3263464

TELECOM *plus* PLC

REPORT AND ACCOUNTS

YEAR ENDED 31 MARCH 2003

TELECOM *plus* PLC
REPORT AND ACCOUNTS
YEAR ENDED 31 MARCH 2003
Company number 3263464

CONTENTS

TELECOM *plus* PLC
CHAIRMAN'S STATEMENT

I am pleased to report a strong set of results, reflecting significant progress across all areas of our business.

Turnover and pre-tax profits for the year reached £58m (2002: £32.7m) and £5.6m (2002: £4.0m) respectively. These figures reflect another strong performance from our Virtual Network business where operating profits increased by 42% to £8.4m (2002: £5.9m), and include a maiden contribution of £0.6m from Telecommunications Management Limited ("TML"). This was partly offset by higher investment within our Distribution business of £3.1m (2002: £2.2m).

At the half year I said that the current level of customer growth would see our customer base increasing to 120,000 by the year end. In the event, we have seen an acceleration in new customers choosing Telecom *plus* as their supplier, taking our customer base at the year end to 134,000 (2002: 96,000). These customers subscribe for over 225,000 services (2002: 160,000), representing an organic growth rate of 40% for the year. We have also seen a steady increase in average monthly revenues per customer during the year.

We continue to enjoy strong cash flow from our trading activities. This enabled us to invest £5.6m in TML and Oxford Power Holdings Limited ("Opus") during the year, and still have cash balances at the year end of £6.1m (2002: £8.4m). At the same time, we have increased our dividend payments significantly.

TML, a business supplying fixed and mobile telephony to around 6,500 smaller and medium sized companies, was successfully integrated into our main billing and administration systems during the year and is now trading profitably, while Opus has made an encouraging start towards establishing itself as a credible electricity supplier to the commercial market.

In view of our solid balance sheet and continued cash generation, your Board is recommending a 30% increase in the final dividend to 3.25p (2002: 2.5p) making a total of 5.75p (2002: 4.5p) for the full year. This will be paid on 11 July 2003 to shareholders on the register at 27 June 2003. The final dividend is subject to approval by shareholders at the Company's Annual General Meeting which is to be held on 8 July 2003. We remain committed to the continued profitable long term growth of the business and to maintaining a progressive dividend policy that reflects the Company's anticipated growth in earnings.

Excellent customer service is a key part of our successful growth. To ensure we maintain high service standards we have made a significant investment in building our customer service team during the year. We continue to recruit and train new staff members for our call centre and energy administration teams in line with our rapid organic growth. We now have over 140 employees and 10,000 independent distributors, and I would like to take this opportunity to thank all of them for their continued loyalty, enthusiasm and dedication.

Outlook

Since the year end, the recent high levels of new customer growth within our core Telecom *plus* business have continued, as has the level of new distributors joining the business. This reflects both the increasing acceptance by customers of our attractive range of services, combined with the extensive training now being made available to all new distributors through our National Training Program, the College of Excellence, which was launched 18 months ago. If the current monthly figures for customer acquisition are maintained, we will exceed last year's growth rate during the current financial year.

The recent investment in Opus has enabled us to start taking advantage of the low cost of electricity in the wholesale markets, and we anticipate a significant improvement in our margins from selling electricity during the current year. In addition, we have now received an Electricity Supply Licence from OFGEM, making us a licensed domestic supplier of both gas and electricity in our own right.

We have recently launched a new brand, The Utility Warehouse, which is currently running alongside our established Telecom *plus* identity. This new brand more accurately reflects the nature of our activities, and may replace the existing brand identity in due course.

We are clearly beginning to see the benefits of our strong competitive position as the UK's first low-cost multi-service utility company, which should be reflected in significantly higher profits for the coming year. Confidence within our distribution channel is high and my Board colleagues and I look forward to the future with great optimism.

Peter Nutting
Chairman

3 June 2003

TELECOM *plus* PLC
DIRECTORS' REPORT
YEAR ENDED 31 MARCH 2003

The directors have pleasure in presenting their report and the audited financial statements for the year to 31 March 2003.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

During the year to 31 March 2003 the Company was granted a licence by OFGEM to supply electricity to any domestic customer within the United Kingdom, to go alongside its existing gas supply licence. It also expanded its virtual internet service to include unmetered broadband access using ADSL technology. The Group continues to expand its subscriber base and develop the systems which are required to provide its customers with a high standard of service.

RESULTS AND DIVIDENDS

The profit for the year after tax was £3,981,000 (2002: £2,955,000). An interim dividend of 2.5 pence per share (2002: 2.0 pence per share) was paid during the year and a final dividend of 3.25 pence per share (2002: 2.5 pence per share) is proposed to be paid, leaving a profit of £557,000 (2002: £421,000) to be transferred to reserves.

