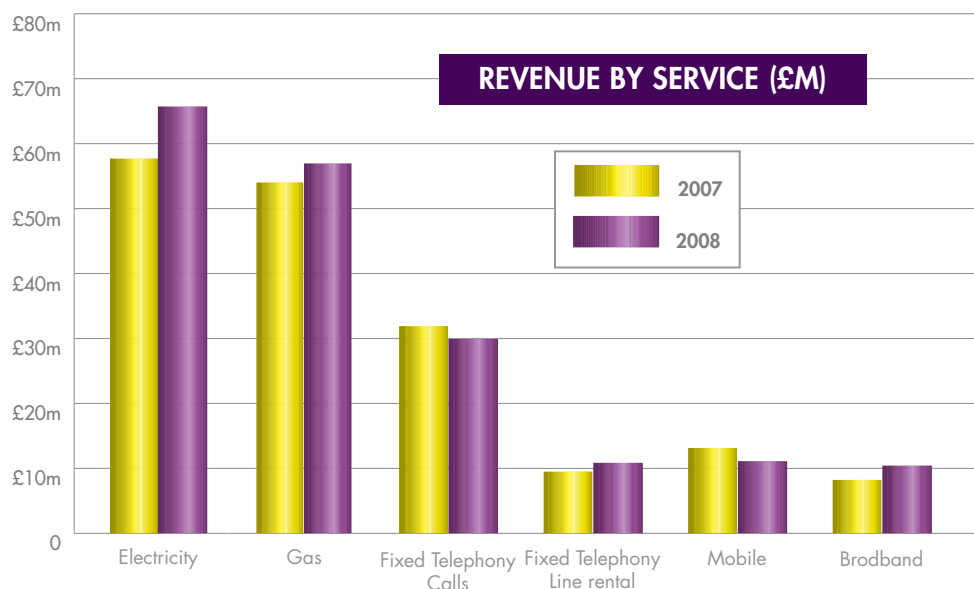
The gross profit margin fell slightly during the year to 19.3% (2007: 19.8%), reflecting the increasing proportion of our turnover which now derives from supplying energy, partially offset by increasing gross margins from the various services we provide. The increase at the operating profit level was due to increasing economies of scale; these resulted from the rise in the number of services we are providing, combined with the initial positive benefits from the improved systems we introduced during the year for managing our exposure to delinquent energy customers, in respect of which we had made a substantial provision in our 2007 accounts.

Earnings per share increased by 42% to 17.7p (2007: 12.5p). The Company is therefore proposing a final dividend of 10p (2007: 6p) making a total dividend of 14p for the year (2007: 8p).

CUSTOMER MANAGEMENT BUSINESS

Revenues from providing both gas and electricity increased by almost 10% during the year, due to an increase of around 1.5% in the number of energy services supplied to customers, partially offset by the impact of the retail energy price reductions which took effect in May and July last year. We also saw an increase in revenues of over 30% from supplying broadband services and around 1.5% from providing fixed telephony line rental. Call revenues in our fixed telephony businesses fell slightly, primarily reflecting our decision in autumn 2006 to restructure our multi-service discount scheme to provide Club members with free telephone calls instead of the previous "Cashback" scheme. Our mobile business however saw a reduction in both revenues and customer numbers due to the increasingly competitive environment for supplying these services, combined with the absence of a pre-pay solution within our current mobile product range.

Overall margins in our Customer Management business improved from 7.5% to 9.5% due to higher telephony margins during the second half of the year, administrative costs (excluding staff costs) remaining constant despite significant growth in services, and the positive impact of the improved systems we introduced during the year for managing our exposure to delinquent energy customers.



CUSTOMER ACQUISITION BUSINESS

The net cost in respect of our Customer Acquisition business increased during the year to £3.6m (2007: £3.1m). This was mainly due to an increase in the number of broadband customers during the year (where we generally incur significant upfront costs in providing a new router or modem, as well as third-party connection charges). We introduced a new broadband tariff in October 2007 offering customers a free laptop in return for entering into a two-year service agreement on a premium tariff. The cost of supplying these laptops has been capitalised and is being amortised against the profits we earn from supplying their broadband service over the minimum contract term. The amount included on the balance sheet at 31 March 2008 in respect of these laptops was £0.6m; all other customer acquisition costs are expensed as incurred.

OPERATING EXPENSES

Operating expenses reduced during the year from £24.9m to £22.0m. Higher commission payments to our distributors, an increase in our bad debt charge in line with the growth in turnover, and extra payroll costs resulting from our decision to increase the number of staff we employ (which has enabled us to improve the quality of our customer service and further strengthen the senior management team) have been more than offset by the decrease in the provision required for delinquent energy customers representing an improvement of around £3.2m compared with last year.

We have put considerable resources into reducing our exposure to delinquent energy customers, through intensive account management combined with an active programme to install pre-payment meters where necessary. We have also created a new team whose key objective is to establish a customer relationship more quickly with New Occupiers; potential customers who have moved into a property where we are the incumbent energy supplier. As a result, we have been able to reduce slightly our delinquent energy provision compared with the previous year end balance.

SHARE OPTION COSTS

The operating profit is stated after share option expenses of £54,000 (2007: £425,000). These expenses relate to an accounting charge under IFRS 2 'Share-based payments'.

TAXATION

A full analysis of the taxation charge for the year is set out in note 5 to the financial statements. The amount of corporation tax payable in respect of the year is £5.1m (2007: £3.6m).

The effective tax rate for the year is 28.7% (2007: 25.7%) which is principally due to credit adjustments in respect of prior years included in the 2007 tax charge and a decrease in the deferred tax credit following the reduction in Corporation tax from 30% to 28% on 1 April 2008.

SHARE PURCHASE PROGRAMME

Following authorisation received at last year's AGM, the Company spent £5.7m on purchasing a total of 3,084,000 shares between 20 July 2007 and 7 January 2008, at prices between 175p and 192.5p per share. The purchased shares are held in treasury.

By 31 March 2008, 204,132 of the shares held in treasury had been used to satisfy exercises under the Company's two share option plans.

FINANCIAL REVIEW

CONTINUED

CASH FLOW AND BALANCE SHEET

The operating profit of £14.0m (2007: £10.0m) together with repayment of a £2m long-term loan received from Oxford Power Holdings, resulted in a net cash inflow from operating activities of £15.3m (2007: £20.8m). The comparative net cash inflow figure for 2007 benefited from the unwinding of our historic energy purchasing commitments following the transfer of buying responsibility to npower.

Our net cash position increased at the year end by £4.5m from £25.8m to £30.3m, despite investing £5.7m to purchase our own shares.

The March cash position was also adversely affected by energy customers who pay by Budget Plan, where the high proportion of annual energy consumption used during the winter period means that our energy debtors reach a peak at the end of each winter before falling as we move through the spring and summer months. Winter this year was broadly in line with seasonal normal temperatures (following a particularly mild winter the previous year), which has had a negative impact of around £4m on the Company's cash position at the year end compared with the position at the end of March 2007.

The Group does not have a policy with respect to interest rate management as it currently has no debt funding requirements. Cash surpluses are placed on deposit with Barclays Bank plc at money market rates to maximise returns, after allowing for the Company's working capital requirements.

Richard Hateley

Finance Director

22 May 2008

DIRECTORS' REPORT

The directors have pleasure in presenting their report and the audited financial statements for the year to 31 March 2008.

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 primarily acquired through a network of independent distributors.

