Company number 3263464

Telecom *plus* PLC

Report and Accounts

Year ended 31 March 2010

Telecom *plus* PLC

Report and Accounts

Year ended 31 March 2010

Company number 3263464

Contents

Directors

Peter Nutting, Non-Executive Chairman
Peter, aged 74, 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 Officer
Charles, aged 50, 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.

Chris Houghton, Finance Director
Chris, aged 31, qualified as a Chartered Accountant with PricewaterhouseCoopers in 2003 Whilst there he gained experience in both their Consumer Products team and also in their Telecoms, Information, Communications, Entertainment and Energy team. Subsequently, he worked within the Corporate Finance department, where he completed a two-year secondment at The Takeover Panel. He joined the Company in September 2008 and was appointed Finance Director in February 2009.

Andrew Lindsay MBE, Chief Operating Officer
Andrew, aged 33, joined the Company in April 2007 and was appointed to the Board in November 2008. Before joining Telecom Plus, Andrew was Managing Director of Ryness, an electrical retail chain based in London in which he has a significant equity stake after performing a Management Buyout in 2006. Prior to buying Ryness, he spent three years as an analyst in the UK Mergers & Acquisitions team at Goldman Sachs. Andrew rowed for Great Britain at the Sydney Olympic Games in 2000, where he won a Gold medal.

Melvin Lawson, Non-Executive Director
Melvin, aged 51, is the Managing Director of A Beckman PLC, a company formerly listed on the London Stock Exchange which was taken private in 1995, 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 64, 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. 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 63, is a Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW), and has significant experience of the energy industry, having served on the Boards of LASMO, SEEBOARD and London Electricity. He is currently a non-executive director of Thames Water 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 the Combined Code.

Keith Stella, Senior Non-Executive Director
Keith, aged 55, is a practising solicitor and corporate finance partner with Berwin Leighton Paisner LLP and has over 30 years experience in a broad range of work in the company and corporate finance arena, 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 the Combined Code.

Chairman's Statement

I am delighted to report a further year of significant achievement for the Company, in which we have seen strong organic growth in revenue, customers, distributors and the number of services provided. Whilst profitability and earnings per share are ahead of market expectations, they are below the exceptional levels reported last year, in line with the guidance we provided at that time

Results

Pre-tax profits fell to £18.2m (2009 £22 5m) on revenue up by 33% to £369.1m (2009: £278.3m); earnings per share for the year were 19.7p (2009· 24.2p)

The strong rise in revenue has been driven by the rapid growth in the number of customers using our services combined with an improvement in the quality of our customer base.

The lower pre-tax profits and earnings per share resulted from the reduction in our gross margin during the year; this fell from 19.6% to 15.1%, in line with management expectations, primarily reflecting a normalisation in the margins from supplying gas and electricity compared with the exceptionally favourable wholesale pricing environment which existed for much of the preceding financial year. Margins from providing telephony and broadband services have continued to improve during the year

Reflecting our confidence that profits for the current year will be significantly ahead of the numbers reported today, we are proposing a final dividend of 14p (2009: 12.5p) making a total for the year of 22p (2009: 17.5p). This represents an increase of 25% in our total payment compared with last year.

The rate at which new customers have been joining the Utility Warehouse Discount Club remains encouraging, albeit at lower levels than we were experiencing earlier in the year. This is a direct result of our decision during August 2009 to change the distributor compensation plan making it less financially attractive for them to sign up customers who are not homeowners. The significant improvement in the average quality of the customers now being gathered as a result of these changes is expected to have a positive impact on future profitability.

Residential Club membership increased by 21% during the year to 269,893 (2009: 222,705) and our Business Club membership grew by 33% to 21,523 (2009: 16,163); together, these Clubs (trading under the Utility Warehouse brand) now account for 84.2% (2009: 82.1%) of our total customer base.

We are particularly encouraged by the strong growth in the number of services we are providing, which reached 1,044,516 (2009· 839,641) by the year end – an increase of more than 200,000 services during the year. The average number of services taken by residential Club members has increased to 3.28 (2009: 3.12) and average spend per customer has grown to £1,152 (2009: £1,057).

Notwithstanding the regular endorsements we received from *Which?* magazine in relation to the value we offer and the quality of service provided by our UK-based team, we continue to invest significant resources in improving the quality of the customer service we provide. The recent introduction of a computer telephone interface has already led to reduced queuing times and an improved overall customer experience.

Overall churn within our residential Club has remained broadly steady over the year at around 2% per month We expect to see a steady downward trend in the rate of churn in future, in line with the anticipated improvement in the quality of the customer base as we attract an increasing proportion of homeowners.

Opus

Our share of the profits from Oxford Power Holdings ("Opus"), in which we maintain a 20% stake, more than doubled during the year to £1.9m (2009: £0.89m). Whilst this outstanding performance was flattered by a one-off reduction in Opus' tax-charge, its underlying trading performance was extremely strong with revenue increasing by around 18% to over £150m and profit before tax increasing from £6 1m to £9.4m. We remain encouraged by the resilience of its business model and the strength and experience of its management team The call option held by International Power Holdings PLC which owns a 30% stake in Opus (the remaining 50% is held by management), lapsed during the year, and its management now intends to focus on driving growth and value within this business over the medium term.

Working Capital

The year end net cash balance fell significantly to £2.5m (2009: £25.4m). This reduction reflects the further significant growth in our energy business and the impact of another extremely cold winter (which led to an increase of £6.5m in our Budget Plan debtors to £29 7m), combined with a significant reduction in our trade payables of £8.4m compared with the last year. Other factors behind the reduction in cash are the costs we incurred in refurbishing our new freehold headquarters office building of around £2m and the increase in our trade debtors of £7.4m reflecting the increasing number of delinquent energy customers for whom we are in the process of installing prepayment meters. Subject to the weather next winter being broadly in line with seasonal normal temperatures, and in the absence of unforeseen circumstances, we anticipate a similarly sized net cash balance at the end of the current year to the amount reported today.

The Company has sufficient banking facilities available to meet any reasonably foreseeable increase in our working capital requirements resulting from our anticipated growth, higher energy prices and/or another cold winter

Dividend

The final dividend referred to above of 14p per share will be paid on 6 August 2010 to shareholders on the register at the close of business on 16 July 2010 and is subject to approval by shareholders at the Company's Annual General Meeting which will be held on 14 July 2010.

Whilst the Company remains committed to a progressive dividend policy over the medium term, our expectation is that this year it is likely that the total payout will be maintained at its current level, reflecting the need to retain a reasonable proportion of our future earnings to fund the increasing working capital requirements of the business as it continues to grow.

Business Development

Enhanced focus on higher quality customers

Customer quality is an important issue - and one which we have perhaps historically taken too much for granted in the knowledge that our revenue sharing model (which aligns our financial interests with that of our distributors) was designed to ensure they would focus their efforts on gathering credit-worthy multi-utility customers

In general, this is exactly what has happened in practice, however we identified last summer that due to the slowdown in the property market we were attracting a significant number of letting agents as distributors, and as a result an increasing proportion of new customers who were being introduced to us were occupying their property on a short-term tenancy agreement.

These are significantly less attractive customers than homeowners, as they tend to use fewer services (many of them do not take any of our higher margin telephony services), they move house more frequently (creating significantly greater administration costs in managing their account), and bad debt levels are much higher.

We therefore took decisive action to address this issue by changing the distributor compensation plan to reduce the share of the revenue our distributors receive from this type of customer, to reflect the higher costs we incur.

Our distribution channel now clearly understand the importance of attracting customers who meet our ideal target profile, namely homeowners joining our discount Club and using us to supply all their utility services, whilst taking advantage of our key membership benefits such as 'Free Global Calls' and our exclusive CashBack card. With higher monthly spend and exceptionally low churn (less than 1% per month), the lifetime income these customers will generate for both our distributors and the Company is of a completely different order of magnitude compared with a short-term tenant to whom we are only supplying energy services.

Whilst these changes have led to a reduction in the exceptionally high growth rates previously reported, the resultant progressive improvement in the quality of our customer base is expected to generate significantly greater shareholder value over the medium term.

Distribution Channel

Our distributors remain 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 continuing high levels of activity. We have seen a net increase of around 7,900 distributors over the year (2009 net increase of 7,500), taking the total number of distributors to around 35,000 (2009: 27,100); this represents an increase of over 29% during the year.

Systems

Our IT systems are designed to manage a significantly larger number of customers than are currently using our services, and our new office headquarters (which we occupied during the year) give us significant additional physical space to support our future growth. Delivering the benefits of the substantial economies of scale which are available, combined with a tight continuing focus on customer quality, is clearly a key business priority over the next few years.

CashBack card

Our exclusive CashBack card, which we launched in October 2008, is an important customer acquisition and retention tool. It gives our members the opportunity to save an additional 5% on their shopping at a wide range of participating retailers, which they receive as a credit on their next monthly bill from us. We have now issued over 40,000 of these cards to our members, and the proportion of new customers applying for one is steadily increasing as our distributors gain a better understanding of this innovative new product and the unique benefits it provides. Many customers are achieving savings of 20%-30% on the cost of the utilities we supply them with each month simply by using their CashBack card on a regular basis.

Free evening calls

All our principal competitors have recently announced that they are changing the basis on which they provide free evening calls, so that in future calls made between 6pm and 7pm will be chargeable at peak call prices; this means a typical 30 minute local/national call in the early evening using their services will now cost almost £2. We have taken the decision to leave our peak hours unchanged, giving both existing and new Club members significant additional savings on calls they make between 6pm and 7pm each evening.

Customer satisfaction

We continue to perform extremely well in customer satisfaction surveys with positive reviews from *Which?* magazine on several occasions during the year for energy, fixed telephony and broadband We were also shortlisted by them as 'Best Technology Provider' at their annual awards ceremony held earlier this month.

Lapse of npower call option

As part of the arrangements agreed between the Company and Npower Ltd ("npower") for the supply of energy in early 2006, certain directors, senior employees and connected persons granted npower an option to acquire part or all of their shareholdings in the Company representing approximately 29 per cent of the then issued share capital in the Company. The option was exercisable for a period of six months following publication of the Company's results for the year ended 31 March 2009. Further details of these option arrangements were contained in the circular published by the Company in March 2006.

On 28 November 2009 the Company announced that the option had lapsed. This does not affect the arrangements under which npower continues to supply all the energy used by our customers under an exclusive supply agreement that is subject to two years rolling notice on either side.

The Company enjoys a strong and positive working relationship with npower from which both parties are deriving considerable commercial benefits, and we anticipate this will continue for the foreseeable future.

Board Changes

This will be my last report and statement to shareholders as Chairman as I have decided the time has come for me to retire as a director and Chairman before my 75th birthday in October this year. I will therefore be stepping down from the Board immediately following conclusion of the Annual General Meeting on 14 July 2010.

At the same time Mr Keith Stella and Mr Richard Michell will also retire from the board. Mr Stella joined the board as an independent non-executive director when the Company was listed in 2001; having now completed 9 years as a non-executive director, he considers it appropriate that, in accordance with current corporate governance guidelines and best practice, he should step aside. Mr Michell served as Finance Director of the Company from its formation until April 2005, when he relinquished his position but remained on the board in a non-executive (albeit not independent) capacity, he has decided to focus on his full-time responsibilities as Chief Financial Officer of Minera IRL Limited, whose operations are based in South America, which has at times made it difficult for him to attend all Company board meetings.

The company has benefited from the wise advice, sound counsel and strong support of both Keith Stella and Richard Michell and I would wish to place on record our appreciation and gratitude to them for the significant contribution they have made to the smooth running of the Board and the success of the company. They will be much missed.

Charles Wigoder, our current Chief Executive Officer, who has been the driving force behind the growth and success of the business since he became a major shareholder in 1998 will succeed me as Executive Chairman. His future focus will predominantly be on the strategic direction of the Company and the growth opportunities available to it

In November 2008 we announced that Mr Andrew Lindsay was appointed Chief Operating Officer. Mr Lindsay has made a successful transition to the role taking on much of the day-to-day operational responsibility; with effect from the forthcoming AGM, we are delighted to announce his promotion to Chief Executive Officer

In order to strengthen the independence of the Board, I am delighted to announce the appointment of Mr Julian Schild, who joins as an independent non-executive director and as Deputy Chairman. Mr Schild will also serve on each of the Audit Committee and the Nomination Committee, and will become Chairman of the Remuneration Committee with effect from the forthcoming AGM.