DIRECTORS

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

Name	Date of appointment	Ordinary 5p shares held at 31 March 2003	Ordinary 5p shares held at 31 March 2002
John Levin*	7 February 1997	2,331,996	1,751,202
Richard Michell	3 April 1997	377,686	377,686
Peter Nutting*	3 April 1997	931,750	951,750
Keith Stella*	17 July 2000	30,000	20,000
Dominic Wheatley*	25 May 2000	268,060	80,560
Charles Wigoder	13 February 1998	16,353,541	16,716,041

* indicates non-executive directors

Mr Levin's shareholding includes 2,292,996 shares owned by Sheldon Management Limited, IGI Insurance Company Limited and Shield Direct Insurance Services Limited.

In addition, Mr Wigoder and Mr Nutting have non beneficial interests in 1,120,000 and 20,000 shares respectively which they have given to charitable trusts. Mr Stella also has a non beneficial interest over 1,120,000 shares as a trustee of the charitable trust of which Mr Wigoder is a co--trustee.

There have been no movements in any of the Directors' interests in the share capital of the Company between 1 April 2003 and 3 June 2003.

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

CREDITORS PAYMENT POLICY

It is the policy of the Company in the year to 31 March 2004 to pay all suppliers according to the terms agreed. At the year end trade creditors were on average 42 days old (2002: 47 days).

SUBSTANTIAL SHAREHOLDERS

As at 3 June 2003, in addition to the Directors, the following have notified substantial shareholdings in the Company.

	Number of Shares	Percentage of Issued Share Capital
Optellicom Investments Limited	8,610,000	14.3 %
Mr Nigel Wray	2,896,030	4.8 %

AUDITORS

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

By Order of the Board

Richard Michell
Company Secretary

TELECOM *plus* PLC
CORPORATE GOVERNANCE STATEMENT
YEAR ENDED 31 MARCH 2003

The Board supports the Combined Code produced by the Committee on Corporate Governance and has applied the Principles of Good Governance in the following ways:

The Board of Directors

The Board meets regularly to review the progress of the Company and to discuss the measures required for its future development. Directors are provided in advance with a formal schedule of matters to be discussed at each meeting, and with the information needed to monitor the progress of the Company. Records of meetings and the decisions of the Board are maintained by the Company Secretary and are approved by the Board at the following meeting. All directors have access to the advice and services of the Company Secretary, and if required are able to take independent advice at the Company's expense in the furtherance of their duties. Any question of the removal of the Company Secretary is a matter for the Board as a whole. The members of the Board are all experienced and well qualified people and further training has not been judged to be necessary.

Chairman and Chief Executive Officer

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

Board Balance

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

Supply of Information

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

Appointments to the Board

New directors are appointed by the Board as a whole, but are required to submit their names for re-appointment at the next Annual General Meeting.

Re-election

One third of all directors are required to retire by rotation at each Annual General Meeting.

Director's Remuneration

The Board has a Remuneration Committee whose responsibility it is to ensure that the remuneration of directors is sufficient to attract, retain and motivate people of the quality required. The Remuneration Committee is composed of three independent non-executive directors.

The Directors' Remuneration Report giving the names of the members of the committee and details of the emoluments of each director may be found on pages 6 and 7.

Relations with Shareholders

It is the policy of the Group to maintain a dialogue with institutional shareholders and to keep them informed about the objectives of the business. Notice of the Annual General Meeting and related papers are sent to all shareholders at least 20 working days before the meeting. Separate resolutions are proposed for each issue including the adoption of the Report and Accounts and appointment of auditors. Proxy votes are counted and the meeting is advised of the number of proxies lodged for and against each resolution. The Chairman of the Audit and Remuneration Committees is available to answer questions. Shareholders who attend are invited to ask questions and take part in the meeting.

Financial reporting

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

Internal control

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

Audit Committee and Auditors

The Audit Committee is composed of three independent non-executive directors, P. Nutting (Chairman of the committee), D. Wheatley and K. Stella. The committee has written terms of reference which describe the authority and duties which have been delegated to it by the Board. Among these duties are the review of the risk assessment, the internal controls and the results of the audit, and the direction of the auditors to investigate any matters of concern.

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

Going concern

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

Policy statement

The Group has been in compliance with section 1 of the Combined Code throughout the year.

TELECOM *plus* PLC
DIRECTORS' REMUNERATION REPORT
YEAR ENDED 31 MARCH 2003

This report has been approved by the Board of Directors for submission to the shareholders for approval at the forthcoming Annual General Meeting. The section on remuneration has been subject to external audit.

