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**Telecom *plus* PLC
Report and Accounts**

Year ended 31 March 2007

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Telecom *plus* PLC

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Year ended 31 March 2007

Company number 3263464

Contents

Chairman's statement	1
Business review	4
Financial review	10
Directors' report	12
Corporate governance statement	14
Directors' remuneration report	17
Statement of directors' responsibilities	20
Independent auditors' report	21
Consolidated income statement	23
Statement of recognised income and expense	24
Balance sheet	25
Statement of cash flows	26
Notes to the consolidated financial statements	27

Chairman's statement

I am delighted to report a year of record turnover and profits for the Company

We achieved pre-tax profits of £11.6m (2006 £1.6m loss) on turnover which increased by 29% to £176m (2006 £136m). This substantial increase in turnover was driven by the favourable combination of higher energy prices together with an increase in the number of services provided to our customers.

Our cash balances increased by almost £20m during the year to just under £26m, a level which is substantially greater than we need to meet our forecast working capital requirements. Shareholders may recall that we raised approximately £10m through a share placing in May 2005, when we needed a stronger balance sheet to support our wholesale energy commitments during a period of rising prices and greater volatility in the wholesale markets. As a result of the transaction we announced in February 2006, these requirements are now substantially the responsibility of npower. We are therefore seeking authority at the forthcoming AGM to reduce our share premium account, in order to increase our distributable reserves and enable us to repurchase our shares in the market. The directors intend to consider making such purchases if, in the light of market conditions prevailing at that time, the directors believe that such purchases would increase earnings per share and would be for the benefit of the shareholders generally.

We have made good progress in developing our distribution channel, with a net increase of around 600 new independent distributors over the year, taking the total to around 16,600. We anticipate a further steady increase during the current year as we continue to invest significant resources in supporting our channel. An important development during the year was the launch of a new recruitment DVD "What's it all about?" We also improved and simplified the bonus structure for new distributors in the Autumn, and this has clearly been a factor (together with the new DVD) behind the increased recruitment activity we have seen over the last 6 months.

Customer numbers overall remained broadly stable over the year, however this headline figure masks several important trends. Firstly, although the number of residential customers fell slightly to 208,444, the quality of the customer base has continued to improve, with the average number of services taken by each member increasing to 2.95 (2006 2.76). Secondly, our Business Club (which we launched about 18 months ago) has seen significant growth over the year, with customer numbers increasing to 6,388 (2006 2,200). It is particularly encouraging that members of our Business Club not only take multiple services, but also have higher average revenues and lower churn than domestic customers. Thirdly, the proportion of our residential customers who are now members of our Discount Club (and are thus eligible to take advantage of our new "Free UK Calls" multi-service discount) has increased to 72% (2006 66%).

The lack of growth in residential customer numbers during the year was partly due to our decision to wait until the latest technology for supporting high speed low cost broadband ("LLU") had been installed in sufficient BT local exchanges, and the inevitable teething problems associated with the introduction of any new technology had been resolved. We feel this decision has been vindicated by the highly publicised problems experienced by those companies who launched their services earlier in the year. Our new BroadCall service (which combines Line rental, Calls and High Speed Broadband in a single package) was launched last Autumn and we expect this to account for an increasing proportion of our turnover in coming years.

Our infrastructure and systems were originally developed to enable us to manage a significantly larger number of customers than currently use our services, which means we have the potential to benefit from considerable economies of scale by growing our customer numbers. This is one of our key priorities for the coming year.

Chairman's statement (continued)

Recent published surveys show we are generally held in high esteem by our customers. We therefore intend to capitalise on this goodwill by encouraging them to recommend us, through launching a "friend get friend" programme later this year. However before we can do so effectively we need to establish an inbound tele-sales fulfilment team, so that potential new customers can sign up for our services with the minimum of effort or inconvenience.

We are also establishing a specialist Home Movers team to help us retain a higher proportion of those potential new customers who have moved into a property where we were supplying the previous occupant.

I would like to thank our staff and distributors for the loyalty they have shown and the considerable contribution they have made to the continued success of the business.

Dividend

We are proposing a final dividend of 6p for the year (2006 1p) making a total for the year of 8p (2006 1p), which will be paid on 10 August 2007 to shareholders on the register at the close of business on 13 July 2007 and is subject to approval by shareholders at the Company's Annual General Meeting which is being held on 11 July 2007. We intend to maintain a progressive dividend policy in future.