Mr Schild, MA ACA, was previously Chairman of Huntleigh Technology PLC, one of the largest UK-based quoted medical equipment manufacturers with a revenue in 2006 of £225m up to and including its acquisition by Getinge AB in February 2007, a Swedish Group quoted on the Stockholm Stock Exchange.

When these changes have taken effect, the Board will consist of three executive directors (including the Chairman) and three independent non-executive directors (including the Deputy Chairman) I believe these changes will leave a well balanced board, appropriate to the size of the business and well positioned for future growth

Outlook

Shortly after the year end we held our annual sales conference, with a record attendance of over 5,000 distributors, at which we announced a number of enhancements to our services including a competitive new range of mobile tariffs. We also introduced significant improvements to the benefits available to our members, including a new online shopping service which gives them the opportunity to find the cheapest supplier of the items they are looking for, whilst earning additional cashback on their monthly utility bill (funded by the retailers) We also announced significant enhancements to our distributor training programme.

These changes received a positive reaction from those present, and while it is still too soon to assess the impact these changes will have on our future growth rate, the initial signs are encouraging. Applications received from new customers are up by more than 20% compared with immediately prior to the sales conference, we have seen a substantial increase in the proportion of new customers applying for one of our mobile services, and a further decline in the percentage of customers applying for us to supply them only with energy.

Although the absolute amount of energy our customers will use this year remains subject to considerable uncertainty due to the seasonal nature of domestic energy consumption in the UK (where approaching 40% of annual consumption occurs in the final quarter of our financial year, and the actual amount used can fluctuate considerably depending on the weather), the Company remains protected against any volatility in the wholesale energy markets under our long-term supply arrangements with npower. Under these arrangements, they are responsible for providing all the energy used by our customers in accordance with a price formula designed to ensure we earn a positive margin whilst maintaining competitive retail prices. The forward price curves for gas and electricity indicate a strong likelihood that retail prices will rise this winter from their current levels.

We are still the UK's only fully integrated multi-utility provider, offering 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 ability to gather high quality new customers, cost-effectively and in substantial volumes; this gives us a considerable competitive advantage in the residential market

The nature of our business model continues to give us considerable visibility over future revenues, supported by secure underlying margins on the various services we provide; we are therefore confident that the increase in the number of new customers and services supplied over the last 12 months will have a substantial positive impact on our profits for the coming year. In the absence of unforeseen circumstances, we anticipate that our overall gross margin will remain within a range of 15%-17% during the next few years and that our profitability will be significantly ahead of the numbers just reported

I will be sorry to leave the board as it has not only been a privilege but also an enjoyable 13 years during which I have seen the company grow from an idea to the substantial and successful business it is today. I know I leave the Company in good hands with an excellent management team under the continuing leadership of Charles Wigoder. It only remains for me to thank my boardroom colleagues for their support and all our staff and distributors for their loyalty and hard work during the past year and to wish each and every one of them success in the years to come.

Peter Nutting
Chairman
24 May 2010

Business Review

Performance

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

- strong organic growth with revenue up by 32.6% to £369m,
- focus on quality multi-service homeowners;
- significant increase in distributor numbers;
- 24.4% rise in the number of services provided to 1,044,516,
- higher take-up of CashBack card; and
- improved operating efficiency.

Our continuing strong rate of organic growth has been driven by ongoing high confidence levels amongst our distributors in our financial strength, the good value provided by our services, and our commitment to delivering a consistently first class customer service experience.

Unlike many other businesses, we are benefiting from the continuing difficult economic climate, which makes both our customer and part-time earning propositions look increasingly attractive against the background of a broader labour market where working hours are being cut, overtime is being reduced, wages are being frozen, part-time jobs are less readily available and unemployment is rising.

Margins

Gross margins from supplying telephony services improved during the year reflecting the continuing competitive pressure on the owners of network infrastructure to attract and retain call traffic from the dwindling number of substantial independent resellers like ourselves; we also slightly increased our retail prices for certain chargeable calls, whilst continuing to provide significant savings compared with our main competitors.

Broadband margins were stable during most of the year, but improved during the final quarter as we successfully migrated a large block of broadband customers from BT's IP-Stream and Data-Stream networks onto the lower cost LLU infrastructure operated by one of our main partners

Energy margins were lower, mainly due to the absence of favourable timing differences in wholesale pricing from which we had benefited in previous years, although a small part of this reduction resulted from the slightly lower retail prices which took effect during the year.

The combination of these factors, together with the further increase in the proportion of our revenue which derives from supplying energy to 78 5% (2009: 75.1%) (which has a relatively low gross margin compared with telephony and broadband), resulted in a lower overall gross margin of 15.1% (2009: 19.6%).

The impact of this reduction on our reported earnings was partially offset by increasing economies of scale and tight control of operating costs, which resulted in administration expenses (which include bad debts) falling to 7 3% of revenue (2009: 8 3%)

We also reduced the rate of commission payable under the compensation plan on tenants, to reflect the higher costs we incur in managing this category of customer, this resulted in a slight reduction in distribution expenses to 3 5% of revenue (2009· 4 2%), although the total commission paid increased to £13.0m (2009: £11.7m).

Staff numbers remained broadly constant notwithstanding the substantial increase in revenue, as we progressively identified efficiency savings throughout the business during the course of the year This process remains ongoing.

The Market

Our focus is on supplying a wide range of essential utility services 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 and a handful of other new entrants. 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 unique benefit of a single monthly bill for each customer and an increasingly attractive range of other membership benefits

Our Customers

	2010	2009
Residential Club	269,893	222,705
Business Club	21,523	16,163
Total Club	**291,416**	**238,868**
Non Club	42,276	42,307
Total Telecom Plus	**333,692**	**281,175**
TML	12,070	9,651
Total Group	**345,762**	**290,826**

Our customer base can be split into four groups as set out in the above table, each of which has different characteristics:

(i) Residential customers who are members of the Utility Warehouse Discount Club (around 78% of our customers). On average these customers each take 3.28 services,

(ii) Small businesses who are members of the Utility Warehouse Discount Club for Business (around 6% of our customers). On average these customers each take 2.46 services,

(iii) Residential customers who are not members of our Discount Club (around 12% of our customers) These are typically either households who became telephony customers before the Club concept was launched in October 2003, or who have moved into a property where we are the incumbent energy supplier since that date, and have not yet applied to join. On average, these customers each take 1.65 services;

(iv) Small businesses signed up through our wholly-owned TML subsidiary (around 4% of our customers). On average these customers each take 3.13 services.

Within the residential Discount Club (representing almost 80% of the total), there is a further important difference in quality (and therefore in the revenues and profits they will generate over the time they remain a Club member) between customers who are homeowners and those who are tenants, which is clearly illustrated below

	Owners	Tenants
Split of residential Club	67.9%	32.1%
1 Service	10.4%	19 7%
2 Services	33.2%	34.3%
3 Services	13.6%	13.7%
4 Services	13.2%	11.6%
5 Services	22 5%	16 1%
6 Services	5 6%	3 6%
7 Services	1.1%	0.8%
8 Services	0.4%	0.3%
Proportion with 4+ services	42.5%	32.1%
Proportion with direct debit	97.4%	91.3%
Monthly churn	1.5%	2.7%

The services included above are Fixed Telephony (Calls), Fixed Telephony (Line rental), Mobile, Broadband, Non-geographic numbers, CashBack card, Gas and Electricity Multiples of the same type of service taken by any household are excluded Internet Phone is treated as Fixed Telephony (Calls) Only those properties where we have validated the identity of our customer with the Land Registry Office (or its Scottish equivalent where applicable) are included within the 'owner' category above

At the end of July, we took significant steps to focus the customer gathering activities of our distributors towards homeowners, as on average they take more services, generate lower bad debts, are less expensive to manage, and remain a customer for longer; they therefore have a significantly higher expected lifetime value to us. These changes led to an immediate reduction in the number of tenants being introduced to us each month, which should lead to a progressive improvement in all our key operating metrics (including the average revenue per customer) over the course of the next few years.

Monthly churn in our residential Discount Club for our core target market (homeowners) is currently running at around 1.5% per month, compared with around 2 7% for tenants. This substantial difference provides a graphic illustration of the rationale behind the decision we took last July to focus our distribution channel on this higher quality category, albeit at the expense of slightly slower top-line growth.

The rise in the average number of services being taken under our Utility Warehouse brand to 3 21 (2009: 3.08) and continued growth in our Business Club customer base has led to a further 9% increase in average revenue per customer, notwithstanding lower retail energy prices over the last 12 months:

	Average Revenue Per Customer
1999	£190
2000	£286
2001	£316
2002	£329
2003	£459
2004	£482
2005	£505
2006	£634
2007	£801
2008	£824
2009	£1,057
2010	£1,152

These numbers exclude customers (and revenue) within our TML subsidiary

We enjoy high levels of overall customer satisfaction, as evidenced by the positive reviews we have received from *Which?* magazine on a regular basis, the relatively low churn we experience and a survey carried out amongst our members where over 94% stated that they would recommend us to their friends.

We continue to look for ways to strengthen the benefits of Club membership. Our CashBack card (which gives members the opportunity to save an extra 5% on all their shopping at a wide range of leading UK retailers) has seen a significant increase in customer take-up and utilisation over the course of the year.

Since the year-end, we have introduced additional ways for our customers to earn even more CashBack, with an online shopping portal and a new price comparison service (www.utilitywarehouse.co.uk/clubhouse) to help them find the cheapest online supplier for a wide range of everyday household goods

Services

Our range of utility services includes Fixed Telephony (calls and line rental), Mobile, Non-Geographic Numbers, CashBack card, Gas, Electricity and Broadband. At the year end we supplied a total of 1,044,516 services (2009 839,641), representing an increase of over 24% during the course of the year.

	2010	2009
Electricity	267,186	209,262
Gas	224,256	177,452
Fixed Telephony (calls)	211,565	188,426
Fixed Telephony (line rental)	153,074	124,762
Broadband	98,595	77,049
Mobile	34,067	36,127
CashBack Card	39,433	11,146
Non-Geographic Numbers	16,340	15,417
Total	**1,044,516**	**839,641**
Residential Club	883,904	695,542
Business Club	52,949	39,585
Total Club	**936,853**	**735,127**
Non Club	69,855	70,137
Total Telecom Plus	**1,006,708**	**805,264**
TML	37,808	34,377
Total Group	**1,044,516**	**839,641**

We saw strong growth in the number of customers to whom we supply Gas, Electricity, Broadband, Fixed Telephony (calls and line rental) and CashBack cards, although there was a small reduction in the number of Mobile services reflecting the limited number of sub-sectors addressed competitively by the tariffs we were offering during the period

Included within the above figures are 33,593 (2009: 25,814) business customers (within our Business Club and in TML), who are taking 90,757 (2009: 73,962) services and contributing £46 3m (2009. £34.4m) to Group revenue. We are extremely encouraged by this strong performance, and the opportunity for further significant organic growth which exists within this highly fragmented market segment.

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 recently linked our automated telephone system to our main customer database, which has enabled us to improve the experience of customers when they call us by making the options presented to them more relevant to their likely needs, thus improving call centre productivity.

We continue to invest in improving our customer service resources, with specialist teams focussed on managing delinquent customers and resolving issues which have arisen from the inefficiencies in the standard industry processes for switching energy customers between suppliers. We are also developing a 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 450 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 people with appropriate skills.

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 as necessary, to ensure the working environment is as attractive as possible, consistent with the practical needs of running the business.

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 which is exercisable 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. As at 31 March 2010 there were outstanding options over 1,601,100 shares which had been granted to staff, representing approximately 2.3% of the issued share capital of the Company.

Employees returning from maternity leave with children less than 12 months old are 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 interest provided by our revenue-sharing model and the structure of our compensation plan incentivises our distributors to focus their activities on finding credit-worthy higher-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 both inadvertent and extremely rare.

We have recently introduced an online training program to give new distributors the basic knowledge they need about our services and procedures before attending their first classroom training course, a newly developed Skills Workshop; this typically lasts about five hours and has been designed to maximise their potential by providing them with the skills they need both to gather customers and recruit other distributors effectively and successfully.