Remuneration Committee

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

Remuneration policy

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

Components of remuneration

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

Directors' remuneration

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

	Basic Salary & Fees £'000	Bonus £'000	Benefits in Kind £'000	Pension Contributions £'000	2003 Total £'000	2002 Total £'000
John Levin	-	-	-	-	-	-
Richard Michell	85	-	6	5	96	94
Peter Nutting, Chairman	15	-	-	-	15	15
Keith Stella	12	-	-	-	12	12
Dominic Wheatley	12	-	-	-	12	12
Charles Wigoder	150	56	34	15	255	219
	274	56	40	20	390	352

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

Share option schemes

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

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

The distributor share option scheme exists to provide incentives to the sales force of the Company. This sales force, though not employees of the Company, are nevertheless essential to the development and prosperity of the Company, and it is the opinion of the committee that the distributor share option scheme is an important factor in the continuing success of the Company.

Directors' contracts of service

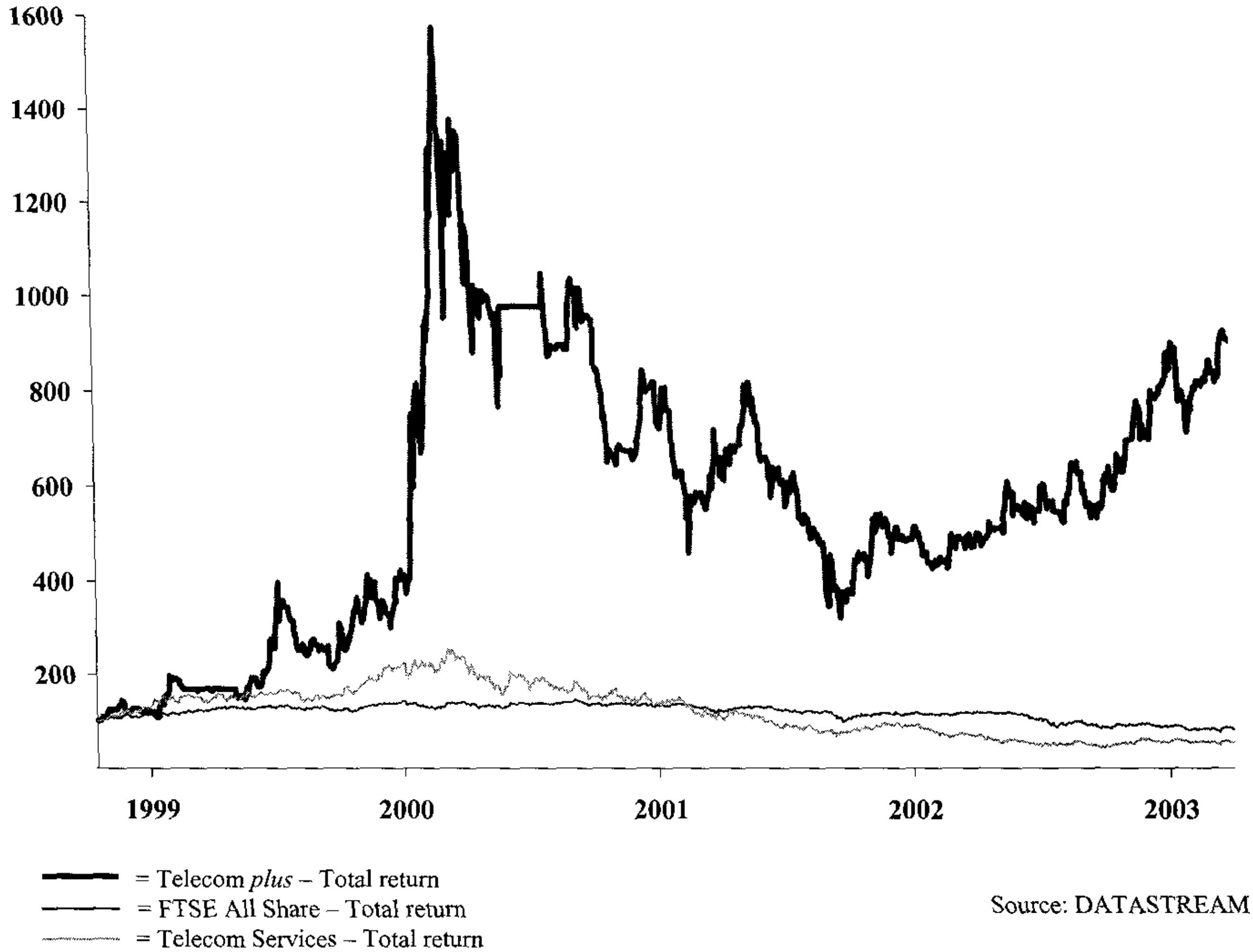
There are Service Contracts or Letters of Appointment for Peter Nutting (4 April 1997), Charles Wigoder (31 March 1998), Richard Michell (4 April 1997), John Levin (4 April 1997), Dominic Wheatley (17 July 2000) and Keith Stella (17 July 2000). All of these provide notice periods of three months on either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

Pension schemes

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

Performance Graph showing total shareholder return

The following graphs shows the Company's performance measured by total shareholder return compared with the performance of the FTSE All Share Index and the FTSE Telecom Services Index for the period from 16 October 1998 to 31 March 2003. The Remuneration Committee has selected these indices because they are the most appropriate for this purpose.