Segmental reporting

There are two fundamentally different business activities carried out by the Company. The first is the acquisition of new customers through our distribution channel. The second is the administration, management and billing of all the services we supply to our customer base. Historically we have referred to these (perhaps somewhat confusingly) as our Distribution business and our Virtual Network business respectively. In future, these will be referred to as our Customer Acquisition business and our Customer Management business.

Last year, for the first time, we further subdivided our Customer Management business between the supply of energy and telephony services, primarily in recognition of the substantially different risk profiles associated with these activities. In telephony, margins have always been highly predictable because of the close association between the retail prices we charge and the wholesale costs we incur, whereas in energy the margins are extremely volatile because there is no relationship in the short term between prices in the wholesale and retail markets. Following the transaction with npower which completed in March 2006, this difference no longer exists.

The highly integrated nature of our business, where we have a single billing and customer service platform supporting all the services we provide, means it is impossible to provide a meaningful result for each service as any allocation of overhead between our energy and telephony supplies is wholly arbitrary. We have therefore decided to present the figures for our Customer Management business in future as a single segment, in line with the way in which the business is actually managed internally. A breakdown of our turnover, split between the different services we supply, is included in the Financial Review section of these accounts.

Board of Directors

During the year under review we said goodbye to John Levin and Stephen Davis. Richard Hateley was appointed Finance Director in addition to his responsibilities as Company Secretary, and I am delighted to welcome Melvin Lawson and Michael Pavia who have joined the Board as non executive directors. They both bring very considerable commercial experience to our deliberations and I am pleased Michael Pavia agreed to take over from me the chairmanship of the Audit Committee.

Chairman's statement (continued)

Outlook

The current forward price curves for gas and electricity indicate that it is unlikely there will be any further material reductions in retail energy prices this Autumn, although our recently announced price reductions (in common with all the other major energy suppliers) will have a small adverse impact on our turnover for the coming year. Our gross energy margin (in percentage terms) is expected to remain broadly unchanged, and we look forward to continuing to earn a satisfactory contribution from supplying energy in future.

We are still the UK's only fully integrated provider of a wide range of attractively priced utility services, with a distribution channel of proven ability in cost effectively gathering high quality new customers each month, which gives us a considerable competitive advantage in the domestic market. We also now have good earnings visibility following the elimination of our previous exposure to price fluctuations in the wholesale energy markets.

We therefore remain confident that the current year will see further progress in the development of our business, and in the continuing delivery of satisfactory results.

Peter Nutting
Chairman

5 June 2007

Business Review

Performance

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

- substantial growth in turnover,
- record Group profits,
- cash generation of £19.9m,
- growth in the number of distributors promoting our services,
- 9% increase in the number of services we provide,
- the successful launch of a new combined fixed telephony and internet package ("BroadCall"),
- 300% increase in membership of our Business Club

In addition, the business has now been substantially de-risked following the transaction with npower, which has ensured we can focus on our core strengths of building and managing our customer base without the distraction of worrying about seasonal weather variations or volatile wholesale energy markets. We are now making a consistent positive margin from supplying energy, which is in line with our expectations at the time the npower transaction was signed.

The overall number of domestic customers is little changed from the level we had reached 12 months ago. This is partly due to our decision last Spring to delay introducing our new BroadCall service, but also a result of the many confusing offers being heavily promoted by our competitors, especially by a number of new entrants to the telephony and internet markets, who are targeting customers with promotions offering varying subsets of the range of services we provide together (in some cases) with entertainment.

The Market

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

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

The approximate size of the UK domestic market for the principal services we provide is estimated at around £36.9bn as follows:

	<u>Number of Households</u>	<u>Retail Market Value</u>
Gas	20m	£11.4bn
Electricity	25m	£13.3bn
Home Phone - Calls	24m	£3.7bn
Home Phone – Line Rental (Lines)	24m	£2.7bn
Mobile (Excluding Pre-Pay)	15m	£3.9bn
Broadband	10m	£1.9bn

Retail market values based on average prices charged by us to customers for each service during the year ended 31 March 2007

We also provide a similar range of services to small and medium sized business customers following the introduction of a new Business Club (the Utility Warehouse Discount Club for Business) in August 2005.