We continue to invest in our national training programme, in order to cope with the continuing high demand from both new and existing distributors During the year, we filled over 35,000 places spread across the various courses we offered ('Getting Started', 'Goal Setting', 'Accelerator' and 'Advanced Leadership').

Our Car Plan, which provides eligible distributors with a subsidised Utility Warehouse branded Mini, remains extremely popular. We supplied 83 new cars during the year, taking the total number in use to 253 (2009: 170). Users inform us that they find these helpful in raising their local profile, resulting in enquiries from both potential new customers and distributors.

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 323 trees during the year. 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.

Since the year end, we have introduced a new 'online membership' for our discount Club, which offers customers additional savings in return for not receiving a paper bill each month.

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. In March 2006, the Company entered into a relationship with npower under which they assumed the substantive risks and rewards of hedging and buying energy for our customers, this 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 potential new customers who are not considered credit worthy, the Company is obliged to supply domestic energy to everyone who submits a properly completed application form. Where 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 Officer
24 May 2010

Financial Review

Overview

Revenues of £369.1m (2009: £278 3m) were almost 33% higher than in the previous financial year to 31 March 2009. The pre-tax profit was £18.2m (2009: £22.5m) and we saw a net cash outflow from operating activities of £7.1m. Overall, our year-end net cash position reduced significantly to £2.5m The fall in pre-tax profit and our lower cash balance were in line with management expectations, and were due to a number of factors which are explained in detail below.

The increase in revenue to £369.1m was achieved despite the adverse impact of lower retail energy prices, and was due to the increase in the average number of services we provided compared with the previous year combined with the 9% increase in average revenue per customer

The reduction in pre-tax profitability mainly resulted from a fall in the overall gross profit margin to 15.1% for the year (2009: 19.6%), reflecting the normalisation of the margins we make from these services compared with the more favourable pricing environment which had existed over the preceding three years and the increasing proportion of our revenue which now derives from supplying energy. This flowed through to the operating profit level, partially offset by improving economies of scale and the changes we made to the distributor compensation plan which reduced the commission payable on tenants in line with the higher costs associated with managing this category of customer There was also a significant fall in our financial income for the year to £135,000 (2009· £1,647,000) due to lower interest rates combined with a reduction in our average cash balances following the £10m invested in our new freehold office headquarters

Earnings per share fell by 19% to 19.7p (2009: 24.2p). However, in line with guidance previously given, the Company is proposing a final dividend of 14p (2009: 12.5p) per share, making a total dividend of 22p (2009: 17.5p) per share for the year; a 25% increase.

Customer Management Business

Our customer management business experienced significant growth during the year

	Net growth in number of services provided
Quarter to 30/06/09	69,241
Quarter to 30/09/09	61,206
Quarter to 31/12/09	41,957
Quarter to 31/03/10	32,471

As can be seen from the above table, the rate of growth slowed during the year reflecting the decision taken by the Company to focus its distributors on finding higher quality customers who own their properties, and to discourage them from engaging in any type of customer gathering activity which would be likely to attract predominantly tenants.

We saw particularly strong growth in the number of gas and electricity services we supply, while our revenues from fixed communications grew by 17.8% as a result of continued strong demand for our award winning BroadCall service (which combines Fixed Line Calls, Line Rental and Broadband). These factors were responsible for the increase of almost 33% in our revenues for the year.

Revenue by Service (£m)	2009	2010
Electricity	101.6	146.5
Gas	107.6	143.2
Fixed Communications (Telephony/Broadband)	51.7	60.9
Mobile	9.5	8.1
Other	3.6	6 2
	-	-
Total	274 0	364.9

Customer Acquisition

The net cost in respect of our Customer Acquisition business increased during the year to £5.5m (2009· £5.0m). This is mainly due to the costs associated with the continuing strong growth in the number of new customers gathered during the year, such as third-party connection charges, distributor bonuses and the provision of hardware (e.g. mobile handsets and broadband routers), combined with the increased cost of the enhanced training facilities available to our distributors.

Distribution and Administrative Expenses

Distribution costs, which primarily represent the share of our revenues that we pay as commission to distributors, increased by £1.3m to £13 0m (2009: £11.7m); this reflects the substantial growth in revenue during the year partially offset by the changes made to the compensation plan in August 2009.

Administrative expenses fell to 7 3% of revenue (2009: 8.3%) reflecting increasing economies of scale and an improvement in the expected collectability of debts outstanding from customers at the year end resulting from a programme we introduced to manage delinquent customers more effectively Notwithstanding that the number of employees remained broadly constant throughout the year, as we enhanced our systems to manage our growing customer base more effectively, personnel expenses increased to £14.2m (2009: £11 6m) as the average number employed was significantly lower during the previous year. We also bore a full year of property costs relating to the freehold office premises and leasehold warehouse premises which we acquired in September and November 2008 respectively.

Share Option Costs

The operating profit is stated after share option expenses of £459,000 (2009: £454,000). 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 is £4.8m (2009. £6.3m).

The effective tax rate for the year was 26.1% (2009: 28.0%).

Treasury Shares

At the start of the year, the Company held 793,775 shares in treasury.

During the year 242,250 of these were used to satisfy exercises under the Company's two share option plans, and we acquired 100,000 shares at 270p in June 2009, leaving a balance in treasury of 651,525 at 31 March 2010.

Cash Flow and Balance Sheet

There was a net cash outflow from operating activities of £7 1m (2009: inflow £9.1m) The main factors behind this were the impact of another extremely cold winter (which led to an increase of £6.5m in our Budget Plan debtors), a significant reduction in our trade creditors of £8.4m (due to extended credit from one of our suppliers which we took with their agreement at the end of the previous financial year), and an increase in trade debtors of £7 4m (mainly reflecting the increasing number of delinquent energy customers for whom we are in the process of installing prepayment meters). We also incurred costs of around £2m in refurbishing our new freehold office building

Budget plan customers spread the cost of their expected annual energy consumption into 12 equal monthly instalments. As a high proportion of each customer's annual energy consumption is used during the winter period, this 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 the coldest for more than 30 years, which has led to an increase in the gross energy budget plan debtor balance to £29.7m (included within prepayments and accrued income) compared with the position at the end of what was still a relatively cold winter last year. This adverse movement would have been even greater had it not been for the lower retail energy prices which applied this winter, compared with the corresponding period the previous year.

The Board believes that most of the above factors are unlikely to be repeated during the current year. In addition, the Company has substantial committed banking facilities available to meet any reasonably foreseeable working capital requirements

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.

Chris Houghton
Finance Director
24 May 2010

Directors' Report

The directors have pleasure in presenting their report and the audited financial statements for the year to 31 March 2010.

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 the development of the business 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 £13,442,000 (2009· £16,184,000) has been transferred to reserves. An interim dividend of 8p per share (2009: 5p) was paid during the year. A final dividend of 14p per share (2009: 12.5p 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 2010	31 March 2009
Peter Nutting*	976,750	1,006,750
Charles Wigoder	16,104,041	16,104,041
Andrew Lindsay	6,465	6,465
Chris Houghton	-	-
Melvin Lawson*	2,050,000	2,050,000
Richard Michell*	376,686	376,686
Michael Pavia*	20,000	10,000
Keith Stella*	100,000	95,628

* indicates non-executive directors

In respect of the above shareholdings, Messrs Wigoder and Nutting have non-beneficial interests in 2,300,000 and 20,000 shares respectively (2009: 2,200,000 and 20,000). There have been no movements in any of the directors' interests in the share capital of the Company between 1 April 2010 and 24 May 2010.

As referred to in the Chairman's statement, Messrs. Nutting, Stella and Michell will be retiring and not offering themselves for re-election at the forthcoming Annual General Meeting.

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 Group to pay all suppliers according to the terms agreed. At the year end trade creditors were on average 42 days old (2009· 59 days).

Related party transaction

The Company acquired certain telephony dialler platform assets from Optimal Monitoring Limited, a company wholly owned by Charles Wigoder and Melvin Lawson, on 5 February 2010. Further details of this transaction are set out in note 18 to the financial statements.

Donations

The Group made charitable donations of £9,996 during the year (2009: £4,196). No political donations were made during the year.

Employees

The requirements of the Companies Act in respect of employees are set out in the Business Review on page 15.

Substantial Shareholders

As at 24 May 2010, 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	5,979,093	8.7%
Herald Investment Trust plc	2,965,000	4.3%
Nigel Wray	2,230,678	3.3%
Sheldon Management Ltd	2,209,028	3.2%

Capital structure

Restrictions on the transfer of shares
Other than as set out below, there are no restrictions on the transfer of the ordinary shares, except where a holder refuses to comply with a statutory notice requesting details of those who have an interest and the extent of their interest in a particular holding of shares. In such cases, where the identified shares make up 0.25% or more of the ordinary shares in issue, the directors may refuse to register a transfer of any of the identified shares in certificated form and, so far as permitted by the Uncertificated Securities Regulations 2001, a transfer of any of the identified shares which are held in CREST, unless the directors are satisfied that they have been sold outright to an independent third party.

So far as the directors are aware, there were no arrangements at 31 March 2010 by which, with the Company's co-operation, financial rights carried by securities are held by a person other than a holder of securities, or any arrangements between holders of securities that are known to the Company and which may result in restrictions on the transfer of securities or on voting rights.

As previously disclosed, certain directors, former directors and employees of the Company and members of their families and associated parties had entered into an option with npower under which they were not permitted to transfer their shares to a third party. This option expired without having been exercised by npower on 20 November 2009

Certain members of senior management have loans secured against some or all of their shareholdings in the Company which restrict their ability to transfer these shares prior to repayment of the loans.

Takeovers
There are no significant arrangements to which the Company is party that take effect, alter or terminate upon a change of control of the Company following a takeover bid, save in relation to the arrangements with npower and T-mobile for the supply of energy and mobile telephony respectively, or any agreements between the Company and its directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

Authority for purchase of own shares
At the last AGM, the Company obtained authority to purchase up to 6,826,092 ordinary shares representing 10% of the issued ordinary share capital (excluding treasury shares) as at 5 June 2009.

During the year, the Company purchased 15,000 ordinary shares at a price of 270p per share on 12 June 2009 and a further 85,000 shares at a price of 270p per share on 15 June 2009. These shares were purchased to be held in treasury.

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

Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 10 to 18 The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 19 to 21 and note 17 to the financial statements. In addition, note 17 includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

For the period to 30 June 2011, the Company is currently forecasting a maximum requirement for Bonds, Guarantees and/or Indemnities to provide security to npower in respect of energy supplied by them of £60,000,000 and has in place a maximum facility of £65,000,000. For the same period the Company is currently forecasting a maximum borrowing requirement of £12,000,000 and has in place maximum facilities of £15,000,000.

The company has considerable financial resources together with a large and diverse retail and small business customer base and long-term contracts with a number of key suppliers As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

By Order of the Board
David Baxter
Company Secretary
24 May 2010

Corporate Governance Statement

The Board has complied with the Combined Code on Corporate Governance ("the Combined Code") issued by the Financial Reporting Council in June 2008 (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. While the members of the Board are all experienced and well qualified, the opportunity to receive further training at the Company's expense is available to them at all times.

An internal evaluation of the performance of the Board as a whole, of its Committees and of the contribution of the directors during the course of the year has been carried out in accordance with section A.6 of the Combined Code The evaluation was carried out through the completion of formal detailed board, and board committee, evaluation questionnaires by each director The board evaluation included an appraisal of the Chairman, although no separate meeting took place to appraise his performance as required by section A.1.3 of the Combined Code. The evaluation concluded that the Board and its Committees had operated satisfactorily during the year

Table of attendance at formal meetings during the year ended 31 March 2010

Name of Director	Board	Remuneration Committee	Audit Committee	Nomination Committee
Number of meetings	*13*	*3*	*3*	-
Peter Nutting	12	3	1	-
Charles Wigoder	13	-	-	-
Andrew Lindsay	12	-	-	-
Chris Houghton	12	-	-	-
Melvin Lawson	12	-	-	-
Richard Michell	10	-	-	-
Michael Pavia	12	3	3	-
Keith Stella	13	3	3	-

Chairman and Chief Executive Officer

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

Board Balance

During the current financial year, the Board was composed of three executive directors and five non-executive directors. Keith Stella and Michael Pavia were deemed to be independent non-executive directors, whilst all other non-executive directors remained independent of management and were free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

During the year, the Board has re-evaluated the independence of Melvin Lawson as a director of the Company. On joining the Board in September 2006, Mr Lawson was deemed not to be independent, primarily on the basis of the size of his shareholding in the Company. However, following consultation with the Company's major shareholders and certain corporate governance bodies, the Board has concluded that it would be more appropriate to classify Mr Lawson as an independent director.