Source: DATASTREAM

P. Nutting
Chairman of the Remuneration Committee
On behalf of the Board
3 June 2003

STATEMENT OF DIRECTORS' RESPONSIBILITIES
REPORT AND ACCOUNTS
YEAR ENDED 31 MARCH 2003

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

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF TELECOM PLUS PLC

We have audited the financial statements of Telecom *plus* plc for the year ended 31 March 2003 which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of directors and auditors

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

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Company's and the Group's affairs as at 31 March 2003 and the Group's profit for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

PKF

PKF
Registered Auditors

London
United Kingdom
3 June 2003

TELECOM *plus* PLC
CONSOLIDATED PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 MARCH 2003

	Notes	Acquisitions £'000	Other Continuing operations £'000	Total 2003 £'000	2002 £'000
Turnover	2	**13,564**	**44,472**	**58,036**	32,677
Cost of sales		**(9,986)**	**(29,753)**	**(39,739)**	(20,460)
Gross profit		**3,578**	**14,719**	**18,297**	12,217
Sales and marketing costs		**(1,441)**	**(3,102)**	**(4,543)**	(2,703)
Administrative expenses		**(1,894)**	**(6,620)**	**(8,514)**	(5,819)
Operating profit	3	**243**	**4,997**	**5,240**	3,695
Interest receivable				**464**	529
Interest payable	6			**(116)**	(189)
Profit on ordinary activities before taxation				**5,588**	4,035
Tax on profit on ordinary activities	7			**(1,607)**	(1,080)
Profit after taxation				**3,981**	2,955
Dividends	8			**(3,424)**	(2,534)
Retained profit for the year	18			**557**	421
Basic earnings per share	22			**6.8p**	5.4p
Diluted earnings per share	22			**6.6p**	5.2p
Dividend per share	8			**5.75p**	4.5p

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

TELECOM *plus* PLC
CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2003

	Notes	2003 £'000	2003 £'000	2002 £'000	2002 £'000
FIXED ASSETS					
Tangible assets	9	**1,946**		2,026	
Intangible assets	10	**4,198**		-	
Investments	11	**1,038**		-	
			7,182		2,026
CURRENT ASSETS					
Stocks	12	**590**		1,327	
Debtors (due within one year)	13	**7,994**		3,852	
Debtors (due after one year)	13	**2,822**		785	
Investments	11	**-**		2,541	
Cash		**6,056**		8,421	
		17,462		16,926	
CREDITORS Amounts falling due within one year	14	**(13,418)**		(8,411)	
NET CURRENT ASSETS			**4,044**		8,515
TOTAL ASSETS LESS CURRENT LIABILITIES			**11,226**		10,541
CREDITORS Amounts falling due after more than one year (convertible debt instruments)	15		**(350)**		(1,560)
			10,876		8,981
CAPITAL AND RESERVES					
Called up share capital	17		**3,002**		2,862
Share premium account	18		**5,856**		4,658
Profit and loss account	18		**2,018**		1,461
SHAREHOLDERS' FUNDS	19		**10,876**		8,981

Approved by the board on 3 June 2003.

Charles Wigoder Director

Richard Michell Director

TELECOM *plus* PLC
COMPANY BALANCE SHEET
AS AT 31 MARCH 2003

	Notes	2003 £'000	2003 £'000	2002 £'000	2002 £'000
FIXED ASSETS					
Tangible assets	9	**1,914**		2,026	
Investments	11	**5,630**		-	
			7,544		2,026
CURRENT ASSETS					
Stocks	12	**590**		1,327	
Debtors (due within one year)	13	**5,239**		3,852	
Debtors (due after one year)	13	**2,822**		785	
Investments	11	-		2,541	
Cash		**5,603**		8,421	
		14,254		16,926	
CREDITORS Amounts falling due within one year	14	**(10,830)**		(8,411)	
NET CURRENT ASSETS			**3,424**		8,515
TOTAL ASSETS LESS CURRENT LIABILITIES			**10,968**		10,541
CREDITORS Amounts falling due after more than one year (convertible debt instruments)	15		**(350)**		(1,560)
			10,618		8,981
CAPITAL AND RESERVES					
Called up share capital	17		**3,002**		2,862
Share premium account	18		**5,856**		4,658
Profit and loss account	18		**1,760**		1,461
SHAREHOLDERS' FUNDS	19		**10,618**		8,981

Approved by the board on 3 June 2003.