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

A full review of business and future developments is contained in the Chairman's Statement, Business Review and Financial Review. A summary of the financial risk management objectives and policies is contained in note 17 to the financial statements.

RESULTS AND DIVIDENDS

The profit for the year after tax of £11,954,000 (2007: £8,608,000) has been transferred to reserves. An interim dividend of 4p per share (2007: 2p) was paid during the year. A final dividend of 10p per share (2007: 6p per share) is proposed.

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:

	Ordinary 5p shares held at 31 March 2008	31 March 2007
Peter Nutting*	1,026,750	1,026,750
Charles Wigoder	16,084,041	15,984,041
Richard Hateley	50,000	-
Melvin Lawson*	2,050,000	2,050,000
Richard Michell*	376,686	382,686
Michael Pavia*	10,000	10,000
Keith Stella*	92,294	78,234

* indicates non-executive directors

In respect of the above shareholdings, Mr Wigoder and Mr Nutting have non-beneficial interests in 2,150,000 and 20,000 shares respectively (2007: 2,050,000 and 20,000). There have been no other movements in any of the directors' interests in the share capital of the Company between 1 April 2008 and 21 May 2008.

Messrs. Nutting, Wigoder and Michell are retiring by rotation in accordance with the Company's articles of association and are offering themselves for re-election at the forthcoming Annual General Meeting.

DIRECTORS' REPORT

CONTINUED

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company maintains appropriate insurance to cover directors' and officers' liability and has provided an indemnity in respect of all of the Company's directors. Neither the insurance nor the indemnity provides cover where a director has acted fraudulently or dishonestly.

CREDITORS PAYMENT POLICY

It is the policy of the Company to pay all suppliers according to the terms agreed. At the year end trade creditors were on average 38 days old (2007: 36 days).

DONATIONS

The Company made charitable donations of £6,614 during the year (2007: Nil). No political donations were made during either year.

SUBSTANTIAL SHAREHOLDERS

As at 19 May 2008, in addition to the directors, the following have notified the Company of their substantial shareholdings as detailed below:

	Number of Shares	Percentage of issued Share Capital
Standard Life Investments Ltd	4,673,975	7.1%
Herald Investment Trust plc	2,965,000	4.5%
North Atlantic Value LLP	2,894,028	4.4%
John Levin	2,254,028	3.4%
Legal & General Group Plc	2,042,124	3.1%
Nigel Wray	2,029,800	3.1%

DISCLOSURE OF INFORMATION

Each of the directors has confirmed that so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware, and that he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By Order of the Board

Richard Hateley

Company Secretary

22 May 2008

CORPORATE GOVERNANCE STATEMENT

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. An internal evaluation of the performance of the Board as a whole, of its Committees and of the individual directors was conducted during the course of the year in accordance with section A.6 of the Combined Code, which concluded that all were operating effectively. This included an appraisal of the Chairman, although no separate meeting took place to appraise his performance. The Chairman informally discusses issues with other non-executive directors periodically as required.

TABLE OF ATTENDANCE AT MEETINGS DURING THE YEAR ENDED 31 MARCH 2008

Name of Director	Board	Remuneration Committee	Audit Committee	Nomination Committee
Number of meetings	12	4	3	1
Peter Nutting	12	3	3	-
Charles Wigoder	12	-	-	1
Richard Hateley	12	-	-	-
Melvin Lawson	12	-	-	-
Richard Mitchell	7	-	-	-
Michael Pavia	12	4	3	1
Keith Stella	12	4	3	1

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

BOARD BALANCE

The Board is composed of two executive directors and five non-executive directors. The non-executive directors have wide experience and a variety of skills. Keith Stella and Michael Pavia are independent non-executive directors, whilst all other non-executive directors remain 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.

As noted above, the performance of the Chairman was appraised as part of the evaluation of the performance of the individual directors, without a formal meeting of the non-executive directors taking place during the year as required by section A.1.3 of the Combined Code.

CORPORATE GOVERNANCE STATEMENT

CONTINUED

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.

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 was comprised of three non-executive directors, namely Keith Stella (Chairman of the Committee), Peter Nutting and Michael Pavia. The revised Combined Code (provision B.2.1) states that the Committee should only comprise independent non-executive directors and does not define Mr Nutting 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 24 to 27.

AUDIT COMMITTEE AND AUDITORS

The Audit Committee is composed of three non-executive directors, Michael Pavia (Chairman of the Committee), Peter Nutting and Keith Stella. The revised Combined Code (provision C.3.1) states that the Committee should only comprise independent non-executive directors and does not define Mr Nutting as independent. However, the Board considers that Mr Nutting's financial knowledge and considerable business experience are 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 risk assessment, 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 systems of internal control and their effectiveness, and uses the meeting with the auditors as a further means of evaluating these measures.

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

NOMINATION COMMITTEE

The Nomination Committee comprises Michael Pavia (Chairman of the Committee), Keith Stella and Charles 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. The Committee has not utilised external search consultants or open advertisements to identify suitable prospective non-executive directors as there have not been any vacancies for non-executive directors during the year.

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, in order to ensure that Board members, and in particular non-executive directors, develop a balanced understanding of the views of major investors. Both the Chairman and the Chief Executive have periodic discussions with the Company's Brokers and feed back issues to the Board as appropriate.

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 Chairmen 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.

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 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 or its shareholders.

DIRECTORS' REMUNERATION REPORT

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 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 is responsible for reviewing and making recommendations to the Board regarding the broad policy relating to the total remuneration paid to the directors and members of senior management of the Company; it meets regularly, at least twice annually, to review and set all elements of the remuneration paid to the executive directors of the Company, including pension rights, and monitors the level and structure of remuneration for other senior management of the Company. It also exercises all the powers of the board in relation to the operation of the Company's share incentive schemes, including the grant of options and the terms of those grants.

The Committee is comprised of three non-executive directors, Keith Stella, Peter Nutting and Michael Pavia. Until 31 March 2007, Mr Nutting served as chairman of the remuneration committee but, in order to ensure compliance with the requirements of the revised Combined Code, ceased to act as chairman of the Committee on that date (but has continued to serve as a member). Mr Nutting's continuing membership is because the board considers that his experience enables him to make an invaluable contribution to the affairs of the remuneration committee and that it would be contrary to the interests of the Company to require him to relinquish that role. Since 1 April 2007, Keith Stella has acted as chairman of the committee.

REMUNERATION POLICY

The overall remuneration policy is designed to ensure that the executive directors of the Company and other senior managers in the Company are fairly and responsibly rewarded for their individual contribution to the overall performance of the Company, in a manner that ensures that the Company is able to attract, motivate, and retain executives of the quality necessary to ensure the successful management of the Company. The Company's remuneration policy is based on the principle that the fortunes of the directors and senior management are aligned with those of the shareholders, and this is achieved (in the case of the chief executive and certain of the non-executive directors) as a result of their significant shareholdings in the Company and (in the case of the finance director and members of the senior management team) by the grant of share options. Changes in the remuneration of the executive directors are decided by the Committee in consultation with the chief executive.

COMPONENTS OF REMUNERATION

Each of the two executive directors of the Company, Mr Wigoder as chief executive officer and Mr Hateley as finance director, receives a basic salary. In addition, the service contract for Mr Wigoder provides for the payment of an annual non-discretionary bonus equal to 1% of the net profits before tax of the Company. The remuneration committee no longer considers this bonus arrangement to be suitable, and is consulting with Mr Wigoder on alternative proposals which it hopes to agree and introduce later this year. In the meantime, and pending the introduction of these alternative proposals, Mr Wigoder has agreed to waive his entitlement to a bonus payment for the year ended 31 March 2008.