Keith Stella remained the senior independent non-executive director during the year.

Board changes

As referred to in the Chairman's statement, the balance of the Board has been re-evaluated in the light of the intended retirements of Messrs. Peter Nutting, Keith Stella and Richard Michell at the forthcoming AGM Charles Wigoder, the current Chief Executive Officer, will assume the role of Executive Chairman, with Andrew Lindsay, the current Chief Operating Officer moving to Chief Executive Officer. In addition, a new independent non-executive director and Deputy Chairman, Julian Schild, has been appointed to the Board. Mr Schild will also serve on each of the Audit Committee and Nomination Committee, and will become Chairman of the Remuneration Committee following Mr Stella's retirement

The Combined Code specifies that a chief executive should not go on to become the chairman of the same company (provision A.2.1). However, the Company considers that in this case, in the light of his extensive knowledge and experience of the business, Charles Wigoder is best placed to act as Executive Chairman of the Company following the retirement of Peter Nutting. In accordance with the Combined Code, the Company has consulted its major shareholders in relation to this change and believes that the governance position of the Board is safeguarded through the appointment of Julian Schild as an independent non-executive director, who will also act as Deputy Chairman.

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 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 provided a valuable contribution to the Remuneration Committee due to his considerable business experience. The directors' remuneration report, giving the details of the emoluments of each director, may be found on pages 30 to 37

The Remuneration Committee has written terms of reference, available on the Company's website (www.telecomplus.co.uk), which describe the authority and duties which have been delegated to it by the Board.

Audit Committee

The Audit Committee was composed of three non-executive directors, Michael Pavia (Chairman of the Committee), Peter Nutting and Keith Stella. The 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 were important to the Audit Committee.

The activities of the Audit Committee are set out on pages 39 to 40.

Nomination Committee

The Nomination Committee comprised Michael Pavia (Chairman of Committee), Keith Stella and Charles Wigoder, and therefore has a majority of independent non-executive directors in compliance with the Combined Code (provision A.4). The purpose of the Nomination Committee is to make recommendations to the Board on the appointment of new directors. No appointments to the Board were made during the financial year.

The Nomination Committee has written terms of reference, available on the Company's website (www.telecomplus.co.uk), which describe the authority and duties which have been delegated to it by the Board

The activities of the Nomination Committee are set out on page 38.

Relations with Shareholders

It is the policy of the Company 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 Officer to discuss issues with major shareholders The Chief Executive Officer provides feedback 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. The executive directors met with a number of the Company's main shareholders during the year.

Both the Chairman and the Chief Executive Officer have periodic discussions with the Company's Brokers and feed back issues to the Board as appropriate During the year Brewin Dolphin Investment Banking was appointed as joint broker to the Company to act alongside KBC and provide additional coverage and enhance the Company's profile with investors

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 acknowledges its responsibility for the Group's systems of internal control and risk management. However it recognises that any system can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The executive directors, in conjunction with the Company's senior management team, regularly review the key risks faced by the Group and the controls in place to mitigate these risks. The results of these reviews are documented and reported to the Audit Committee and the Company's external auditors twice per year.

The board of directors has continued to review the internal controls of the Group and the principal risks which the Group faces during the year. Although no material weaknesses have been identified, measures have been taken to reduce certain risks and improve control over the assets of the Group The principal risks faced by the Company and the measures taken to address these risks are set out on pages 16 to 18 of the Business Review.

Share capital and voting rights

Details of the Company's share capital and substantial shareholdings can be found in the Directors' Report under the capital structure and substantial shareholdings sections on pages 23 and 24.

Policy Statement

The Group has been in compliance with the Combined Code throughout the year, save as referred to above. Careful consideration has been given by the Board to the departures from the 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 Combined Code, has been approved by the Board of directors for submission to shareholders for approval at the forthcoming Annual General Meeting. The sections under the headings "Directors' Remuneration", "Share Option Plans" and "Pensions" have been subject to external audit.

Remuneration Committee

The Remuneration Committee ("RemCo" or "the 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 (Chairman), Peter Nutting and Michael Pavia. Although he is Chairman of the Board and as such is not an independent director, Mr Nutting has continued to make a useful contribution to the affairs of the RemCo during the year and the Committee considered that it would be contrary to the interests of the Company to have required him to relinquish that role.

The Committee met formally three times during the year and details of attendance at these meetings are provided in the Corporate Governance Report on page 26. The Committee additionally met informally on a number of occasions during the year, generally by conference call.

Legal advice to the Committee has been provided by Nabarro LLP, who are appointed by the Company and also provided legal services to the Company during the year. The legal advice provided to it by Nabarro LLP was discrete and the Committee is satisfied that the services provided did not create any conflict of interest. If a conflict of interest were to arise in the future, the Committee would appoint separate legal advisers from those used by the Company

Limited advice was also sought by the Committee from Hewitt New Bridge Street Consultants, a firm of independent remuneration consultants, in connection with the performance conditions devised by the Committee that attach to the options granted in the year to Mr Houghton.

Remuneration Policy

The overall remuneration policy remains, as previously, 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 should be aligned with those of the shareholders, and this is achieved (in the case of the Chief Executive Officer) as a result of his significant shareholding in the Company and (in the case of the Chief Operating Officer, Finance Director and all other 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 Officer.

The business review contained on pages 10 to 18 explains how the Company is reliant on the combined efforts of its 450 or so employees to manage relationships with both customers and distributors and to deliver a consistently high quality of service, and that it is key to the overall success of the Company and to its future long term profitability that the Company is able to attract and retain a motivated, talented and diverse workforce.

The Company therefore recognises the importance of ensuring that all members of staff are fairly, but sensibly, rewarded and are offered fair and reasonable employment terms and benefits, in a conducive working environment. This approach, and the Company's culture in particular in restricting pay to sensible levels throughout the organisation, are taken into account by this Committee and the Board in setting the remuneration payable to all directors (both executives and non-executives alike).

Components of Remuneration

Each of the three executive directors of the Company, Mr Wigoder as Chief Executive Officer, Mr Lindsay as Chief Operating Officer and Mr Houghton as Finance Director, receives a basic salary, but (currently) no bonus.

The Committee reported last year that it had embarked on negotiations with Charles Wigoder over the terms of a revised remuneration package that was to include a bonus element with both short term and long term performance conditions, along with a revised service contract which was prepared for Mr Wigoder.

It is perhaps an indication of Mr Wigoder's strong focus on the business and his clear alignment with other shareholders that the negotiations for his revised (and enhanced) remuneration were not considered by him to be a matter of the highest priority and as a result the Committee has to report that it has not been successful in bringing these negotiations to finality. For the year under review, therefore, Mr Wigoder has continued to draw his salary, and be paid pension contributions, at the same rate as last year with no bonus paid.

In the light of the announcement of the forthcoming changes in Charles Wigoder's status, moving from Chief Executive Officer to Executive Chairman after this year's annual general meeting in July 2010, it is expected that following that change Mr Wigoder will be offered a freshly prepared contract and revised remuneration package, the terms of which will be set by the newly constituted RemCo under the stewardship of its new chairman.

No changes were made during the year to Andrew Lindsay's remuneration, benefits or terms of employment.

Mr Houghton's salary was reviewed and increased to £150,000 per annum in June 2009 following his appointment to the Board as Finance Director earlier that year. Under the terms of his service contract, Mr Houghton is not entitled to receive, and has not been paid, any bonus. In June 2009 Mr Houghton was issued with options over 50,000 shares at an exercise price of £2.78 per share. The exercise of these options is subject to certain performance conditions the details of which are described later in this report.

Each of Mr Lindsay and Mr Houghton is eligible to be awarded share options. Details of options granted or held are described below.

Each of Mr Wigoder's, Mr Lindsay's and Mr Houghton's service contracts provides for pension contributions equal to 10% of basic salary to be paid by the Company. Mr Wigoder, Mr Lindsay and Mr Houghton were also provided with private health insurance during the year.

The non-executive directors receive fees for their services, the details of which are described below. The level of these fees was unchanged during the year. The policy with regard to fee structure is to reflect time commitment and responsibility of the various roles, although (in the case of the non-independent non-executive directors) their fees are also set after taking into account the size of their shareholdings and the quantum of dividend income received

Directors' Remuneration (audited)

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

	Basic Salary & Fees £'000	Pension Contributions £'000	2010 Total £'000	2009 Total £'000
Peter Nutting	15	-	15	15
Charles Wigoder	198	19	217	217
Andrew Lindsay	184	18	202	71
Chris Houghton	143	14	157	17
Richard Hateley	-	-	-	208
Melvin Lawson	12	-	12	12
Richard Michell	12	-	12	12
Michael Pavia	20	-	20	20
Keith Stella	22	-	22	22
	606	51	657	594

Share Option plans (audited)

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

The Employee Share Option Plan

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 policy of the Committee with respect to the imposition of performance conditions changed in 2008 and since that time it has been the policy of the Committee, mindful of the requirements of the Combined Code, to ensure that save in exceptional circumstances performance conditions are imposed on any future option 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. When imposed, the performance conditions are determined having regard 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 whose individual performance is unlikely to have a direct impact on the long term success or strategic direction of the Company

The Networkers and Consultants Share Option Plan

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. As stated, these distributors are not employees and are not involved of the management of the Company; individually, therefore, none is able to influence the Company's ability to meet its strategic objectives and for this reason it is felt inappropriate to impose any performance conditions on the grant of options made to distributors under this Plan.

Details of options granted to Directors

Details of the share options held or granted to directors during the year are set out in the table below (further details on the estimated cost of these options are set out in note 16 to the financial statements):

	1 April 2009	Granted	31 March 2010	Exercise price per share	Exercisable from	Expiry date
Andrew Lindsay						
30 Aug 2007	75,000	-	75,000	171p	30 Aug 10	29 Aug 17
12 Jun 2008	217,400	-	217,400	330.5p	12 Jun 11	11 Jun 18
Chris Houghton						
10 Dec 2008	50,000	-	50,000	340p	10 Dec 11	9 Dec 18
26 June 2009	-	50,000	50,000	278p	26 Jun 12	25 Jun 19

As explained in the Committee's report last year, all of the options held by Andrew Lindsay during the year were granted in an earlier period pursuant to contractual promises made at the time when he originally joined the Company, which was prior to his appointment to the Board, and on terms that performance conditions would not be imposed in respect of these grants. Accordingly, these options do not have performance conditions attaching to them. The Committee has however made it clear that appropriate performance conditions will be imposed on any later or further grants made to him, as indeed will be the case for future options granted to any other executive directors of the Company that are appointed to the Board.

Similarly, the 50,000 options held by Mr Houghton at the start of the financial year were options that had been granted to him prior to his appointment to the Board and on terms that performance conditions would not be imposed in respect of these grants However, a further 50,000 options were granted to him on 26 June 2009 after his appointment to the Board (the "June 2009 Options") and consequently the vesting of these is subject to performance conditions that have been imposed and which are described below.

The June 2009 Options

The extent to which the 50,000 options granted to Mr Houghton during the year will vest will depend on the average growth achieved across the two highest of the following three company performance measures, over a three year vesting period:

- the growth in earnings per share (EPS);
- the growth in total shareholder return (TSR);
- the growth in customer numbers.

EPS growth

The percentage of shares that will vest will be as follows:

- 100 percent if the Company's EPS increases to 23 2p per share for the year ending 31 March 2012. Using as a benchmark the Board's budgets set for the financial year in which these options were granted (namely, the year to 31 March 2010) this is equivalent to a required growth in EPS above the level originally budgeted of approximately 10 percent per annum compounded over the three year period to 31 March 2012;
- 50 percent if the Company's EPS increases to 20.18p per share for the year ending 31 March 2012, which represents a required compound rate of growth of 5 percent per annum over this same period;
- 50-100 percent on straight line basis if the Company's EPS for the year ending 31 March 2012 is more than 20.18p but less than 23 2p, and
- Nil if the Company's EPS for the year ending 31 March 2012 is less than 20.18p.