Charles Wigoder Director

Richard Michell Director

TELECOM *plus* PLC
CONSOLIDATED CASH FLOW STATEMENT
YEAR ENDED 31 MARCH 2003

	Notes	2003 £'000	2002 £'000
Reconciliation of operating profit to cash flow from operating activities			
Operating profit		**5,240**	3,695
Goodwill amortisation		**360**	-
Depreciation		**503**	318
Decrease in stocks		**737**	721
Increase in debtors		**(2,332)**	(1,326)
Increase/(decrease) in creditors		**818**	(41)
Amortisation of loan stock issue costs		**25**	24
Net cash flow from operating activities		**5,351**	3,391
CASH FLOW STATEMENT			
Net cash flow from operating activities		**5,351**	3,391
Returns on investments and servicing of finance	23	**319**	327
Capital expenditure	23	**(363)**	(210)
Acquisitions	23	**(5,461)**	-
Corporation tax paid		**(1,952)**	(83)
Dividends paid		**(2,903)**	(1,913)
Net cash flow before management of liquid resources and financing		**(5,009)**	1,512
Management of liquid resources	23	**2,541**	(2,541)
Financing	23	**103**	442
Decrease in cash		**(2,365)**	(587)
Reconciliation of net cash flow to movement in net funds	24		
Decrease in cash		**(2,365)**	(587)
Cash outflow from capital element of hire purchase contract repayments		**-**	20
Change in net funds resulting from cash flows		**(2,365)**	(567)
Conversion of loan stock to equity shares		**1,235**	561
Cash released from liquid resources		**(2,541)**	2,541
Movement in net funds for the year		**(3,671)**	2,535
Net funds at 1 April 2002		**9,347**	6,812
Net funds at 31 March 2003		**5,676**	9,347

1 ACCOUNTING POLICIES

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

(a) Basis of accounting
The accounts are prepared under the historical cost convention and in accordance with applicable Accounting Standards.

(b) Group accounts

The group financial statements consolidate the accounts of Telecom *plus* PLC and its subsidiaries. The results of subsidiaries are included from the date of acquisition and up to the date of disposal.

As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is provided for Telecom *plus* PLC.

(c) Depreciation
Depreciation is provided on all tangible fixed assets except for land, calculated to write off the cost less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:-

Freehold buildings	- twenty five years
Leasehold improvements	- three years
Computer and office equipment	- three to five years
Motor vehicles	- four years

Freehold land is not depreciated.

(d) Stocks
Stocks are stated at the lower of cost and net realisable value.

(e) Deferred taxation
Provision is made for taxation deferred as a result of material timing differences between the incidence of income and expenditure for taxation and accounts purposes using a full provision basis in accordance with the terms of FRS 19.

(f) Goodwill
Goodwill arising on acquisitions is capitalised, classified as an Intangible Fixed Asset on the balance sheet and amortised over its useful economic life of 10 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

(g) Turnover
Turnover comprises the value of sales (excluding VAT) of goods and services delivered in the year in the normal course of business, including accrued income for amounts delivered but not invoiced at the year end.

(h) Hire purchase and leasing contracts
Fixed assets acquired under hire purchase agreements are capitalised and related obligations included in creditors. The interest element of the rental obligation is charged to the profit and loss account over the period of the contract.

All operating lease rentals are charged to the profit and loss account over the term of the lease on a straight line basis.

(i) Pensions
The Group makes contributions to certain employees' personal pension plans.

(j) Investments
Fixed and current asset investments are included in the balance sheet at cost less any provision for impairment.

2 TURNOVER AND SEGMENTAL ANALYSIS

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

	Acquisitions £'000	Other continuing operations £'000	Total 2003 £'000	2002 £'000
Virtual Network				
Turnover	13,308	41,879	55,187	30,181
Operating profit	633	7,719	8,352	5,890
Net assets	1,329	10,910	12,239	8,522
Distribution				
Turnover	256	2,593	2,849	2,496
Operating loss	(390)	(2,722)	(3,112)	(2,195)
Net (liabilities)/assets	(674)	(689)	(1,363)	459

3 OPERATING PROFIT

The operating profit is stated after charging:

		2003 £'000	2002 £'000
Depreciation	- assets held under hire purchase contracts	-	53
Depreciation	- owned assets	503	265
Operating lease rentals	- land and buildings	142	142
Auditors' remuneration	- audit services	42	24
	- non audit services	25	14
Amortisation of goodwill		360	-