Whilst there are no performance-related bonus arrangements in place for Mr Hateley, he was paid an additional sum of £43,750 during the year, which had been contractually agreed with him following his appointment as finance director. The effect of this bonus was to increase his pensionable remuneration to a rate of £180,000 p.a. from the date of his appointment.

Mr Wigoder's and Mr Hateley's service contracts provide for pension contributions equal to 10% of their basic salary to be paid by the Company. Both Mr Wigoder and Mr Hateley were provided with private health insurance during the year.

The remuneration of the non-executive directors consists of fees for their services in connection with board and board committee meetings. Their fees are determined having regard to the demands made on their time in order to discharge their duties properly, and also (in the case of the non-independent non-executive directors) after taking into account the size of their shareholdings and the quantum of dividend income received.

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

	Basic Salary & Fees £'000	Bonus £'000	Pension Contributions £'000	2008 Total £'000	2007 Total £'000
Peter Nutting	15	-	-	15	15
Charles Wigoder	188	-	19	207	564
Richard Hateley	150	44	19	213	34
Melvin Lawson	12	-	-	12	6
Richard Michell	12	-	-	12	12
Michael Pavia	20	-	-	20	6
Keith Stella	22	-	-	22	32
Stephen Davis	-	-	-	-	283
John Levin	-	-	-	-	-
	419	44	38	501	952

The only director holding any share options is Richard Hateley, whose options are as follows:

	1 April 2007	Granted	31 March 2008	Exercise price per Share	Exercisable from	Expiry date
12 July 2006	50,000		50,000	127p	12 July 09	11 July 13
4 Jan 2007	25,000		25,000	199.25p	4 Jan 10	3 Jan 14
30 Aug 2007		25,000	25,000	171p	30 Aug 10	29 Aug 17

SHARE OPTION PLANS

The Company has two share option plans. The first is available to employees, and the second is available to distributors of the Company.

Subject to serving the requisite probationary period, all employees are eligible to participate in the Company's employee share option plan and be issued with options over shares in the Company, the number of shares being related to their seniority and length of service.

The remuneration committee has recently revised its policy with respect to the imposition of performance conditions, and has concluded that henceforth, reflecting the requirements of the Combined Code and current best practice, except in exceptional circumstances, performance conditions should be imposed on any future grants agreed to be made either to executive directors of the Company or to those senior executives who are not board members but whose status and role can reasonably be regarded as giving them a significant influence over the Company's ability to meet its strategic objectives. Neither the remuneration committee nor the board will seek to impose performance conditions retrospectively, that is to say, to options previously granted or to those contractually promised.

DIRECTORS' REMUNERATION REPORT

CONTINUED

Before making future grants of share options with performance conditions, the remuneration committee will determine, if necessary after taking external advice, the criteria to be applied for the performance conditions, consistent with the requirements of the Combined Code, having regard at the relevant time to the Company's circumstances and its prospects, and prevailing market practice and trends.

It continues to be the view of the committee and of the board that it would not be in the interests of the Company to seek to impose performance conditions on awards made to other, more junior, employees of the Company whose individual roles or performance cannot be expected to have a bearing on the overall success of the Company.

The Networkers and Consultants Share Option Plan exists to provide both further incentives and rewards to those distributors who have been most successful in gathering new customers for the Company. These distributors, though not employees of the Company, are nevertheless essential to its future successful growth and prosperity, and it is the opinion of the Committee that this Plan is in some cases an important factor in their motivation. No performance conditions are imposed on the grant of options made to distributors under this Plan.

DIRECTORS' CONTRACTS OF SERVICE

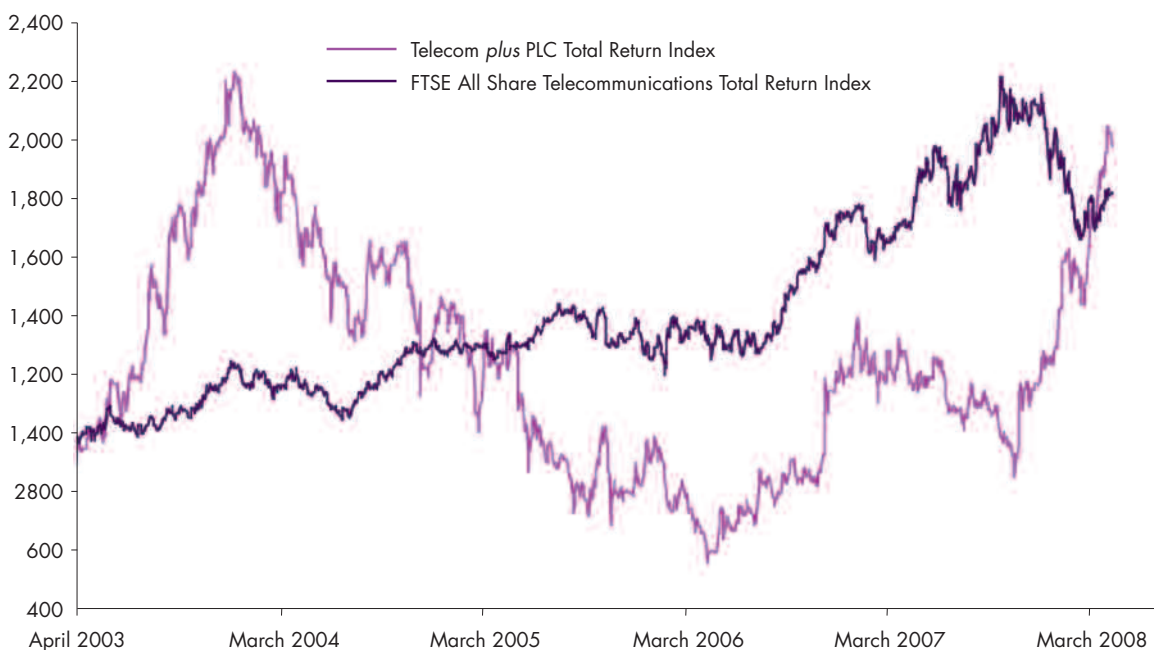
There are Service Contracts or Letters of Appointment for Peter Nutting (4 April 1997), Charles Wigoder (31 March 1998), Richard Hateley (1 June 2006), Melvin Lawson (27 September 2006), Richard Michell (1 September 2005), Michael Pavia (13 December 2006), and Keith Stella (revised and restated on 19 March 2008). 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 made no contributions to the pensions of any directors except Mr Wigoder and Mr Hateley, details of which 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 2003 to 14 May 2008. The remuneration committee has selected these indices because they are the most appropriate for this purpose.



Source: Thomson Datastream

Keith Stella

Chairman of the Remuneration Committee

On behalf of the Board

22 May 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations. They are also responsible for ensuring that the annual report includes information required by the Listing Rules of the Financial Services Authority.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements, and have elected to prepare the parent company financial statements, in accordance with International Financial Reporting Standards as adopted by the European Union. The financial statements are required to 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 year. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgments and estimates that are reasonable and prudent
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and 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 the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TELECOM PLUS PLC

We have audited the group and parent company financial statements ('the financial statements') of Telecom Plus PLC for the year ended 31 March 2008 which comprise the consolidated income statement and the consolidated and company balance sheets, cash flow statements and statement of recognised income and expense and the related notes. The 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union 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 International Standards on Auditing (UK and Ireland).