Business Review (continued)

Our Customers

The majority of our customers choose to take advantage of our multi-service proposition, with over 72% having joined our Discount Club since its launch in October 2003

On average each member takes 2.95 services (2006: 2.76) with 80% taking 2 or more services, and 52% taking 3 or more services. These figures are illustrated by the analysis below, which demonstrates the effectiveness of our Club concept in encouraging customers to subscribe for additional services -

	<u>Members</u>	<u>Non-Members</u>
1 Service	20%	63%
2 Services	28%	25%
3 Services	19%	8%
4 Services	17%	3%
5 Services	13%	1%
6 Services	2%	-
7 Services	1%	-

Non-members relate to customers gathered prior to the launch of our Discount Club in October 2003 who have not subsequently joined the Discount Club

This growth in services has led to a further increase in average revenue per customer, notwithstanding considerable price deflation in the fixed telephony markets over the last 9 years

<u>Year</u>	<u>Average Revenue per Customer</u>
1999	£190
2000	£286
2001	£316
2002	£329
2003	£459
2004	£482
2005	£505
2006	£634
2007	£801

We enjoy high levels of overall customer satisfaction, as evidenced by the relatively low churn we experience. For example, our energy churn of around 2% per month compares with an industry average of around 5% per month amongst customers who have switched away from their original supplier.

Business Review (continued)

Services

Our range of essential utility services includes fixed telephony (calls and line rental), mobile telephony, gas, electricity and internet. At the year end we supplied a total of 542,039 services (2006 495,679), representing an increase of over 9% during the course of the year.

	<u>2007</u>	<u>2006</u>
Services		
Gas	98,095	86,379
Electricity	115,643	101,710
Home phone	158,896	169,990
Fixed line rental	71,557	40,519
Freephone	10,670	11,056
Mobile	40,418	45,197
Internet	46,760	40,828
Total	542,039	495,679

As can be seen from the above table, we experienced steady growth during the year in the number of customers to whom we supply gas, electricity, internet and fixed line rental. Our home phone and mobile services however experienced a modest fall in customer numbers, reflecting increasing competition in these areas of our business and our decision to delay responding to the premature launch of new combined service packages by certain competitors last Spring.

Included within the above figures are over 6,300 members of our Business Club, who are taking in aggregate almost 18,000 services and contributing £5.8m (2006 £0.6m) to Group turnover. We are extremely encouraged by this strong performance, and the continuing enthusiastic response of our Distribution Channel to this opportunity. The substantial size of this market (there are over 1m home-based, small and medium sized businesses in the UK) gives us considerable confidence that this will make a significant contribution to the Group in due course.

Customer Service

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

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

Business Review (continued)

Our People

We rely on the combined efforts of around 265 employees to manage relationships with both our customers and distributors, and deliver a consistently high quality of service at all times. We pay considerable attention to recruiting and retaining appropriate people.

The Company operates an Inland Revenue-approved employee share option scheme, under which employees are granted an option to purchase shares in the Company between 3 and 7 years from the date of grant. The exercise price is the market price at the time of granting the option. Our policy is to issue options to all employees after the satisfactory completion of their probationary period, without any performance conditions being attached to the exercise thereof. As at 31 March 2007, there were outstanding options over 1,110,500 shares which had been granted to staff, representing approximately 2% of the issued share capital of the Company.

During the coming year, the Company intends to introduce an employee Share Incentive Plan ("SIP") which will enable all employees to build a shareholding in the Company in a tax effective manner. Employees will be able to contribute up to £1,500 per year to the SIP and the Company will purchase matching shares on a 2:1 basis, which participating employees will receive free of charge provided they remain a member of the SIP for the period designated by the rules of the scheme. The introduction of the SIP is subject to the approval of shareholders at the forthcoming AGM.

The Company has also recently created space at its premises for a crèche, which is subsidised by the Company, and intended to make it easier for mothers with very young children to resume their careers.

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

Our Distributors

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

During the Autumn, we simplified the payment structure covering the bonuses available to new distributors, giving them the opportunity to earn a bonus of £200 (equal to their original joining fee) by gathering a minimum of 12 new customers within their first 90 days.

Our Car Plan, which provides eligible distributors with a subsidised fully-branded Mini, remains extremely popular, and we have now supplied almost 70 cars. Owners find these helpful in raising their local profile, resulting in enquiries from both potential new customers and distributors, and we are currently considering how we can extend this programme to bring it within reach of a substantially larger number of distributors.

Distributors have seen a considerable increase in their average earnings from each customer during the last 2 years as a result of the growth in the number of services taken combined with sharply higher energy prices. Whilst there remains scope for some further modest rises as the average number of services taken continues to increase, distributors will now need to achieve consistent growth in their personal and Group customer numbers in order to obtain a meaningful increase in their current earnings as a distributor. Our unique market position continues to make this predominantly part-time career extremely attractive to potential new recruits.

Business Review (continued)

Our national training programme has been further enhanced during the year, with the introduction of a full-day training course for new distributors, which replaced the previous two half-day sessions. We also have training modules to support our Business Club (including the supply of Commercial Energy and the increasing popularity of BlackBerrys), and a Personal Development Programme to provide our next generation of leaders with the additional skills they will need.