EPS is customarily defined, based on the Company's reported annual results for the relevant year, but adjusted (if there is any change in the standard rate of corporation tax for larger companies) to assume a continuing fixed rate of corporation tax of 28 percent.

If the rate of inflation (measured by RPI) is greater than 5 percent in any year during the three year vesting period, the EPS growth targets will be adjusted upwards to reflect the extent to which the rate of inflation has exceeded 5 percent in that year Any inflation below 5 percent has been taken into account in setting the growth targets required for vesting.

TSR growth

The percentage of shares that will vest will be as follows:

- 100 percent if TSR over the 3 year vesting period to 31 March 2012 (measured by reference to an opening share price of 322p per share (being the average price on the 30 dealing days up to and including 31 March 2009) is equal to or greater than 173p per share. In order to achieve this level of TSR, the Company's share price will need to increase to an average price during the 30 dealing days up to and including 31 March 2012 of 429p per share should a dividend of 22p per year be paid, representing a required increase in the share price broadly of 10 percent compounded annually;
- 50 percent if the TSR over this same period is equal to or greater than 117p per share which will require an increase in the share price, broadly of 5 percent compounded annually, to a 30 day closing average of 373p per share (assuming a maintained annual dividend of 22p per share in each year);

- 50-100 percent on straight line basis if the TSR during the period is more than 117p per share but less than 173p per share; and
- Nil if the TSR is less than 117p per share.

TSR is customarily defined to include both any increase in share price and all dividends paid during the period to which the measure applies.

In each case the relevant TSR targets are again subject to adjustment on the same basis as is described above if the rate of inflation (measured by RPI) increases by more than 5 percent in any year during the vesting period.

The Committee recognises that this TSR criterion departs from the more customary methodology of testing the Company's performance comparatively against a benchmark index or grouping of comparable companies The Committee gave consideration to this but ultimately concluded that this methodology would not provide an appropriate or fair means of measuring successful performance since there was no suitable grouping of comparable companies; furthermore, although the performance graph shown below has historically measured, and continues to measure, total shareholder return against the performance of the FTSE All Share Fixed Line Telecommunications Index, as a multi-utility provider generating approximately 80% of its revenues from services other than telephony, it is not felt that this index any longer provides an appropriate comparative for the purposes of determining the vesting of share options. The Committee therefore concluded that in this instance and on this occasion it would be more consistent with the Company's objectives to set a criteria that was based on TSR measured in absolute terms

Customer base growth

Both EPS and TSR are traditional and widely accepted criteria for measuring the performance and financial success of a company. In the case of the Company, however, its longer term growth in profitability is in part dependent on the existence of a substantial and progressive growth in the number of customers serviced by the business (and on the number of services provided). Accordingly, it was considered appropriate to set this criteria for vesting, depending on the extent to which the customer base grows during the three year vesting period.

The percentage of shares that will vest will be as follows:

- 100 percent if the Company's customer base grows to 427,632 by 31 March 2012 (representing annual growth of 15 percent compound per annum) over the 3 year vesting period,
- 50 percent if the Company's customer base grows to 349,303 by 31 March 2012 (representing 7.5 percent compound growth per annum),
- 50-100 percent on straight line basis if the Company's customer base on 31 March 2012 is more than 349,303 but less than 427,632, and
- Nil if the customer base on 31 March 2012 is lower than 349,303.

General

The Committee has decided against imposing a formal stipulation or condition that options which vest must be retained for any given period of time after vesting, but it has been made clear to Mr Houghton that this is the Company's expectation and (in common with all senior executives granted options in the future) he will be strongly encouraged to hold shares that vest for the longer term.

The Committee recognises that certain features of these performance criteria are unusual and at variance with what might be considered more customary, but the Committee has been clear in its desire to design vesting criteria that are suitable to the needs and circumstances of the Company and has expressed itself satisfied that these performance conditions are appropriate in order to align the objectives of Mr Houghton with maximising shareholder value through profitable and sustainable long-term growth. For this purpose, the Committee considers that the three most important criteria to achieve this are EPS, TSR and growth in the size of the customer base

Directors' Contracts of Service

There are Service Contracts or Letters of Appointment for Peter Nutting (4 April 1997), Charles Wigoder (31 March 1998), Andrew Lindsay (25 November 2008), Chris Houghton (16 February 2009), 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). These provide notice periods of three months on either side for the non-executive directors and the following notice periods for the executive directors: Mr Wigoder twelve months on either side and Mr Lindsay and Mr Houghton each with six months on either side. No contract provides for compensation for loss of office.

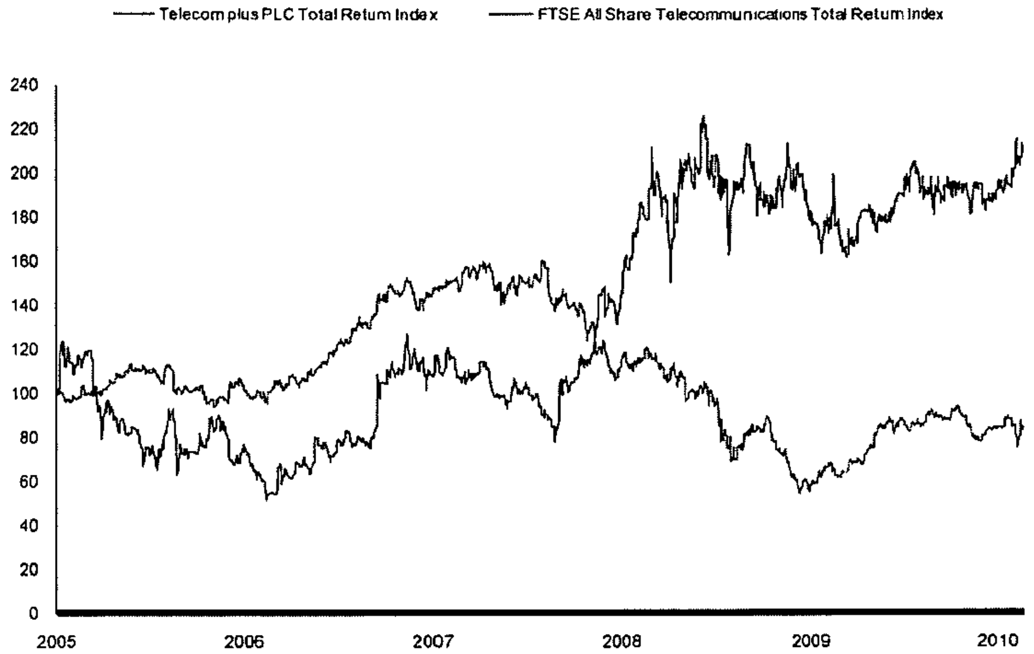
Pension Schemes (audited)

The Company makes no contributions to the pensions of any current directors except to Mr Wigoder, Mr Lindsay and Mr Houghton, 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 All Share Fixed Line Telecommunications Index for the period from 1 April 2005 to 20 May 2010. This index has been selected as the most appropriate comparator index because it is a broad based equity market index and has been used on a consistent basis in the past: the five year period covered by the graph includes an earlier period when more of the Company's revenues than now were derived from the supply of telephony services. As noted above, only approximately 20% of the Company's total revenues are now generated from these telephony services and it is therefore likely that for future years RemCo will wish to consider the use of an alternative comparator index

Performance Graph showing Total Shareholder Return



Source: Thomson Datastream

Valete

As noted elsewhere in this document, Peter Nutting will be retiring as Chairman of the Company at this year's annual general meeting in July, and it falls to me on behalf of the whole Committee to offer our sincere thanks to Peter for all his work on the Committee over the many years he has served on it. Following my decision also to retire from my office as director of the Company at this year's annual general meeting, this report will be the last penned by me as Chairman of the RemCo.

My last, and very pleasurable task, therefore is to warmly welcome to the Committee both Julian Schild, who will replace me as Chairman of RemCo, and also Melvin Lawson who has recently been re-designated by the Board as an independent director of the Company and is therefore now eligible to join the Committee. Both Mr Schild and Mr Lawson will make an important and valued contribution to the workings of the Committee and I wish them and the new Committee every success in the future.

Keith Stella
Chairman of the Remuneration Committee
On behalf of the Board
24 May 2010

Nomination Committee Report

The purpose of the Nomination Committee is to make recommendations to the Board on the appointment of new non-executive and executive directors, including making recommendations as to the composition of the Board generally and the balance between executive and non-executive directors

The Committee met informally on a number of occasions during the year ended 31 March 2010 and Committee matters were also discussed formally as part of certain full Board meetings.

The Committee's principal activity during the year related to the identification and evaluation of a new independent non-executive director.

A number of potential candidates for the position were identified by the Board and a shortlist was produced based on the experience and capability of the individuals concerned A small number of parties were approached by the Chief Executive Officer, acting on behalf of the Board, to evaluate their interest in the opportunity.

From the potential parties approached, Julian Schild was identified as an extremely strong candidate by the Committee and displayed a keen interest in joining the Board. Mr Schild's extensive experience within the public company arena, having acted first as Finance Director and then Chairman of Huntleigh Technology Plc ("Huntleigh"), a UK-listed mid-sized technology company, was particularly attractive to the Committee.

The members of the Committee formally interviewed Mr Schild, benchmarking his experience and capabilities against a list of key attributes previously agreed by the Board. The Committee's conclusions were formally reported to the full Board

The Committee also commissioned external consultants, Korn/Ferry Whitehead Mann to undertake an independent evaluation of Mr Schild's suitability for the position. The evaluation involved a detailed interview with Mr Schild and a number of follow-up discussions with referees comprising former board colleagues of Mr Schild and a former key institutional shareholder in Huntleigh.

Mr Schild's suitability was also briefly discussed with certain key shareholders of the Company.

In the light of his extensive relevant experience, the positive results of the evaluation performed by Korn/Ferry Whitehead Mann and the references received, Mr Schild was selected by the Committee as an excellent candidate for the role. Mr Schild's appointment was therefore put forward to the full Board for approval.

Michael Pavia
Chairman of the Nomination Committee
On behalf of the Board
24 May 2010

Audit Committee Report

The Audit Committee was composed of three non-executive directors, Michael Pavia (Chairman of the Committee), Peter Nutting and Keith Stella The 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 were important to the Audit Committee. Michael Pavia is also identified as having recent and relevant financial experience.

Attendance at Audit Committee meetings during the current year by Audit Committee members is set out in the Corporate Governance Report on page 26 of this document In accordance with best practice, the Audit Committee has the opportunity, as required, to meet with the external auditors of the Company without the presence of any executive directors.

The Committee has written terms of reference which describe the authority and duties which have been delegated to it by the Board and these are available on the Company's website (www.telecomplus.co uk)

The key responsibilities of the Audit Committee include:

- reviewing the appointment of external auditors and the direction of the auditors to investigate any matters of particular concern;
- assessing the effectiveness of the Company's external auditors, including considering the scope and results of the annual audit,
- reviewing the independence of the external auditors and assessing any impact on objectivity resulting from the provision of non-audit services by the external auditors,
- reviewing the half year and annual financial statements and related announcements,
- reviewing the Company's internal control and risk management processes.

The senior management team and executive directors periodically review key internal control and risk management processes within the Company and report any changes in such activities to the Audit Committee and the external auditors for consideration twice per year.

During the year the Committee reviewed and approved the Company's half year and annual financial statements. Also, in conjunction with the Company's external auditors, the Audit Committee has considered, among other matters, compliance with the provisions of the Combined Code and accounting developments, the Company's financial control environment and its risk management and control processes. As part of this process the Audit Committee has also considered the need for any special projects or internal investigations and concluded that no such projects or investigations have been required.

In accordance with the Combined Code (provision C.3 5), the Audit Committee has also considered the need for an internal audit function at the Company and has concluded that, in the light of the effectiveness of the internal financial controls in place, no such function is currently required.

The external auditors present a detailed audit report to the Audit Committee following their review of the annual financial statements. Having regard to the work performed by the external auditors during the year, the Audit Committee considers that the relationship is working well and remains satisfied with their effectiveness. Accordingly the Audit Committee has recommended to the Board, for approval by the shareholders, the reappointment of PKF (UK) LLP as the Company's auditors.