4 STAFF COSTS

	2003 £'000	2002 £'000
Wages and salaries	3,400	2,461
Social security costs	369	234
Pension contributions	47	31
	3,816	2,726
	Number	Number
Average number employed by the Group during the period (excluding directors)	137	98

5 DIRECTORS' REMUNERATION

	2003 £'000	2002 £'000
The aggregate remuneration of the directors was as follows:		
Salary, fees and other benefits	**370**	334
Pension contributions	**20**	18
	390	352

The emoluments of the highest paid director were £240,000 (2002: £205,000) and pension costs were £15,000 (2002: £14,000). Two directors had contributions paid to their personal pension schemes. Details of directors' emoluments, pension contributions and interests in share options are included in the Directors' Remuneration Report.

6 INTEREST PAYABLE

	2003 £'000	2002 £'000
Hire purchase interest	**-**	4
Loan stock interest	**90**	185
Bank interest	**26**	-
	116	189

7 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2003 £'000	2002 £'000
The tax charge comprises:-		
UK corporation tax at 30%	**1,657**	1,070
Adjustments in respect of prior periods	**(50)**	10
	1,607	1,080

Factors affecting tax charge for the year

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

	2003	2002
Profit on ordinary activities before tax	**5,588**	4,035
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK (30%)	**1,676**	1,210
Expenses not deductible for taxation purposes	**24**	6
Depreciation in the year (less than)/more than capital allowances	**(131)**	21
Increase/(decrease) in general provisions	**93**	(87)
Trading losses brought forward from prior years	**(83)**	(80)
Research and development tax relief	**(30)**	-
Goodwill amortisation	**108**	-
Adjustments to tax charge in respect of prior years	**(50)**	10
	1,607	1,080

Factors that may affect future tax charges

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

8 DIVIDENDS

	2003 £'000	2002 £'000
Interim dividend paid 2.5p (2002: 2p) per share	**1,472**	1,103
Final dividend proposed 3.25p (2002: 2.5p) per share	**1,952**	1,431
	3,424	2,534

9 TANGIBLE FIXED ASSETS

Group	Freehold land and buildings £'000	Leasehold improvements £'000	Computer and office equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 April 2002	**980**	**50**	**1,582**	**232**	**2,844**
Additions	-	**32**	**213**	**139**	**384**
Acquisition of subsidiary	-	-	**115**	-	**115**
Disposals	-	-	-	**(34)**	**(34)**
At 31 March 2003	**980**	**82**	**1,910**	**337**	**3,309**
Depreciation					
At 1 April 2002	**(26)**	**(36)**	**(599)**	**(157)**	**(818)**
Charge for the year	**(19)**	**(16)**	**(419)**	**(49)**	**(503)**
Acquisition of subsidiary	-	-	**(55)**	-	**(55)**
Disposals	-	-	-	**13**	**13**
At 31 March 2003	**(45)**	**(52)**	**(1,073)**	**(193)**	**(1,363)**
Net book value					
At 31 March 2003	**935**	**30**	**837**	**144**	**1,946**
At 31 March 2002	954	14	983	75	2,026

Company	Freehold land and buildings £'000	Leasehold improvements £'000	Computer and office equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 April 2002	**980**	**50**	**1,582**	**232**	**2,844**
Additions	-	**32**	**209**	**139**	**380**
Disposals	-	-	-	**(34)**	**(34)**
At 31 March 2003	**980**	**82**	**1,791**	**337**	**3,190**
Depreciation					
At 1 April 2002	**(26)**	**(36)**	**(599)**	**(157)**	**(818)**
Charge for the year	**(19)**	**(16)**	**(387)**	**(49)**	**(471)**
Disposals	-	-	-	**13**	**13**
At 31 March 2003	**(45)**	**(52)**	**(986)**	**(193)**	**(1,276)**
Net book value					
At 31 March 2003	**935**	**30**	**805**	**144**	**1,914**
At 31 March 2002	954	14	983	75	2,026

10 INTANGIBLE FIXED ASSETS

	Goodwill £'000
Cost	
Additions	4,558
As at 31 March 2003	4,558
Amortisation	
Charge for the year	360
As at 31 March 2003	360
Net book value	
At 31 March 2003	4,198

11 INVESTMENTS

Fixed asset investments

Group	Trade Investment £'000
Cost	
Additions	1,038
At 31 March 2003	1,038

Company	Investment in subsidiary companies £'000	Trade investment £'000	Total £'000
Cost			
Additions	4,592	1,038	5,630
At 31 March 2003	4,592	1,038	5,630

Trade investment

The trade investment represents the cost of purchasing a 15.8% interest in the ordinary share capital of Oxford Power Holdings Limited.