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 70 trees during 2006.

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' 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 combined with 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. These issues caused the Company to incur substantial losses during the Autumn of 2005, hence our decision to seek a relationship with a larger energy supplier which preserved our integrated multi-utility business model whilst passing the substantive risks and rewards of hedging and buying energy to them. The transaction with npower which was completed on 31 March 2006 achieved these objectives, and has enabled the Company to earn a positive contribution from providing energy since that date. It also removed the need for the Company to tie up valuable capital to support forward positions in the wholesale energy markets which would otherwise have been required.

Business Review (continued)

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 for the calls they have made. 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 there can occasionally be a delay in receiving the necessary information from our network partners.

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

5 June 2007

Financial Review

OVERVIEW

Revenues of £176m (2006 £136m) were 29% higher than in the previous financial year to 31 March 2006. The pre-tax profit was £11.6 compared with £0.2m (before the exceptional charge of £1.9m in respect of reorganising the energy business) in the last financial year. This increase in profitability together with the final unwinding of our historic energy purchasing commitments following the transfer of buying responsibility to npower created a net cash inflow from operating activities of £20.8m. Our year end net cash position increased by £19.9 million from £5.9m to £25.8m.

The increase in operating profits (from a loss in 2006 of £0.7m before exceptional costs to a profit of £10m this year) was primarily due to the elimination of the losses we incurred in our gas business during the Winter of 2005/06, which resulted from unprecedented volatility and record prices in the wholesale energy markets during the late Autumn of that year.

Customer Management

The growth in revenue during the year was due mainly to an increase in the number of services supplied to customers combined with increases in the energy prices we charged.

Margins in our Customer Management business improved from 2% to 7.5% due to the absence of the exceptional gas losses incurred during our last financial year. As expected, this margin is substantially lower than the 12% operating margin achieved during 2005, due to the substantial change in our sales mix, where a growing proportion of our turnover now relates to energy, internet and line rental, all of which have significantly lower margins than fixed and mobile call revenues.

Customer Acquisition

The net cost in respect of our Customer Acquisition business reduced during the year to £3.1m (2006 £3.5m). This was mainly due to a small reduction in the number of new customers joining us during the year, combined with a reduction in some of the third party charges we incur (e.g. Broadband connection charges from BT) when we connect new customers to our services.

Financial Review (continued)

Operating Expenses

Operating expenses before exceptional items have increased during the year from £19.5m to £24.9m. The principal elements of this are higher commission payments to our distributors, an increase in our bad debt charge (in line with the growth in turnover), and the costs associated with supplying energy to Delinquent Customers. There have also been extra costs resulting from our decision to increase the number of staff we employ to an average of 241 during the year (2006: 211), which has enabled us to improve the quality of our customer service and enhance the strength of the management team.

Share Option Costs

The operating loss is stated after share option expenses of £425,000 (2006: £434,000). 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 6 to the financial statements. The amount of corporation tax payable in respect of the year is £3.6m (2006: £13,000).

Cash Flow

This pre-tax profit of £11.6m together with the final unwinding of our historic energy purchasing commitments following the transfer of buying responsibility to npower, resulted in a net cash inflow from operating activities of £20.8m (2006 outflow £9.7m) and our net cash position increased at the year end by £19.9 million from £5.9m to £25.8m.

The March cash position is also (and will continue to be) adversely affected by energy customers who pay by Budget Plan, where the high proportion of annual energy consumption used during the Winter period means that our energy debtors reach a peak at the end of each Winter before falling as we move through the Spring and Summer months. It should, however, be noted that following a particularly mild Winter this year, customer budget plan deficits were on average significantly below the levels which would normally be expected at this time of year, which has had a positive impact of around £10m on the Company's cash position at the year end.

The current year will benefit from the repayment of the £2m loan to Oxford Power Holdings Ltd, which is due to be received on 31 December 2007.

The Group does not have a policy with respect to interest rate management as it currently has no debt funding requirements. Cash surpluses are placed on deposit.