The external auditors have provided certain tax and other services to the Group during the year The Audit Committee has reviewed the services provided and in the light of the nature of the work performed and the level of fees paid (as set out on page 56 of this document) considers that the external auditors' objectivity and independence have not been compromised and that the external auditors were best placed to provide these services. In order to guard against the objectivity and independence of the external auditors being compromised, the provision of significant additional services aside from audit and tax remains subject to the approval of the Audit Committee.

The Chairman of the Audit Committee, Michael Pavia, is the primary point of contact for staff of the Company to raise, in confidence, concerns they may have over possible improprieties, financial or otherwise. All employees have been notified of this arrangement on the Company's intranet site which sets out Michael Pavia's contact details (Combined Code provision C.3.4).

Michael Pavia
Chairman of the Audit Committee
On behalf of the Board
24 May 2010

Statement of Directors' Responsibilities

The directors are responsible for preparing the directors' report, the directors' remuneration 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 in accordance with International Financial Reporting Standards as adopted by the European Union and have elected to prepare the parent company financial statements in accordance with those standards Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing 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;
- state whether the financial statements have been prepared in accordance with IFRSs as adopted by the European Union,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation and the parent company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and 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.

The directors confirm, to the best of their knowledge:

- that the group financial statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and
- that the business review includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The names and functions of all the directors are stated on pages 2 and 3.

Independent Auditors' Report to the Members of Telecom *plus* PLC

We have audited the financial statements of Telecom *plus* PLC for the year ended 31 March 2010 which comprise the consolidated statement of comprehensive income, the consolidated and company balance sheets, the consolidated and company cash flow statements, the consolidated and company statements of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements

Opinion on financial statements

In our opinion.

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2010 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following·

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 25, in relation to going concern; and
- the part of the corporate governance statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

PKF(UK)LLP

Jason Homewood (Senior statutory auditor)
for and on behalf of PKF (UK) LLP, Statutory auditors
London, UK
24 May 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2010

	Note	2010 £'000	2009 £'000
Revenue	1	369,069	278,342
Cost of sales		313,386	223,705
Gross profit		55,683	54,637
Distribution expenses		12,989	11,745
Administrative expenses		26,853	22,983
Other income		339	73
Operating profit	1, 2	16,180	19,982
Financial income		135	1,647
Financial expenses		2	26
Net financial income		133	1,621
Share of profit of associates		1,885	888
Profit before taxation		18,198	22,491
Taxation	4	(4,756)	(6,307)
Profit for the year attributable to owners of the parent		13,442	16,184
Other comprehensive income:			
Deferred tax on share options	4, 8	(114)	22
Comprehensive income for the year attributable to owners of the parent		13,328	16,206
Basic earnings per share	14	19.7p	24.2p
Diluted earnings per share	14	19.5p	23.9p

Company number: 3263464

Consolidated and Company Balance sheets
As at 31 March 2010

	Note	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Assets					
Non-current assets					
Property, plant and equipment	5	12,098	11,470	12,098	11,470
Goodwill and intangible assets	6	3,742	3,743	-	1
Investments in associates	7	4,003	2,703	1,479	1,047
Deferred tax	8	1,409	2,036	1,388	2,008
Non-current receivables	9	2,335	1,697	2,335	1,698
Total non-current assets		23,587	21,649	17,300	16,224
Current assets					
Inventories		234	357	234	357
Trade and other receivables	10	10,857	3,903	10,163	3,827
Prepayments and accrued income	10	65,838	52,288	64,328	50,976
Cash and cash equivalents		2,473	25,357	2,454	25,354
Total current assets		79,402	81,905	77,179	80,514
Total assets		102,989	103,554	94,479	96,738
Current liabilities					
Trade and other payables	11	8,812	16,322	8,528	15,751
Current tax payable		1,988	3,944	1,748	3,458
Accrued expenses and deferred income	12	47,701	38,696	46,740	37,935
Total current liabilities		58,501	58,962	57,016	57,144
Total assets less total liabilities		44,488	44,592	37,463	39,594
Equity					
Share capital	13	3,452	3,452	3,452	3,452
Share premium		2,000	1,992	2,000	1,992
Treasury shares		(1,278)	(1,457)	(1,278)	(1,457)
Retained earnings		40,314	40,605	33,289	35,607
Total equity		44,488	44,592	37,463	39,594

These accounts were approved and authorised for issue by the Board on 24 May 2010

Charles Wigoder Director

Chris Houghton Director

Consolidated and Company Cash Flow Statements

For the year ended 31 March 2010

	Group		Company	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Operating activities				
Operating profit	16,180	19,982	14,572	18,607
Depreciation of property, plant and equipment	917	579	917	579
Amortisation of intangible assets	1	6	1	6
Distribution from associated company	1,017	-	1,017	-
Decrease / (increase) in inventories	123	(182)	123	(182)
Increase in trade and other receivables	(21,142)	(26,248)	(20,821)	(26,078)
Increase in trade and other payables	1,495	20,534	1,582	20,874
Repayment of inter-company receivable	-	-	496	682
Costs attributed to the issue of share options	459	454	459	454
Corporation tax paid	(6,199)	(6,030)	(5,511)	(5,848)
Net cash flow from operating activities	(7,149)	9,095	(7,165)	9,094
Investing activities				
Purchase of property, plant and equipment	(1,545)	(11,183)	(1,545)	(11,183)
Purchase of shares in associated company	(432)	-	(432)	-
Interest received	135	1,647	135	1,647
Cash flow from investing activities	(1,842)	(9,536)	(1,842)	(9,536)
Financing activities				
Dividends paid	(13,989)	(9,988)	(13,989)	(9,988)
Interest paid	(2)	(26)	(2)	(26)
Purchase of own shares	(272)	-	(272)	-
Sale of treasury shares	370	5,481	370	5,481
Cash flow from financing activities	(13,893)	(4,533)	(13,893)	(4,533)
Decrease in cash and cash equivalents	(22,884)	(4,974)	(22,900)	(4,975)
Cash and cash equivalents at the beginning of the year	25,357	30,331	25,354	30,329
Cash and cash equivalents at the end of the year	2,473	25,357	2,454	25,354

Consolidated Statement of Changes in Equity
For the year ended 31 March 2010

Consolidated	Share capital £'000	Share premium £'000	Treasury shares £'000	Retained earnings £'000	Total £'000
Balance at 1 April 2008	3,452	2	(5,286)	34,266	32,434
Profit for the year				16,184	16,184
Deferred tax on share options				22	22
Comprehensive income for the year				16,206	16,206
Dividends				(9,988)	(9,988)
Sale of treasury shares		1,990	3,829	(333)	5,486
Credit arising on share options				454	454
Balance at 31 March 2009	3,452	1,992	(1,457)	40,605	44,592
Profit for the year				13,442	13,442
Deferred tax on share options				(114)	(114)
Comprehensive income for the year				13,328	13,328
Dividends				(13,989)	(13,989)
Purchase of treasury shares			(272)		(272)
Sale of treasury shares		8	451	(89)	370
Credit arising on share options				459	459
Balance at 31 March 2010	3,452	2,000	(1,278)	40,314	44,488

Company Statement of Changes in Equity

For the year ended 31 March 2010

Company	Share capital £'000	Share premium £'000	Treasury shares £'000	Retained earnings £'000	Total £'000
Balance at 1 April 2008	3,452	2	(5,286)	31,176	29,344
Profit for the year				14,276	14,276
Deferred tax on share options				22	22
Comprehensive income for the year				14,298	14,298
Dividends				(9,988)	(9,988)
Sale of treasury shares		1,990	3,829	(333)	5,486
Credit arising on share options				454	454
Balance at 31 March 2009	3,452	1,992	(1,457)	35,607	39,594
Profit for the year				11,415	11,415
Deferred tax on share options				(114)	(114)
Comprehensive income for the year				11,301	11,301
Dividends				(13,989)	(13,989)
Purchase of treasury shares			(272)		(272)
Sale of treasury shares		8	451	(89)	370
Credit arising on share options				459	459
Balance at 31 March 2010	3,452	2,000	(1,278)	33,289	37,463

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 2010 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 24 May 2010.

(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 2006 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 provisions 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 £1.4m (2009: £2.1m).

By virtue of section 408 of the Companies Act 2006 the Company is exempt from presenting a statement of comprehensive income. The Company made a profit for the year of £11,415,000 (2009: £14,276,000).

The following standards and interpretations have become mandatory for the Company during the current accounting period, but are not relevant to the Company's operations:

- IAS 23 (Amendment) Borrowing costs;
- IFRS 2 (Amendment) Share based payments;
- IAS 27 (Amendment) Consolidated and separate financial statements;
- IFRS 7 (Amendment) Financial instruments: Disclosures;
- IFRS 1 (Amendment) First time adoption of IFRS;
- IAS 1 and IAS 32 (Amendment) Presentation of financial statements and Financial instruments: Presentation;
- IAS 39 and IFRS 7 (Amendment) Reclassification of financial instruments;
- IAS 39 and IFRIC 9 (Amendment) Financial instruments Recognition and measurement, and Reassessment of embedded derivatives;
- IFRIC 13 Customer loyalty programmes;
- IFRIC 15 Agreements for the construction of real estate; and

Notes to the consolidated financial statements

Significant accounting policies (continued)

- IFRIC 16 Hedges of a net investment in a foreign operation.

The Company has applied the following new standards:

- IFRS 8 Operating segments; and
- IAS 1 (Revised) Presentation of financial statements.

The application of IAS 1 (Revised) has only impacted the presentation of the financial statements. The application of IFRS 8 has lead to a review of the operating segments presented in the financial statements but this has not lead to any change in the way management reports segmental information.

(c) Comparatives
In order to be consistent with the current year's allocation of costs between cost of sales and administrative expenses, certain costs which were disclosed in cost of sales in the prior year have been reclassified to administrative expenses. Similarly, certain unbilled revenue items have been reclassified from Trade and other receivables to Prepayments and accrued income. These changes do not have any impact on the overall reported financial performance of the Group for either period.

(d) 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.

(e) 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 Statement of Comprehensive

Notes to the consolidated financial statements

Significant accounting policies (continued)

Income. Any deficiency of the cost of acquisition below the fair value of the identifiable net assets acquired is credited to the Statement of Comprehensive Income on acquisition.

(f) 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.

(g) Interest income
Interest income is recognised in the Statement of Comprehensive Income as it accrues, using the effective interest rate method.

(h) Leases
Payments on operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term

(i) Taxation
The tax charge for the year comprises current and deferred tax. Taxation is recognised in the Statement of Comprehensive Income 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.

(j) 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	50 years
Plant and machinery	15 years
Fixtures and fittings	7 years
Leasehold improvements	3 years
Computer and office equipment	3 to 5 years
Motor vehicles	4 years

Notes to the consolidated financial statements

Significant accounting policies (continued)

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

(k) 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.

(ii) Other intangible assets

The Group's other intangible asset relates to a source code license for the software which is used by our billing and customer management systems. It is stated at cost less a provision for amortisation, which has been calculated so as to write off the cost of the asset in equal instalments over five years.

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

(l) 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 fair value less costs to sell 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 Statement of Comprehensive Income.

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.

(m) 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.

(n) 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.

Notes to the consolidated financial statements

Significant accounting policies (continued)

(o) Financial instruments
The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are recognised on trade date when the Group becomes a party to the contractual provisions of the instrument. Financial instruments are recognised initially at fair value plus, in the case of a financial instrument not at fair value through profit and loss, transactions costs that are directly attributable to the acquisition or issue of the financial instrument.

Financial instruments are derecognised on trade date when the Group is no longer a party to the contractual provisions of the instrument

(p) Trade receivables
Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts, as the interest that would be recognised from discounting future cash receipts over the short credit period is not considered to be material.

(q) Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and deposits with banks.

(r) Trade payables
Trade payables are stated at their nominal value, as the interest that would be recognised from discounting future cash payments over the short payment period is not considered to be material.

(s) 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.

(t) 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 Statement of Comprehensive Income on a straight line basis over the vesting period of the award. The charge to the Statement of Comprehensive Income takes account of the estimated number of shares that will vest All share based remuneration is equity settled

(u) Segmental reporting
Financial information on operating segments that corresponds with information regularly reviewed by the chief operating decision maker is disclosed in note 1 to the accounts.

(v) 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

Notes to the consolidated financial statements

Significant accounting policies (continued)

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.