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 and whether, in addition, the group financial statements have been properly prepared in accordance with article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. The information in the directors' report includes that specific information presented in the business review and the financial review that are cross-referenced from the business review section of the directors' report.

In addition we report to you if, in our opinion, the company 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 other transactions is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2003 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. The other information comprises only the directors' report, the unaudited part of the directors' remuneration report, the chairman's statement, the business review, the financial review 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 International Standards on Auditing (UK and Ireland) 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 and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations 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 group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 March 2008 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 March 2008;
- the group financial statements have been properly prepared in accordance with article 4 of the IAS Regulation;
- 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 and
- the information given in the directors' report is consistent with the financial statements.

PKF (UK) LLP

Registered Auditors
London, UK
22 May 2008

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2008

	Note	2008 £'000	2007 £'000
Revenue		186,458	176,065
Cost of sales		150,478	141,136
Gross profit		35,980	34,929
Distribution expenses		8,566	8,327
Administrative expenses		13,454	16,584
Operating profit	1, 2	13,960	10,018
Financial income		1,865	1,105
Financial expenses		2	6
Net financial income	4	1,863	1,099
Share of profit of associate	8	939	473
Profit before taxation		16,762	11,590
Taxation	5	(4,808)	(2,982)
Profit for the year		11,954	8,608
Basic earnings per share	14	17.7p	12.5p
Diluted earnings per share	14	17.6p	12.5p

STATEMENT OF RECOGNISED INCOME AND EXPENSE

FOR THE YEAR ENDED 31 MARCH 2008

	Note	Group		Company	
		2008 £'000	2007 £'000	2008 £'000	2007 £'000
Profit for the year		11,954	8,608	10,805	7,551
Deferred tax on share options recognised directly in equity	9	211	18	211	18
Total recognised income and expense for the year		12,165	8,626	11,016	7,569

BALANCE SHEET

AS AT 31 MARCH 2008

	Note	Group		Company	
		2008 £'000	2007 £'000	2008 £'000	2007 £'000
Assets					
Non-current assets					
Property, plant and equipment	6	866	884	866	884
Goodwill and intangible assets	7	3,749	3,761	7	19
Investment in associate	8	1,815	1,422	1,047	1,047
Deferred tax	9	1,361	904	1,350	890
Other receivables		1,036	858	1,035	858
Total non-current assets		8,827	7,829	4,305	3,698
Current assets					
Inventories	10	175	202	175	202
Trade and other receivables	11	5,126	3,258	5,659	4,621
Prepayments and accrued income	11	25,478	28,649	24,411	27,567
Cash		30,331	25,801	30,329	25,796
Total current assets		61,110	57,910	60,574	58,186
Total assets		69,937	65,739	64,879	61,884
Current liabilities					
Trade and other payables	12	6,075	3,727	5,439	2,792
Current tax payable		3,019	1,969	2,723	1,842
Accrued expenses and deferred income		28,409	27,695	27,373	26,843
Total current liabilities		37,503	33,391	35,535	31,477
Total assets less total liabilities		32,434	32,348	29,344	30,407
Equity					
Share capital	13	3,452	3,446	3,452	3,446
Share premium	13	2	19,444	2	19,444
Treasury shares	13	(5,286)	-	(5,286)	-
Retained earnings	13	34,266	9,458	31,176	7,517
Total equity	13	32,434	32,348	29,344	30,407

These accounts were approved and authorised for issue by the Board on 22 May 2008

Charles Wigoder Director

Richard Hateley Director

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2008

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Operating activities				
Operating profit	13,960	10,018	12,918	9,597
Depreciation of property, plant and equipment	480	447	480	447
Amortisation of intangible assets	12	133	12	133
Distribution from associated company	546	-	546	-
Profit on disposal of property, plant and equipment	(1)	(44)	(1)	(44)
Decrease in inventories	27	310	27	310
Decrease in trade and other receivables	1,127	218	1,272	36
Increase in trade and other payables	3,065	10,647	3,179	10,661
Repayment of inter-company receivables	-	-	670	871
Costs attributed to the issue of share options	54	425	54	425
Corporation tax paid	(4,009)	(1,402)	(3,893)	(1,680)
Net cash flow from operating activities	15,261	20,752	15,264	20,756
Investing activities				
Investment in associate	-	(9)	-	(9)
Purchase of property, plant and equipment	(464)	(341)	(464)	(341)
Sale of property, plant and equipment	3	70	3	70
Cash flow from investing activities	(461)	(280)	(461)	(280)
Financing activities				
Dividends paid	(6,815)	(2,062)	(6,815)	(2,062)
Interest received	1,865	1,105	1,865	1,105
Interest paid	(2)	(6)	(2)	(6)
Issue of ordinary shares	122	404	122	404
Purchase of own shares	(5,659)	-	(5,659)	-
Issue of treasury shares	219	-	219	-
Cash flow from financing activities	(10,270)	(559)	(10,270)	(559)
Increase in cash and cash equivalents	4,530	19,913	4,533	19,917
Cash and cash equivalents at the beginning of the year	25,801	5,888	25,796	5,879
Cash and cash equivalents at the end of the year	30,331	25,801	30,329	25,796

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SIGNIFICANT ACCOUNTING POLICIES

Telecom *plus* PLC (the "Company") is a company domiciled in the United Kingdom. The consolidated financial statements of the Company for the year ended 31 March 2008 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The financial statements were authorised for issue by the directors on 22 May 2008.

(a) Statement of compliance

The financial statements of the Group and the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRIC interpretations as endorsed by the EU and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

(b) Basis of preparation

The accounts are prepared on the historical cost basis.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The most significant assumptions in the financial statements relate to the provision for delinquent customers, which is referred to in the Business Review under principal risks. These assumptions have been rigorously reviewed by the Audit Committee and the provision included in Accrued expenses and deferred income is £2.0m (2007: £2.6m).

By virtue of section 230 of the Companies Act 1985 the Company is exempt from presenting a profit and loss account.

IFRS 7 and IAS 1 (Amendment) bring in new disclosures relating to financial instruments and have not affected the presentation or valuation of amounts recognised on the balance sheet or in the income statement.

(c) Basis of consolidation

(i) Subsidiaries

The Group's financial statements consolidate the financial statements of Telecom *plus* PLC and its subsidiary. Subsidiaries are consolidated from the date on which control transfers to the Group and are included until the date on which the Group ceases to control them. Transactions between Group companies are eliminated on consolidation.

(ii) Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate are not recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SIGNIFICANT ACCOUNTING POLICIES

CONTINUED

(d) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair value at the date of acquisition. Any excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill. Goodwill is reviewed for impairment at least annually and any impairment is recognised immediately in the income statement. Any deficiency of the cost of acquisition below the fair value of the identifiable net assets acquired is credited to the income statement on acquisition. Goodwill recorded on business combinations prior to IFRS transition has not been restated and was capitalised according to the UK GAAP accounting standards then in force.

(e) Revenue

Revenue is the value of goods and services supplied to external customers excluding value added tax and other sales related taxes. Transactions are recorded as sales when the delivery of products or performance of services takes place in accordance with the contract terms of sale.

(f) Interest income

Interest income is recognised in the Income Statement as it accrues, using the effective interest rate method.

(g) Leases

Payments on operating leases are charged to the income statement on a straight line basis over the lease term.