Investment in subsidiary companies

On 12 June 2002 the company purchased for cash, 100% of the £1 ordinary shares of Telecommunications Management Limited (TML), a company 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.

11 INVESTMENTS (Continued)

The fair value of the net assets at the date of acquisition were as follows:

	Book value £'000	Adjustments/ Revaluation £'000	Fair value £'000
Fixed assets	500	(440)	60
Current assets			
Debtors	4,157	(310)	3,847
Cash at bank and in hand	52	-	52
	4,209	(310)	3,899
Current liabilities			
Creditors due within one year	(3,758)	(167)	(3,925)
Net current assets	451	(477)	(26)
Net assets acquired	951	(917)	34
Goodwill arising on acquisition			4,558
Consideration (including £88,000 acquisition costs)			4,592

The adjustments/revaluations arise from scrapping certain fixed assets, further bad debts provisions and identification of additional accruals.

The summarised profit and loss account of Telecommunications Management Limited for the 11months ended 31 May 2002 was as follows:

	11 months ended 31 May 2002 £'000
Turnover	13,388
Operating loss	(131)
Loss before tax	(134)
Loss after taxation	(134)

Current asset investments

	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Quoted corporate bonds (at cost)	-	2,541	-	2,541

12 STOCKS

	Group		Company	
	2003	**2002**	**2003**	**2002**
	£'000	**£'000**	**£'000**	**£'000**
Stocks comprise the following:				
Mobile phones, smart boxes and related equipment	**515**	1,270	**515**	1,270
Marketing materials	**75**	57	**75**	57
	590	1,327	**590**	1,327

13 DEBTORS

	Group		Company	
	2003	**2002**	**2003**	**2002**
	£'000	**£'000**	**£'000**	**£'000**
Due within one year:				
Trade debtors	**1,357**	108	**192**	108
Other debtors	**1,154**	752	**1,097**	752
Prepayments and accrued income	**5,483**	2,992	**3,950**	2,992
	7,994	3,852	**5,239**	3,852
Due after one year:				
Other debtors	**2,822**	785	**2,822**	785
	10,816	4,637	**8,061**	4,637

14 CREDITORS DUE WITHIN ONE YEAR

	Group		Company	
	2003	**2002**	**2003**	**2002**
	£'000	**£'000**	**£'000**	**£'000**
Trade creditors	**5,330**	3,194	**3,096**	3,194
Corporation tax	**725**	1,070	**725**	1,070
Other taxation and social security	**778**	237	**170**	237
Amounts due to subsidiary undertaking	**-**	-	**826**	-
Accruals and deferred income	**4,633**	2,479	**4,061**	2,479
Dividends	**1,952**	1,431	**1,952**	1,431
	13,418	8,411	**10,830**	8,411

15 CREDITORS DUE AFTER ONE YEAR

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
9.5% redeemable convertible unsecured loan stock 2004	**350**	1,560	**350**	1,560

9.5% redeemable convertible unsecured loan stock 2004
On 8 June 1999 the Company issued £2.65m 9.5% redeemable convertible unsecured loan stock 2004. Interest on the loan stock is payable on 30 June and 31 December. The loan stock may be converted into ordinary shares of the Company at the rate of two ordinary shares for each £1 (nominal) of loan stock at the option of the loan stock holder, on 30 June and 31 December. Redemption of the bonds will take place at par on 30 June 2004 unless the loan stock has been previously purchased or converted.

Loan stock issued	**2,650**	2,650
Loan stock converted	**(2,270)**	(1,035)
	380	1,615
Unamortised issue costs (originally £124,000)	**(30)**	(55)
Balance at 31 March 2003	**350**	1,560

16 DERIVATIVES AND FINANCIAL INSTRUMENTS

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

Interest rate risk
The Group has financed its operations primarily through the issue of equity shares and redeemable convertible unsecured loan stock. The loan stock carries a fixed rate of interest.

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

Foreign currency risk
The Group does not have any foreign currency exposure.

Interest rate and currency profile of financial assets and liabilities
All financial assets and liabilities are denominated in sterling. As permitted by Financial Reporting Standard 13 no further details are set out in respect of short term debtors and creditors. Debtors due after one year comprise £822,000 (2002: £785,000) due from employees and distributors which earns interest at variable rates of up to 5%, and a loan to Oxford Power Holdings Limited of £2,000,000 which earns interest at a variable rate currently 5.25%. At 31 March 2003 the Company had £380,000 of 9.5% redeemable convertible unsecured loan stock (2002: £1,615,000) as described in note 15.

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

Borrowing facilities
The Group does not currently require any borrowing facilities.