(w) Pensions
The Group makes contributions to certain employees' personal pension plans. These are charged to the Statement of Comprehensive Income in the year in which they become payable

(x) 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.

(y) New standards issued but not yet effective
The Group has not adopted any standards or interpretations in advance of the required implementation dates. It is not expected that adoption of the majority of standards or interpretations which have been issued by the International Accounting Standards Board and endorsed by the EU, but have not been adopted, will have a material impact on the financial statements.

The following standards have been issued but are not yet effective:

- IAS 27 (Amendment) Consolidated and separate financial statements; and
- IFRS 3 (Revised) Business Combinations.

These standards will be prospectively applied to any acquisitions made by the Company and any changes in accounting policy resulting from their application will have no impact on the opening balances in future financial statements.

Notes to the consolidated financial statements

1. Segment reporting

The Group's reportable segments reflect the two distinct activities around which the Group is organised:

- Customer Acquisition; and
- Customer Management.

Customer Acquisition revenues represent joining fees from the Group's distributors, the sale of marketing materials and sales of equipment including mobile phone handsets and wireless internet routers. Customer management revenues are derived from the supply of fixed telephony, mobile telephony, gas, electricity and internet services to residential and small business customers.

The Board measures the performance of its operating segments based on revenue and segment result, which is referred to as operating profit. The Group applies the same significant accounting policies across both operating segments.

Operating segments

	Year ended 31 March 2010			Year ended 31 March 2009		
	Customer Management	Customer Acquisition	Total	Customer Management	Customer Acquisition	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue:						
External sales	364,890	4,179	369,069	274,012	4,330	278,342
Segment result	21,655	(5,475)	16,180	24,957	(4,975)	19,982
Operating profit			16,180			19,982
Net financing income			133			1,621
Share of profit of associates			1,885			888
Profit before taxation			18,198			22,491
Taxation			(4,756)			(6,307)
Profit for the year			13,442			16,184
Segment assets	96,828	2,158	98,986	98,087	2,764	100,851
Investment in equity method associates	4,003	-	4,003	2,703	-	2,703
Total assets	100,831	2,158	102,989	100,790	2,764	103,554
Segment liabilities	(57,864)	(637)	(58,501)	(58,736)	(226)	(58,962)
Net assets			44,488			44,592
Capital expenditure	1,527	18	1,545	11,009	174	11,183
Depreciation and amortisation	908	10	918	576	9	585

As the Group has a large customer base and no undue reliance on any one major customer, no such related revenue is required to be disclosed by IFRS 8. Similarly, as the Group operates

Notes to the consolidated financial statements

1. Segment reporting (continued)

solely in the United Kingdom, a geographical analysis is not considered appropriate. The share of profit of associates relates to the Customer Management business segment.

2. Operating profit

Operating profit is stated after charging:

		2010	2009
		£'000	£'000
Depreciation and amortisation		918	585
Operating lease rentals	- land and buildings	321	279
Auditors' remuneration	- audit of the Company	53	50
	- audit of the subsidiary of the Company	12	12
	- other services pursuant to legislation	12	-
	- taxation services	58	53
	- other services	7	-
Inventories expensed		3,491	2,652
Inventory write-down expense		6	11
Receivables and accrued income impairment cost		7,366	7,229

3. Personnel expenses

	Group	
	2010	2009
	£'000	£'000
The total charge in the Statement of Comprehensive Income comprised the following:		
Wages and salaries	12,363	10,001
Social security costs	1,196	990
Pension contributions	213	216
Share based payments	405	348
	14,177	11,555

	Number	Number
Average number employed by the Group during the year (excluding directors)		
Customer Acquisition	73	66
Customer Management	378	297
	451	363

Notes to the consolidated financial statements

3. Personnel expenses (continued)

	Group 2010 £'000	Group 2009 £'000
The aggregate remuneration of the directors (included above) was as follows:		
Salaries, fees and other benefits	606	545
Pension contributions	51	49
	657	594
Share based payments	130	100
	787	694

The emoluments of the highest paid director were £197,880 (2009: £197,684) and pension costs were £19,523 (2009. £19,523). Three (2009: four) directors had contributions paid to their personal pension schemes.

4. Taxation

(i) Recognised in the Statement of Comprehensive Income

	2010 £'000	2009 £'000
Current tax charge		
Current year	4,210	7,042
Adjustments for prior years	32	(82)
	4,242	6,960
Deferred tax charge/(credit)		
Accelerated/(Decelerated) capital allowances	(36)	24
Other temporary differences	549	(986)
Deduction in respect of share options	(9)	(43)
Adjustment for prior years	10	352
	514	(653)
Total income tax charge	4,756	6,307

Notes to the consolidated financial statements

4. Taxation (continued)

(ii) Reconciliation of total tax charge

	2010 £'000	2009 £'000
Profit before tax	18,198	22,491
Corporation tax using the UK corporation tax rate of 28% (2009:28%)	5,096	6,297
Expenses not deductible for taxation purposes	94	22
Deduction in respect of share options exercised	52	(33)
Share of associate's tax charge	(528)	(249)
Adjustments in respect of prior years - current tax	32	(82)
- deferred tax	10	352
	4,756	6,307

(iii) Tax on items charged to equity

	2010 £'000	2009 £'000
Deferred tax credit on share options	(114)	22

Notes to the consolidated financial statements

5. Property, plant and equipment

	Freehold land and buildings	Plant and Machinery	Fixtures and Fittings	Leasehold improvements	Computer and office equipment	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Group and Company							
2010							
Cost							
At 1 April 2009	9,169	652	617	548	3,467	221	14,674
Additions	-	594	235	46	670	-	1,545
At 31 March 2010	9,169	1,246	852	594	4,137	221	16,219
Depreciation							
At 1 April 2009	87	-	-	308	2,620	189	3,204
Depreciation charge for the year	126	78	113	85	497	18	917
At 31 March 2010	213	78	113	393	3,117	207	4,121
Net book amounts							
At 31 March 2010	8,956	1,168	739	201	1,020	14	12,098
2009							
Cost							
At 1 April 2008	150	-	-	378	2,742	221	3,491
Additions	9,019	652	617	170	725	-	11,183
At 31 March 2009	9,169	652	617	548	3,467	221	14,674
Depreciation							
At 1 April 2008	23	-	-	227	2,208	167	2,625
Depreciation charge for the year	64	-	-	81	412	22	579
At 31 March 2009	87	-	-	308	2,620	189	3,204
Net book amounts							
At 31 March 2009	9,082	652	617	240	847	32	11,470
At 31 March 2008	127	-	-	151	534	54	866

Notes to the consolidated financial statements

6. Goodwill and intangible assets

	Source Code License	Goodwill	Total
	£'000	£'000	£'000
Group			
2010			
Cost			
At 1 April 2009 and 31 March 2010	839	4,558	5,397
Amortisation			
At 1 April 2009	838	816	1,654
Amortisation for the year	1	-	1
At 31 March 2010	839	816	1,655
Carrying amounts			
At 31 March 2010	-	3,742	3,742
2009			
Cost			
At 1 April 2008 and 31 March 2009	839	4,558	5,397
Amortisation			
At 1 April 2008	832	816	1,648
Amortisation for the year	6	-	6
At 31 March 2009	838	816	1,654
Carrying amounts			
At 31 March 2009	1	3,742	3,743
At 31 March 2008	7	3,742	3,749

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 2010 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 2010 indicated that no impairment is necessary.

The amortisation for the year of the source code for the billing and customer management systems is included within the charge for administrative expenses in the Statement of Comprehensive Income.

Company

The Company's intangible assets relate solely to the source code detailed above.

Notes to the consolidated financial statements

7. Investments

Fixed asset investments

	2010	2009
	£'000	£'000
Associated undertaking		
Cost less impairment		
At 1 April	1,047	1,047
Additions	432	-
At 31 March	1,479	1,047
Share of profit/(loss)		
At 1 April	1,656	768
Share of profit after taxation for the year	1,885	888
Dividends in the year	(1,017)	-
At 31 March	2,524	1,656
Carrying amounts		
At 31 March	4,003	2,703

Notes to the consolidated financial statements

7. Investments (continued)

Fixed asset investments (continued)

Associated company

The investment in the associate represents the cost of purchasing a 20% (2009: 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

	2010	2009
	£'000	£'000
Total assets	34,578	33,853
Total liabilities	18,319	23,184
Net assets	16,259	10,669
Income	151,206	127,463
Expenses	141,781	121,377
Profit before tax	9,425	6,086

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

8. Deferred tax asset

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

	Group		Company	
	2010	**2009**	**2010**	**2009**
	£'000	£'000	£'000	£'000
Tax effect of temporary differences:				
Excess of qualifying depreciation over tax allowances	148	116	144	111
Other short term temporary differences	992	1,547	975	1,524
Employee benefits in excess of amount expensed	269	373	269	373
	1,409	2,036	1,388	2,008

	Group		Company	
	2010	**2009**	**2010**	**2009**
	£'000	£'000	£'000	£'000
At 1 April	2,036	1,361	2,008	1,350
(Debited)/Credited to the Statement of Comprehensive Income	(513)	653	(506)	636
Taken to equity	(114)	22	(114)	22
At 31 March	1,409	2,036	1,388	2,008

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

9. Non-current receivables

	Group		Company	
	2010	**2009**	**2010**	**2009**
	£'000	£'000	£'000	£'000
Hire purchase agreements receivable	1,645	1,016	1,645	1,016
Other non-current receivables	690	681	690	682
	2,335	1,697	2,335	1,698

Notes to the consolidated financial statements

10. Receivables and accrued income

	Group		Company	
	2010	**2009**	**2010**	**2009**
	£'000	£'000	£'000	£'000
Trade receivables	9,189	1,848	8,855	1,850
Other receivables	1,668	2,055	1,308	1,977
Trade and other receivables	10,857	3,903	10,163	3,827
Accrued income	64,320	51,308	63,491	50,261
Prepayments	1,518	980	837	715
Prepayments and accrued income	65,838	52,288	64,328	50,976
Trade and other receivables	10,857	3,903	10,163	4,995
Accrued income	64,320	51,308	63,491	49,093
Receivables and accrued income (net)	75,177	55,211	73,654	54,088

Included in Other receivables are amounts of £364,000 (2009: £1,330,000) in respect of the unamortised costs of laptops supplied to customers on minimum term contracts.

Prepayments and accrued income includes services provided but not billed of £65,451,000, (2009: £51,142,000) including March revenue invoiced in April of £32,678,000, (2009 £27,953,000) and the energy budget plan gross debtor balance of £29,713,000 (2009 £23,189,000). Offset against this figure is an allowance for future credit losses of £1,131,000 (2009: £1,002,000), which is included in the Allowance for credit losses of £7,987,000 (2009: £8,432,000).

Allowance for credit losses on receivables and accrued income

	Group		Company	
	2010	**2009**	**2010**	**2009**
	£000	£000	£000	£000
Allowances as at 1 April	8,432	4,223	7,628	3,952
Additions – charged to Statement of Comprehensive Income	7,366	7,229	6,501	6,707
Allowances used	(7,811)	(3,020)	(6,851)	(3,031)
Allowances as at 31 March	7,987	8,432	7,278	7,628

Analysis of receivables and accrued income

	Group		Company	
	2010	**2009**	**2010**	**2009**
	£000	£000	£000	£000
Receivables and accrued income (gross)	83,164	63,643	80,932	61,716
Allowance for credit losses	(7,987)	(8,432)	(7,278)	(7,628)
Receivables and accrued income (net)	75,177	55,211	73,654	54,088

Notes to the consolidated financial statements

10. Receivables and accrued income (continued)

Aged analysis of trade receivables

	Not impaired but past due by the following amounts					Total
	30 days or less	Between 31 and 60 days	Between 61 and 90 days	Between 91 and 120 days	More than 120 days	carrying amount
	£000	£000	£000	£000	£000	£000
2010 Trade receivables	3,053	788	904	670	3,774	9,189
2009 Trade receivables	1,530	162	124	26	6	1,848

11. Trade and other payables

	Group		Company	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Trade payables	6,418	14,848	6,558	14,627
Other taxation and social security	2,394	1,474	1,970	1,124
	8,812	16,322	8,528	15,751

12. Accrued expenses and deferred income

	Group		Company	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Accrued expenses	46,220	37,068	45,259	36,307
Deferred income	1,481	1,628	1,481	1,628
	47,701	38,696	46,740	37,935

Notes to the consolidated financial statements

13. Capital and reserves

Share capital and share premium

	2010	2009
	£'000	£'000
Issued share capital Ordinary shares of 5p each		
Authorised - 80,000,000 (2009: 80,000,000)	4,000	4,000
Allotted, called up and fully paid - 69,031,863 (2009: 69,031,863)	3,452	3,452

At the year end the Company's share price was 297p and the range during the financial year was 267.5p to 330p.