(h) Taxation

The tax charge for the year comprises current and deferred tax. Taxation is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised, based on the balance sheet liability method, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(i) Property, plant and equipment

Property, plant and equipment are stated at cost less a provision for depreciation. Depreciation is calculated so as to write off the cost less estimated residual value of the assets in equal instalments over their expected useful lives. No depreciation is provided on freehold land. Depreciation is provided on other assets at the following rates:

Freehold buildings	25 years
Leasehold improvements	3 years
Computer and office equipment	3 to 5 years
Motor vehicles	4 years

The carrying amounts of property, plant and equipment are reviewed for impairment when there is an indication that they may be impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SIGNIFICANT ACCOUNTING POLICIES

CONTINUED

(j) Intangible assets

(i) Goodwill

Goodwill arising on the acquisition of a business, representing the difference between the cost of acquisition and the fair value of the separable net assets acquired is capitalised and is subject to impairment review, both annually and when there are indications that the carrying amount may not be recoverable. Prior to 1 April 2004, goodwill was amortised over its expected useful economic life up to a maximum of 10 years.

(ii) Other intangible assets

The Group's other intangible asset relates to the Billing System. It is stated at cost less a provision for amortisation, which has been calculated so as to write off the cost less estimated residual value of the asset in equal instalments over its expected useful life. Amortisation is provided over five years.

The carrying amount of the intangible asset is reviewed for impairment when there is an indication that it may be impaired.

(k) Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of assets is the greater of their net selling price and value in use.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

(l) Investments

In the Company's accounts, investments in subsidiary and associated undertakings are initially stated at cost. Provision is made for any impairment in the value of these investments.

(m) Inventories

Inventories are valued at the lower of cost, including related overheads, and net realisable value. Cost is measured on a first in, first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(n) Trade receivables

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits with banks that have maturity of three months or less from the date of inception.

(p) Trade payables

Trade payables are stated at their nominal value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SIGNIFICANT ACCOUNTING POLICIES

CONTINUED

(q) Research and development

Research costs are written off as incurred. Development costs incurred in the development of new or substantially improved products and processes are capitalised as intangible assets if it is probable that the expenditure will generate future economic benefits and costs can be measured reliably.

(r) Share-based payments

The fair value at the date of grant of share-based remuneration, principally share options, is calculated using a binomial pricing model and charged to the income statement on a straight line basis over the vesting period of the award. The charge to the income statement takes account of the estimated number of shares that will vest. All share-based remuneration is equity settled.

(s) Segmental reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary reporting format is business segments.

(t) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

(u) Pensions

The Group makes contributions to certain employees' personal pension plans. These are charged to the income statement in the year in which they become payable.

(v) Dividends

Final dividend distributions to the Company's shareholders are recognised as a liability in the Group's Financial Statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid.

(w) New standards issued but not yet effective

The Company has not applied any new Standards or Interpretations issued by the IASB and endorsed by the EU where the effective date for which is after the date of these financial statements. The application of such standards is not anticipated to have a material impact on the Company's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SEGMENT REPORTING

For management reporting purposes, the Group is currently organised into two operating divisions:

- Customer Management
- Customer Acquisition

These divisions are the basis on which the Group reports its primary segmental information.

Business segments

	Year ended 31 March 2007			Year ended 31 March 2006		
	Customer Management £'000	Customer Acquisition £'000	Total £'000	Customer Management £'000	Customer Acquisition £'000	Total £'000
Revenue:						
External sales	184,145	2,313	186,458	173,735	2,330	176,065
Segment result	17,566	(3,606)	13,960	13,107	(3,089)	10,018
Operating profit/(loss)			13,960			10,018
Net financing income			1,863			1,099
Share of profit of associates			939			473
Taxation			(4,808)			(2,982)
Profit/(loss) for the year			11,954			8,608
Segment assets	66,595	1,527	68,122	63,008	1,309	64,317
Investment in equity method associates	1,815	-	1,815	1,422	-	1,422
Total assets	68,410	1,527	69,937	64,430	1,309	65,739
Segment liabilities	(37,217)	(286)	(37,503)	(33,079)	(312)	(33,391)
Capital expenditure	458	6	464	336	5	341
Depreciation and amortisation	486	6	492	572	8	580

The share of profit of associates relates to the Customer Management business segment.

All turnover is derived in the United Kingdom and substantially arises from the provision of services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. OPERATING PROFIT

Operating profit is stated after charging

	2008 £'000	2007 £'000
Depreciation and amortisation	492	580
Profit on disposal of fixed assets	(1)	(44)
Operating lease rentals - land and buildings	246	239
Auditors' remuneration - audit of the Company	49	43
Auditors' remuneration - audit of associates of the Company	11	11
Auditors' remuneration - taxation services	16	31
Auditors' remuneration - corporate finance services	-	-
Auditors' remuneration - other services	11	-
Inventories expensed	1,786	1,665
Inventory write-down expense	26	195
Trade receivable impairment cost	2,732	2,191

3. PERSONNEL EXPENSES

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
The total charge in the income statement comprised the following:				
Wages and salaries	7,967	7,212	7,692	6,972
Social security costs	788	733	764	704
Pension contributions	155	129	147	120
Share-based payments	26	213	26	213
	8,936	8,287	8,629	8,009

	Number	Number	Number	Number
Average number employed by the Group during the year (excluding directors)				
Customer Acquisition	19	16	14	12
Customer Management	271	225	271	225
	290	241	285	237

	Group	
	2008 £'000	2007 £'000
The aggregate remuneration of the directors (included above) was as follows:		
Salaries, fees and other benefits	463	806
Compensation for loss of office	-	110
Pension contributions	38	36
	501	952
Share-based payments	24	21
	525	973

The emoluments of the highest paid director were £193,750 (2007: £546,000) and pension costs were £19,375 (2007: £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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. NET FINANCIAL INCOME

	2008 £'000	2007 £'000
Interest income	1,865	1,105
Interest expense		
Bank interest	(2)	(6)
Net financial income	1,863	1,099

5. TAXATION

(i) Recognised in the income statement

	2008 £'000	2007 £'000
Current tax charge/(credit)		
Current year	5,070	3,647
Adjustments for prior years	(16)	(288)
	5,054	3,359

Deferred tax credit

Decelerated capital allowances	(27)	(3)
Other temporary differences	(335)	(227)
Deduction in respect of share options	(38)	(101)
Reduction in rate of future taxes	97	
Adjustment for prior years	57	(46)
	(246)	(377)

Total income tax charge	4,808	2,982
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(ii) Reconciliation of total tax charge

	2008 £'000	2007 £'000
Profit before tax	16,762	11,590
Corporation tax using the UK corporation tax rate (30%)	5,028	3,477
Expenses not deductible for taxation purposes	2	129
Deduction in respect of share options exercised	(78)	(137)
Share of associate's tax charge	(282)	(142)
Marginal rate relief	-	(11)
Reduction in rate of future taxes	97	-
Adjustments in respect of prior years - current tax	(16)	(288)
Adjustments in respect of prior years - deferred tax	57	(46)
	4,808	2,982