16 DERIVATIVES AND FINANCIAL INSTRUMENTS (continued)

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

Commodity contracts
The Group has entered into forward contracts for a value of £791,000 and £9,475,000 to purchase gas and electricity for periods of one year and three years respectively. The market price of gas and electricity at the year end is not materially different from the contracted price.

17 SHARE CAPITAL

	2003 £'000	2002 £'000
Issued share capital		
Ordinary shares of 5p each		
Authorised – 80,000,000 (2002: 80,000,000)	**4,000**	4,000
Allotted, called up and fully paid – 60,047,716 (2002: 57,242,162)	**3,002**	2,862

At several dates during the year shares were allotted fully paid; 2,469,026 shares were allotted on conversion of loan stock at 50p and 336,528 shares were allotted for cash on exercise of share options at prices from 22p to 83p. Since the year end the Company has allotted 198,925 shares for cash at prices from 22p to 83p.

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

703,678 shares at 22p exercisable between 15 July 2001 and 14 July 2005
37,500 shares at 24.5p exercisable between 4 January 2002 and 3 January 2006
100,100 shares at 51.5p exercisable between 1 September 2002 and 31 August 2006
987,341shares at 83p exercisable between 30 December 2002 and 29 December 2006
496,685 shares at 200p exercisable between 5 July 2003 and 24 July 2007
339,000 shares at 118p exercisable between 15 June 2004 and 14 June 2008
473,603 shares at 120p exercisable between 4 July 2004 and 3 July 2008
283,500 shares at 106.5p exercisable between 25 June 2005 and 24 June 2009
260,000 shares at 140p exercisable between 10 December 2005 and 9 December 2009
112,000 shares at 147.5p exercisable between 20 January 2006 and 19 January 2010

At the year end the Company's share price was 171.5 pence.

18 RESERVES

	Group		Company	
	Share Premium Account £'000	Profit & Loss Account £'000	Share Premium Account £'000	Profit & Loss Account £'000
As at 1 April 2002	**4,658**	**1,461**	**4,658**	**1,461**
Premium on issue of shares	**1,198**	**-**	**1,198**	**-**
Retained profit for the period	-	**557**	-	**299**
As at 31 March 2003	**5,856**	**2,018**	**5,856**	**1,760**

19 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Profit for year	**3,981**	2,955	**3,723**	2,955
Dividends	**(3,424)**	(2,534)	**(3,424)**	(2,534)
New shares issued	**1,338**	1,023	**1,338**	1,023
Balance brought forward	**8,981**	7,537	**8,981**	7,537
Balance at year end	**10,876**	8,981	**10,618**	8,981

20 FINANCIAL COMMITMENTS

Operating leases

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

	2003 £'000	2002 £'000
Leases expiring:		
Over 5 years	**142**	109

21 RELATED PARTY DISCLOSURES

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

22 EARNINGS PER SHARE

The calculation of basic earnings per share is based on a profit of £3,981,000 (2002: £2,955,000) and a weighted average of 58,671,471 (2002: 55,029,043) shares in issue.

	2003	2002
Basic earnings per share	**6.8p**	5.4p
Diluted earnings per share	**6.6p**	5.2p

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

	2003 Profit £'000	2003 Shares No. 000	2002 Profit £'000	2002 Shares No. 000
Basic earnings	**3,981**	**58,671**	2,955	55,029
Dilutive effects:				
- Options	-	**1,103**	-	1,059
- Loan notes	**36**	**761**	153	3,230
Diluted earnings	**4,017**	**60,535**	3,108	59,318

23 ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASHFLOW

	2003		2002	
	£'000	£'000	£'000	£'000
Returns on investments and servicing of finance				
Interest received	464		529	
Interest paid	(145)		(202)	
		319		327
Capital expenditure				
Purchase of tangible fixed assets	(384)		(210)	
Sale of tangible fixed assets	21		-	
		(363)		(210)
Acquisitions				
Purchase of subsidiary undertaking	(4,475)		-	
Purchase of trade investments	(1,038)		-	
Net cash acquired with subsidiary	52		-	
		(5,461)		-
Management of liquid resources				
Sale/(purchase) of quoted corporate bonds		2,541		(2,541)
Financing				
Issue of ordinary share capital	103		462	
Capital element of hire purchase repayments	-		(20)	
Net cash inflow from financing		103		442

24 ANALYSIS OF CHANGES IN NET FUNDS

	31 March 2002 £'000	Cash flows £'000	Other changes £'000	31 March 2003 £'000
Cash at bank	8,421	(2,365)	-	6,056
Current asset investments	2,541	(2,541)	-	-
Loan stock	(1,615)	-	1,235	(380)
	9,347	(4,906)	1,235	5,676