In June 2009, 100,000 shares were purchased by the Company at a price of 270 pence per share These shares were then transferred into treasury.

By 31 March 2010, 1,032,475 shares held in treasury had been used to satisfy the exercise of options under the Company's two share option plans.

At 31 March 2010, the Company had 69,031,863 (2009: 69,031,863) shares in issue including 651,525 (2009: 793,775) shares held in treasury The total number of voting rights of 5p ordinary shares in the Company was 68,380,338 (2009: 68,238,088). Since the year end, a further 7,973 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 68,388,311

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.

As at 31 March 2010, the group had no debt, and was not subject to any externally imposed capital requirements. Consequently the capital structure of the business consisted of its share capital and retained earnings.

Total shareholder equity at 31 March 2010 was £44.5 million (2009: £44.6 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.

Dividends

	2010	**2009**
	£'000	£'000
Prior year final paid 12.5p (2009 10p) per share	8,526	6,656
Interim paid 8p (2009: 5p) per share	5,463	3,332

The Directors have proposed a final dividend of 14p per ordinary share totalling £9 6 million, payable on 6 August 2010, to shareholders on the register at the close of business on 16 July 2010. In accordance with the Group's accounting policies the dividend has not been included as a liability as at 31 March 2010.

Notes to the consolidated financial statements

14. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 March 2010 was based on the profit attributable to owners of the parent of £13,442,000 (2009 £16,184,000) and a weighted average number of ordinary shares outstanding during the year ended 31 March 2010 of 68,270,160 (2009: 66,757,038).

	2010	2009
Basic earnings per share	19.7p	24.2p
Diluted earnings per share	19 5p	23.9p

Diluted earnings per share

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

	2010		2009	
	Profit £'000	Number of shares '000	Profit £'000	Number of shares '000
Basic earnings	13,442	68,270	16,184	66,757
Dilutive effects - Options	-	551	-	827
Diluted earnings	13,442	68,821	16,184	67,584

The share options may be dilutive in future periods.

15. Commitments

Operating lease commitments

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

	Group		Company	
	2010	2009	2010	2009
Amounts payable:	£'000	£'000	£'000	£'000
Less than one year	310	309	310	309
Between one and five years	1,078	1,225	1,078	1,225
More than five years	67	243	67	243
	1,455	1,777	1,455	1,777

The principal lease arrangements relate to office premises, most of which terminate in 2014.

Capital commitments

At 31 March 2010 the Company had capital commitments of £312,000 (2009. £793,000).

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 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 Telecom *plus* PLC 2007 Employee Share Option Plan").

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 Statement of Comprehensive Income as follows:

	2010	**2009**
	£'000	£'000
Distribution expenses	54	106
Administrative expenses	405	348
Total charge	459	454

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

	2010 Number	**2010** Weighted average exercise price	**2009** Number	**2009** Weighted average exercise price
At 1 April	2,539,030	221p	2,761,495	177p
Options granted	447,500	286p	643,400	335p
Options exercised	(249,490)	156p	(699,337)	195p
Options lapsed/expired	(248,892)	209p	(166,528)	170p
At 31 March	2,488,148	240p	2,539,030	221p

The weighted average share price at the date of exercise for the options exercised during the year was 295p.

Notes to the consolidated financial statements

16. Share-based payments (continued)

During the year ended 31 March 2010, the Group issued share options to employees and distributors on two occasions as set out below.

	2007 Employee Share Option Plan	2007 Networkers and Consultants Share Option Plan	2007 Employee Share Option Plan	2007 Networkers and Consultants Share Option Plan
Date of grant	26/06/2009	26/06/2009	09/12/2009	09/12/2009
Number of options originally granted	272,000	42,000	95,500	38,000
Contractual life	10 years	10 years	10 years	10 years
Exercise price (pence)	278	278	305	305
Share price at date of grant (pence)	280	280	298	298
Number of employees / distributors	114	15	49	19
Expected volatility	53.51%	53.51%	43 47%	43.47%
Expected option life	10 years	10 years	10 years	10 years
Risk free rate	0.50%	0.50%	0.50%	0.50%
Expected dividend yield	7.91%	7.91%	7.21%	7.21%
Fair value per option (pence)	57p	57p	51p	51p

During the previous year ended 31 March 2009, the Group issued share options to employees on two 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	12/06/08	10/12/08	10/12/08
Number of options originally granted	330,400	86,000	227,000
Contractual life	10 years	10 years	10 years
Exercise price (pence)	330.5	340	340
Share price at date of grant (pence)	330.5	340	340
Number of employees	38	22	92
Expected volatility	47.16%	54 02%	54.02%
Expected option life	10 years	10 years	10 years
Risk free rate	5.00%	2.00%	2.00%
Expected dividend yield	4.24%	5 15%	5.15%
Fair value per option (pence)	121p	122p	122p

The Group has used the Cox, Ross and Rubenstein Binomial Tree model to value its share options, with no account taken of any vesting conditions, other than time, due to the immateriality of the number of options with performance conditions attached. 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 2009	Number 31 March 2010	Exercise price per share	Exercisable from	Expiry date
2007 Networkers and Consultants Share Option Plan					
25 Jun 2002	10,000	-	106.5p	25 Jun 2006	24 Jun 2009
24 Jun 2003	322,576	279,515	192 5p	24 Jun 2006	23 Jun 2010
15 Jul 2004	129,000	129,000	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	260,804	216,533	162p	17 Feb 2009	16 Feb 2013
30 Aug 2007	84,000	84,000	171p	30 Aug 2010	29 Aug 2017
10 Dec 2008	86,000	74,000	340p	10 Dec 2011	09 Dec 2018
26 Jun 2009	-	42,000	278p	26 Jun 2012	25 Jun 2019
09 Dec 2009	-	36,000	305p	09 Dec 2012	08 Dec 2019
	918,380	887,048			
2007 Employee Share Option Plan					
25 Jun 2002	30,750	-	106.5p	25 Jun 2005	24 Jun 2009
10 Dec 2002	3,500	-	140p	10 Dec 2005	9 Dec 2009
7 Jul 2003	19,500	17,000	201p	7 Jul 2006	6 Jul 2010
5 Jan 2004	6,000	4,500	375p	5 Jan 2007	4 Jan 2011
14 Jul 2004	16,000	16,000	284p	14 Jul 2007	13 Jul 2011
27 Jan 2005	6,000	6,000	251.5p	27 Jan 2008	26 Jan 2012
13 Jul 2005	31,000	21,000	168p	13 Jul 2008	12 Jul 2012
17 Feb 2006	74,000	66,000	162p	17 Feb 2009	16 Feb 2013
12 Jul 2006	159,500	37,000	127p	12 Jul 2009	11 Jul 2013
4 Jan 2007	127,000	46,200	199.25p	4 Jan 2010	3 Jan 2014
30 Aug 2007	450,500	412,500	171p	30 Aug 2010	29 Aug 2017
17 Jan 2008	139,500	110,500	198p	17 Jan 2011	16 Jan 2018
12 Jun 2008	330,400	324,400	330.5p	12 Jun 2011	11 Jun 2018
10 Dec 2008	227,000	202,000	340p	10 Dec 2011	09 Dec 2018
26 Jun 2009	-	244,000	278p	26 Jun 2012	25 Jun 2019
09 Dec 2009	-	94,000	305p	09 Dec 2012	08 Dec 2019
	1,620,650	1,601,100			
	2,539,030	2,488,148			
Weighted average exercise price	221.3p	240.5p			

At 31 March 2010 864,748 share options were exercisable (2009: 935,130) at a weighted average exercise price of 198.1p (2009: 194p) The average remaining contractual life of the outstanding options was 6.0 years at 31 March 2010 (2009: 6.0 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 and accrued income, are classified as loans and receivables with a total value for the Group of £79,985,000 (2009: £82,265,000) and for the Company of £78,444,000 (2009: £81,140,000). All financial liabilities, which include trade and other payables and accrued expenditure, are held at amortised cost with a total value for the Group of £55,053,000 (2009. £56,298,000) and for the Company £53,977,000 (2009: £54,814,000).

Credit risk

All customers are invoiced monthly and approximately 90% pay by direct debit, accordingly credit risk in respect of trade receivables is considered low due to the large number of customers supplied, each of whom represents an insignificant proportion of our total revenue

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 fully recoverable. The provision for delinquent customers included in accrued expenses and deferred income is £1.4m (2009: £2 1m)

The maximum credit risk for the Group is £79,985,000 (2009: £82,265,000) and for the Company £78,444,000 (2009: £81,140,000).

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 profit and equity 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 1 year.

Notes to the consolidated financial statements

17. Derivatives and financial instruments (continued)

Commodity price 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 £2,335,000 (2009: £1,698,000) due from employees and distributors which earns interest at variable rates above Base Rate

Borrowing facilities

At 31 March 2010, the Group had an available overdraft facility of up to £5,000,000 (2009: nil) and had a facility of £55,700,000 (2009 £40,000,000) for Bonds, Guarantees and/or Indemnities to provide security to npower in respect of energy supplied by them.

Barclays Bank plc has committed to increase the facility for Bonds, Guarantees and/or Indemnities up to a maximum of £65,000,000 for the period until 30 June 2011. The maximum facility in each quarter is as follows:

Quarter ended 30 June 2010	£46,000,000
Quarter ended 30 September 2010	£28,000,000
Quarter ended 31 December 2010	£61,000,000
Quarter ended 31 March 2011	£65,000,000
Quarter ended 30 June 2011	£45,000,000

In addition, it has committed to provide an overdraft facility of up to £5,000,000 and a money market loan of up to £10,000,000 for the period until 30 June 2011. Total available facilities are as follows.

1 April to 30 June 2010	£15,000,000
1 July to 31 August 2010	£10,000,000
1 September 2010 to 28 February 2011	£ 2,500,000
1 March to 31 March 2011	£10,000,000
1 April to 30 June 2011	£15,000,000

Notes to the consolidated financial statements

These facilities are secured by fixed and floating charges over the assets of the Company and through a cross guarantee with the Company's subsidiary TML.

Fair values

There is not considered to be any material 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 7), associate (see note 7) and with its directors and executive officers.

Transactions with key management personnel
Directors of the Company and their immediate relatives control 28.71% of the voting shares of the Company

During the year, the Company acquired goods and services worth approximately £87,000 (2009: £92,000) from companies in which directors have a beneficial interest.

In addition, the Company acquired certain telephony dialler platform assets from Optimal Monitoring Limited ("Optimal") on 5 February 2010 for a total cash consideration of £99,999. The acquisition of the dialler assets ensured that the Company was able to continue operating telephony routing boxes to certain of its customers without paying any licence fees to Optimal.

At the time of the transaction Optimal was wholly owned by Charles Wigoder and Melvin Lawson both directors of the Company who, in accordance with section 177 of the Companies Act 2006 and Article 99 of the Company's articles of association, declared their interest in the transaction to the Board in November 2009 and took no part in the decision to complete the acquisition.

In the light of the small size of the transaction, the acquisition did not require immediate announcement, shareholder approval nor FSA notification. The consideration paid of £99,999 fell below the thresholds set out in section 190 of the Companies Act 2006 and therefore did not constitute a substantial property transaction requiring shareholder approval.

Other related party transactions

Associates
During the year ended 31 March 2010, the associate supplied goods to the Group in the amount of £559,000 (2009 £386,000) and at 31 March 2010 the associate was owed by the Group £94,000 (2009 owed by the Group: £80,000). Transactions with the associate are priced on an arm's length basis. Dividends received during the year from the associate amounted to £1,017,000 (2009: £nil) relating to the financial year to 31 March 2009.

Subsidiary company
During the year ended 31 March 2010, the subsidiary purchased goods and services from the Company in the amount of £7,433,000 (2009: £7,677,000)