(iii) Tax on items charged to equity

	2008 £'000	2007 £'000
Deferred tax credit on share options	211	18

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £'000	Leasehold improvements £'000	Computer and office equipment £'000	Motor vehicles £'000	Total £'000
Group					
2008					
Cost					
At 1 April 2007	150	214	2,482	190	3,036
Additions	-	164	260	40	464
Disposals	-	-	-	(9)	(9)
At 31 March 2008	150	378	2,742	221	3,491
Depreciation					
At 1 April 2007	21	172	1,810	149	2,152
Depreciation charge for the year	2	55	398	25	480
Disposals	-	-	-	(7)	(7)
At 31 March 2008	23	227	2,208	167	2,625
Net book amounts					
At 31 March 2008	127	151	534	54	866
At 31 March 2007	129	42	672	41	884
2007					
Cost					
At 1 April 2006	150	181	2,178	327	2,836
Additions	-	33	304	4	341
Disposals	-	-	-	(141)	(141)
At 31 March 2007	150	214	2,482	190	3,036
Depreciation					
At 1 April 2006	18	144	1,442	216	1,820
Depreciation charge for the year	3	28	368	48	447
Disposals	-	-	-	(115)	(115)
At 31 March 2007	21	172	1,810	149	2,152
Net book amounts					
At 31 March 2007	129	42	672	41	884
At 31 March 2006	132	37	736	111	1,016

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold land and buildings £'000	Leasehold improvements £'000	Computer and office equipment £'000	Motor vehicles £'000	Total £'000
Company					
2008					
Cost					
At 1 April 2007	150	214	2,482	190	3,036
Additions	-	164	260	40	464
Disposals	-	-	-	(9)	(9)
At 31 March 2008	150	378	2,742	221	3,491
Depreciation					
At 1 April 2007	21	172	1,810	149	2,152
Depreciation charge for the year	2	55	398	25	480
Disposals	-	-	-	(7)	(7)
At 31 March 2008	23	227	2,208	167	2,625
Net book amounts					
At 31 March 2008	127	151	534	54	866
At 31 March 2007	129	42	672	41	884
2007					
Cost					
At 1 April 2006	150	181	2,178	327	2,836
Additions	-	33	304	4	341
Disposals	-	-	-	(141)	(141)
At 31 March 2007	150	214	2,482	190	3,036
Depreciation					
At 1 April 2006	18	144	1,442	216	1,820
Depreciation charge for the year	3	28	368	48	447
Disposals	-	-	-	(115)	(115)
At 31 March 2007	21	172	1,810	149	2,152
Net book amounts					
At 31 March 2007	129	42	672	41	884
At 31 March 2006	132	37	736	111	1,016

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. GOODWILL AND INTANGIBLE ASSETS

	Billing system £'000	Goodwill £'000	Total £'000
Group			
2008			
Cost			
At 1 April 2007 and 31 March 2008	839	4,558	5,397
Amortisation			
At 1 April 2007	820	816	1,636
Amortisation for the year	12	-	12
At 31 March 2008	832	816	1,648
Carrying amounts			
At 31 March 2008	7	3,742	3,749
At 31 March 2007	19	3,742	3,761
2007			
Cost			
At 1 April 2006 and 31 March 2007	839	4,558	5,397
Amortisation			
At 1 April 2006	687	816	1,503
Amortisation for the year	133	-	133
At 31 March 2007	820	816	1,636
Carrying amounts			
At 31 March 2007	19	3,742	3,761
At 31 March 2006	152	3,742	3,894

Goodwill is attributable wholly to the "Customer Management" business segment.

In accordance with IAS36 "Impairment of Assets", the Group regularly monitors the carrying amount of its goodwill. A review was undertaken at 31 March 2008 to assess whether the carrying amount of assets was supported by their value in use determined by the net present value of the future cash flows derived from assets using cash flow projections based on current levels of profitability, with no assumed growth. A pre-tax discount rate of 10% was used.

The result of the review undertaken at 31 March 2008 indicated that no impairment is necessary.

The amortisation for the year of the billing system is included within the charge for administrative expenses in the income statement.

Company

The Company's intangible assets relate solely to the Billing system referred to above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. INVESTMENTS

Fixed asset investments

	2008	2007
	£'000	£'000
Associated undertaking		
Cost less impairment		
At 1 April	1,047	1,038
Additions	-	9
At 31 March	1,047	1,047
Share of profit/(loss)		
At 1 April	375	(98)
Share of profit after taxation for the year	939	473
Final dividend for the year	(546)	-
At 31 March	768	375
Carrying amounts		
At 31 March	1,815	1,422

Associated company

The investment in the associate represents the cost of purchasing a 20% (2007: 20%) equity interest in the ordinary share capital of Oxford Power Holdings Limited (OPH), together with the Group's share of retained reserves.

A summary of the balance sheet and income statement for OPH is as follows:

	2008	2007
	£'000	£'000
Total assets	24,302	20,168
Total liabilities	18,218	17,058
Net assets	6,084	3,110
Income	91,827	75,602
Expenses	85,152	72,717
Profit before tax	6,675	2,885

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. DEFERRED TAX ASSET

The deferred tax asset recognised in the financial statements is as follows:

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Tax effect of timing differences:				
Excess of qualifying depreciation over tax allowances	140	141	135	132
Other short term timing differences	913	642	907	637
Employee benefits in excess of amount vested	308	121	308	121
	1,361	904	1,350	890

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
At 1 April	904	509	890	509
Credited to the income statement	246	377	249	363
Taken to equity	211	18	211	18
At 31 March	1,361	904	1,350	890

The Group and Company have recognised a deferred tax asset, in the expectation of profitability in the coming year.

10. INVENTORIES

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Inventories comprise the following:				
Customer equipment	175	93	175	93
Marketing materials	-	109	-	109
	175	202	175	202

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Trade receivables	1,814	875	1,747	932
Other receivables	2,766	2,383	2,684	2,338
Final dividend due from associate company	546	-	546	-
Amount owed by subsidiary undertaking	-	-	682	1,351
	5,126	3,258	5,659	4,621

Prepayments and accrued income includes services provided but not billed of £25,117,000, (2007: £26,176,000) representing March revenue invoiced in April of £15,992,000 (2007: £14,727,000) and the energy budget plan gross debtor balance of £9,125,000 (2007: £11,449,000).

Included in Other receivables are amounts of £640,000 (2007: £nil) in respect of the unamortised costs of laptops supplied to customers on minimum term contracts and £nil (2007: £2,000,000) due from Oxford Power Holdings Limited, which was repaid on 31 December 2007.

Allowance for credit losses on trade receivables

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Allowances as at 1 April	1,848	1,111	1,642	845
Additions – charged to income statement	2,732	2,191	2,677	2,045
Allowances used	(2,599)	(1,454)	(2,524)	(1,248)
Allowances as at 31 March	1,981	1,848	1,795	1,642

Analysis of trade receivables

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Trade receivables (gross)	3,795	2,723	3,542	2,574
Allowance for credit losses	1,981	1,848	1,795	1,642
Trade receivables (net)	1,814	875	1,747	932

Aged analysis of trade receivables

	Not Impaired £000	Not impaired but past due by the following amounts					Total carrying amount £000
		30 days or less £000	Between 31 and 60 days £000	Between 61 and 90 days £000	Between 91 and 120 days £000	More than 120 days £000	
2008 Trade receivables	-	1,644	74	56	24	16	1,814
2007 Trade receivables	-	729	84	46	13	3	875

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. TRADE AND OTHER PAYABLES

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Trade payables	4,833	2,321	4,594	1,740
Other taxation and social security	1,242	1,406	845	1,052
	6,075	3,727	5,439	2,792

13. CAPITAL AND RESERVES

Reconciliation of movement in capital and reserves

Group	Ordinary shares £'000	Share capital £'000	Share premium £'000	Treasury shares £'000	Retained earnings £'000	Total £'000
Balance at 1 April 2006	68,429	3,421	19,065	-	2,469	24,955
Profit for the year ended 31 March 2007					8,608	8,608
Deferred tax on share options					18	18
					8,626	8,626
Dividends					(2,062)	(2,062)
Issue of share capital	500	25	379			404
Credit arising on share options					425	425
Balance at 31 March 2007	68,929	3,446	19,444	-	9,458	32,348
Profit for the year ended 31 March 2008					11,954	11,954
Deferred tax on share options					211	211
					12,165	12,165
Dividends					(6,815)	(6,815)
Issue of share capital	103	6	116			122
Cancellation of share premium			(19,560)		19,560	-
Purchase of treasury shares				(5,659)		(5,659)
Sale of treasury shares			2	373	(156)	219
Credit arising on share options					54	54
Balance at 31 March 2008	69,032	3,452	2	(5,286)	34,266	32,434

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. CAPITAL AND RESERVES (CONTINUED)

Reconciliation of movement in capital and reserves (continued)

Company	Ordinary shares £'000	Share capital £'000	Share premium £'000	Treasury shares £'000	Retained earnings £'000	Total £'000
Balance at 1 April 2006	68,429	3,421	19,065	-	1,585	24,071
Profit for the year ended 31 March 2007					7,551	7,551
Deferred tax on share options					18	18
					7,569	7,569
Dividends					(2,062)	(2,062)
Issue of share capital	500	25	379			404
Credit arising on share options					425	425
Balance at 31 March 2007	68,929	3,446	19,444	-	7,517	30,407
Profit for the year ended 31 March 2008					10,805	10,805
Deferred tax on share options					211	211
					11,016	11,016
Dividends					(6,815)	(6,815)
Issue of share capital	103	6	116			122
Cancellation of share premium			(19,560)		19,560	-
Purchase of treasury shares				(5,659)		(5,659)
Sale of treasury shares			2	373	(156)	219
Credit arising on share options					54	54
Balance at 31 March 2008	69,032	3,452	2	(5,286)	31,176	29,344

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. CAPITAL AND RESERVES (CONTINUED)

Share capital and share premium

	2008 £'000	2007 £'000
Issued share capital		
Ordinary shares of 5p each		
Authorised – 80,000,000 (2007: 80,000,000)	4,000	4,000
Allotted, called up and fully paid – 69,031,863 (2007: 68,928,583)	3,452	3,446

At several dates between 1 April and 31 July 2007 shares were allotted fully paid: 103,280 shares were allotted for cash on exercise of share options at prices from 106.5p to 200p. The weighted average share price at the date of exercise was 207p. No shares have been allotted since the year end.

At the year end the Company's share price was 254p and the range during the financial year was 137.5p to 258p.

At the 2007 AGM, the Company was authorised to purchase its own shares. Between 20 July 2007 and 7 January 2008, the Company purchased a total of 3,084,000 shares on six occasions, at prices between 175p and 192.5p, at a total cost of £5.7m. The purchased shares are held in treasury.

By 31 March 2008, 204,132 shares held in treasury had been used to satisfy exercises under the Company's two share option plans.

At 31 March 2008, the Company had 69,031,863 (2007: 68,928,583) shares in issue including 2,879,868 (2007: nil) shares held in treasury. The total number of voting rights of 5p ordinary shares in the Company was 66,151,995 (2007: 68,928,583). Since the year end, a further 51,289 treasury shares have been used to satisfy the exercise of distributor share options, increasing the total number of voting rights of 5p ordinary shares in the Company to 66,203,284.

At the AGM, the directors are again seeking approval to purchase a maximum aggregate of 10% of the issued ordinary share capital of 6,903,000 shares, as outlined in the AGM Circular which accompanies this report.

Following approval of a capital reduction exercise at the 2007 AGM (subsequently confirmed by the High Court), the share premium account was cancelled (i.e. reduced from £19.6m to £nil) and the sum of £19.6m was transferred to distributable reserves.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. CAPITAL AND RESERVES (CONTINUED)

Capital Management

The group's objective when managing capital is to continue to provide attractive returns to shareholders.

The group has no debt (2007: £nil) and is not subject to any externally imposed capital requirements. Consequently the capital structure of the business consists of its share capital and retained earnings.

Total shareholder equity at 31 March 2008 was £32.4 million (2007: £32.3 million).

The group's capital management strategy is to retain sufficient working capital for day to day operating requirements and to ensure sufficient funding is available to support the provision of budget plans for energy customers. During the year the Company purchased a total of 3,084,000 shares (2007: Nil) at a total cost of £5.7m.

Dividends

	2008	2007
	£'000	£'000
Prior year final paid 6p (2007: 1p) per share	4,142	684
Interim paid 4p (2007: 2p) per share	2,673	1,378

The Directors have proposed a final dividend of 10p per ordinary share totalling £6,620,000, payable on 8 August 2008, to shareholders on the register at the close of business on 11 July 2008. The dividend has not been included as a liability as at 31 March 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 31 March 2008 was based on the profit attributable to ordinary shareholders of £11,954,000 (2007: £8,608,000) and a weighted average number of ordinary shares outstanding during the year ended 31 March 2008 of 67,407,883 (2007: 68,606,607).

	2008	2007
	£'000	£'000
Basic earnings per share	17.7p	12.5p
Diluted earnings per share	17.6p	12.5p

Diluted earnings per share

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

	2008		2007	
	Profit £'000	Number of shares ('000)	Profit £'000	Number of shares ('000)
Basic earnings	11,954	67,408	8,608	68,607
Dilutive effects – Options		353	-	171
Diluted earnings	11,954	67,761	8,608	68,778

The share options may be dilutive in future periods.

15. OPERATING LEASE LIABILITIES

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

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Amounts payable:				
Less than one year	228	228	228	228
Between one and five years	862	880	862	880
More than five years	398	608	398	608
	1,488	1,716	1,488	1,716

The principal lease arrangements relate to the business premises, which primarily terminate in 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. SHARE-BASED PAYMENTS

The Company has two share option plans, 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 related to their seniority and length of service. The employee scheme ("The Telecom *plus* PLC 2007 Employee Share Option Plan") is not subject to any performance criteria.

The Distributor scheme ("The Telecom *plus* PLC 2007 Networkers and Consultants Share Option Plan") exists to provide incentives to the people who are most successful in gathering new customers for the Company. As it is not possible to measure directly the benefit received from these activities, the fair value of the benefit received has been measured by reference to the fair value of the equity instruments granted.

Share-based expenses have been charged in the consolidated income statement as follows:

	2008	2007
	£'000	£'000
Distribution expenses	28	212
Administrative expenses	26	213
Total charge	54	425

A reconciliation of movements in the numbers of share options for the Group can be summarised as follows:

	2008		2007	
	Number	Weighted average exercise price	Number	Weighted average exercise price
At 1 April	3,039,799	182p	3,718,919	170p
Options granted	716,500	177p	427,500	153p
Options exercised	(361,731)	130p	(499,973)	91p
Options lapsed/expired	(633,073)	230p	(606,647)	161p
At 31 March	2,761,495	177p	3,039,799	182p

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. SHARE-BASED PAYMENTS (CONTINUED)

During the year ended 31 March 2008, the Group issued share options to employees and distributors on three occasions as set out below.

	2007 Employee Share Option Plan	2007 Networkers and Consultants Share Option Plan	2007 Employee Share Option Plan
Date of grant	30/08/07	30/08/07	17/01/08
Number of options originally granted	470,500	84,000	177,500
Contractual life	10 years	10 years	10 years
Exercise price (pence)	171	171	198
Share price at date of grant (pence)	171	171	198
Number of employees/distributors	92	13	59
Expected volatility	46.95%	46.95%	45.34%
Expected option life	10 years	10 years	10 years
Risk free rate	5.75%	5.75%	5.50%
Expected dividend yield	4.68%	4.68%	5.05%
Fair value per option (pence)	58.0	58.0	63.8

During the previous year ended 31 March 2007, the Group issued share options to employees on two occasions as set out below.

	1997 Share Option Scheme	1997 Share Option Scheme
Date of grant	12/07/06	04/01/07
Number of options originally granted	274,000	153,500
Contractual life	7 years	7 years
Exercise price (pence)	127	199.25
Share price at date of grant (pence)	127	199.25
Number of employees	37	40
Expected volatility	62.43%	54.86%
Expected option life	7 years	7 years
Risk free rate	5.00%	5.00%
Expected dividend yield	1.57%	1.51%
Fair value per option (pence)	74.3	107.3

The Group has used the Cox, Ross and Rubenstein Binomial Tree model to value its share options, with no vesting conditions other than time. The expected volatility for the share option arrangements is based on historical volatility determined by the analysis of daily share price movements over the past 12 months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. SHARE-BASED PAYMENTS (CONTINUED)

The options outstanding at the end of the year are as follows:

	Number 1 April 2007	Number 31 March 2008	Exercise price per share	Exercisable from	Expiry date
2007					
Networkers and Consultants					
Share Option Plan					
1 Jul 2000	378,960	-	200p	1 Jul 2003	30 Jun 2007
1 Jul 2001	326,324	224,633	120p	1 Jul 2004	30 Jun 2008
25 Jun 2002	40,000	20,000	106.5p	25 Jun 2006	24 Jun 2009
24 Jun 2003	593,140	542,314	192.5p	24 Jun 2006	23 Jun 2010
15 Jul 2004	276,000	155,000	284p	15 Jul 2007	14 Jul 2011
27 Jan 2005	26,000	26,000	251.5p	27 Jan 2008	26 Jan 2012
17 Feb 2006	288,875	285,548	162p	17 Feb 2009	16 Feb 2013
30 Aug 2007	-	84,000	171p	30 Aug 2010	29 Aug 2017
	1,929,299	1,337,495			

2007 Employee Share Option Plan

15 Jun 2001	100,500	-	118p	15 Jun 2004	14 Jun 2008
25 Jun 2002	120,500	62,500	106.5p	25 Jun 2005	24 Jun 2009
10 Dec 2002	161,000	130,500	140p	10 Dec 2005	9 Dec 2009
20 Jan 2003	3,000	3,000	147.5p	20 Jan 2006	19 Jan 2010
7 Jul 2003	68,000	55,000	201p	7 Jul 2006	6 Jul 2010
5 Jan 2004	35,500	6,000	375p	5 Jan 2007	4 Jan 2011
14 Jul 2004	76,000	31,500	284p	14 Jul 2007	13 Jul 2011
27 Jan 2005	34,500	26,500	251.5p	27 Jan 2008	26 Jan 2012
7 Feb 2005	16,000	-	253.5p	7 Feb 2008	6 Feb 2012
13 Jul 2005	87,500	78,500	168p	13 Jul 2008	12 Jul 2012
17 Feb 2006	89,500	89,500	162p	17 Feb 2009	16 Feb 2013
12 Jul 2006	165,000	165,000	127p	12 Jul 2009	11 Jul 2013
4 Jan 2007	153,500	145,000	199.25p	4 Jan 2010	3 Jan 2014
30 Aug 2007	-	469,000	171p	30 Aug 2010	29 Aug 2017
17 Jan 2008	-	162,000	198p	17 Jan 2011	16 Jan 2018
	1,110,500	1,424,000			

3,039,799 2,761,495

Weighted average exercise price 182p 177p

At 31 March 2008 1,282,947 share options were exercisable (2007: 1,826,924) at a weighted average exercise price of 185p (2007: 169p). The average remaining contractual life of the outstanding options was 4.8 years at 31 March 2008 (2007: 3.4 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. 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.

Carrying amounts of financial instruments

All financial assets, which include cash and trade and other receivables, are classified as loans and receivables. All financial liabilities, which include trade and other payables, are held at amortised cost.

Credit risk

Credit risk in respect of trade receivables is low due to the large number of customers supplied, each of whom represents an insignificant proportion of our total revenue. In addition all customers are invoiced monthly and approximately 95% pay by direct debit.

The Company has a universal supply obligation in relation to the provision of energy to domestic customers. This means that although the Company is entitled to request a reasonable deposit from a potential new customer who is not considered credit worthy, the Company is obliged to supply domestic energy to anyone who submits a properly completed application form. Where such customers subsequently fail to pay for the energy they have used ("delinquent customers"), there is likely to be a considerable delay before the Company is able to eliminate its exposure to future bad debt from them by either installing a prepayment meter or disconnecting their supply, and the costs associated with preventing such delinquent customers from increasing their indebtedness are not always recoverable. The provision for delinquent customers included in accrued expenses and deferred income is £2.0m (2007: £2.6m).

Interest rate risk

The Group finances its operations primarily through the issue of equity shares and from cash generated and retained within the business. Cash surpluses are placed on deposit with Barclays Bank plc at money market rates to maximise returns. The Group does not currently require any external loan funding.

The Group's financial income for the current year will not be significantly affected by changes in the UK base rate of +/- 1% from current levels, due to the policy of placing funds on fixed rate deposit for terms of up to one year.

Market risk

The Group is not exposed to any fluctuations in commodity prices due to the nature of the agreements with wholesale providers of telephony and energy services and its ability to pass the effect of any such fluctuations through to its customers.

Liquidity risk

The Group's treasury management policies are designed to ensure continuity of funding. Generally the operations are strongly cash generating and the Group had 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. Receivables due after one year comprise £1,035,000 (2007: £858,000) due from employees and distributors which earns interest at variable rates above Base Rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Borrowing facilities

At 31 March 2008, the Group had no committed bank borrowing facilities (2007: nil) and has a facility of £32,000,000 (2007: £21,800,000) for Bonds, Guarantees and/or Indemnities. Bank facilities are subject to review at 31 March 2009.

Fair values

There is no difference between the fair value of any financial instruments and their net book amount due to the short term maturity of the instruments.

18. RELATED PARTIES

Identity of related parties

The Group has a related party relationship with its subsidiary (see note 8), associate (see note 8) and with its directors and executive officers.

Transactions with key management personnel

Directors of the Company and their immediate relatives control 29.75 per cent of the voting shares of the Company.

Other related party transactions

Associate

During the year ended 31 March 2008, the associate supplied goods to the Group in the amount of £325,000 (2007: £214,000) and at 31 March 2008 the associate was owed by the Group £33,000 (2007 owed the group: £1,928,000). Transactions with the associate are priced on an arm's length basis. No dividends were received from the associate in 2008 or in 2007. Oxford Power Holdings Limited paid a final dividend to the Company of £545,510 on 15 April 2008. This dividend has been included in trade and other receivables at 31 March 2008.

Subsidiary company

During the year ended 31 March 2008, the subsidiary purchased goods and services from the Company in the amount of £5,781,000 (2007: £7,781,000).



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Gas



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