Richard Hateley
Finance Director

5 June 2007

Directors' Report

The directors have pleasure in presenting their report and the audited financial statements for the year to 31 March 2007

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

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

A full review of business and future developments is contained in the Business Review, Financial Review and the Chairman's Statement. A summary of the financial risk management objectives and policies is contained in note 18 to the financial statements

RESULTS AND DIVIDENDS

The profit for the year after tax was £8,608,000 (2006 loss £1,381,000). An interim dividend of 2 pence per share (2006 Nil) was paid during the year. A final dividend of 6 pence per share (2006 1 pence per share) is proposed. A profit of £8,608,000 (2006 loss £1,381,000) is 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	Ordinary 5p shares held at	
	31 March 2007	31 March 2006 (or date of appointment)
Peter Nutting*	1,026,750	1,026,750
Charles Wigoder	15,984,041	15,938,541
Richard Hateley (appointed 31 December 2006)	-	-
Melvin Lawson* (appointed 27 September 2006)	2,050,000	2,050,000
Richard Michell*	382,686	382,686
Michael Pavia* (appointed 13 December 2006)	10,000	-
Keith Stella*	78,234	63,064
Stephen Davis (resigned 31 December 2006)		61,730
John Levin* (resigned 12 July 2006)		2,254,028

* indicates non-executive directors

In respect of the above shareholdings, Mr Wigoder and Mr Nutting have non beneficial interests in 2,050,000 and 20,000 shares respectively (2006 1,800,000 and 20,000). There have been no other movements in any of the Directors' interests in the share capital of the Company between 1 April 2007 and 1 June 2007

Directors' Report (continued)

DIRECTORS (continued)

Messrs Hateley, Pavia and Lawson were appointed since the Company's last Annual General Meeting and, accordingly, are required to offer themselves for re-election at the forthcoming Annual General Meeting. Mr Stella is retiring by rotation in accordance with the Company's articles of association and is offering himself 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 the director has acted fraudulently or dishonestly.

CREDITORS PAYMENT POLICY

It is the policy of the Company to pay all suppliers according to the terms agreed. At the year end trade creditors were on average 36 days old (2006 36 days).

DONATIONS

The Company made charitable donations of £nil during the year (2006 £2,080). No political donations were made during either year.

SUBSTANTIAL SHAREHOLDERS

As at 31 May 2007, 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
North Atlantic Value LLP	3,489,102	5.1%
Herald Investment Trust plc	2,965,000	4.3%
Standard Life	2,468,128	3.6%
John Levin	2,254,028	3.3%
Fidelity International Ltd	2,129,464	3.1%

DISCLOSURE OF INFORMATION

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

By Order of the Board

Richard Hateley
Company Secretary



5 June 2007

Corporate Governance Statement

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

The Board of Directors

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

Table of Attendance at Meetings during the year ended 31 March 2007

Name of Director	Board	Remuneration Committee	Audit Committee	Nomination Committee
<i>Number of meetings</i>	11	5	3	2
Peter Nutting	11	5	3	2
Charles Wigoder	11			2
Richard Hateley	3			
Stephen Davis	8			2
Keith Stella	11	5	3	2
Melvin Lawson	7			
John Levin	4			
Richard Michell	9			
Michael Pavia	3	1	1	

Chairman and Chief Executive Officer

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

Board Balance

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

No meeting of the non-executive directors took place during the year, without the Chairman or Chief Executive present, as required by section A 1 3 of the Combined Code, as the non-executive directors did not consider it would be useful.

Corporate Governance Statement (continued)

Supply of Information

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

Re-election

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

Directors' Remuneration

The Board has a Remuneration Committee whose responsibility it is to ensure that the remuneration of directors is sufficient to attract, retain and motivate people of the quality required. The Remuneration Committee was comprised of three non-executive directors, namely Peter Nutting (Chairman of this Committee), Keith Stella and Michael Pavia. Keith Stella agreed to take over as Chairman of this Committee with effect from 1 April 2007. The revised Combined Code (provision B 2.1) states that the Committee should only comprise independent non-executive directors and does not define Mr Nutting as independent, however the Board considers that Mr Nutting makes a valuable contribution to the Remuneration Committee due to his considerable business experience. The Directors' Remuneration Report giving the names of the members of the Committee and details of the emoluments of each director may be found on pages 17 to 19.

Audit Committee and Auditors

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

In its meetings the Committee receives a report on the risk assessment, the systems of internal control and their effectiveness, and uses the meeting with the auditors as a further means of evaluating these measures.

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

Nomination Committee

The Nomination Committee comprises Michael Pavia (Chairman of the Committee), Keith Stella and Charles Wigoder. The Committee has written terms of reference which describe the authority and duties which have been delegated to it by the Board. The purpose of the Nomination Committee is to make recommendations to the Board on the appointment of new executive and non-executive directors, including making recommendations as to the composition of the Board generally and the balance between executive and non-executive directors appointed to the Board. The Committee has not utilised external search consultants or open advertisements to identify suitable prospective non-executive directors as it does not consider such methods as the most effective process to appoint non-executive directors.

Corporate Governance Statement (continued)

Relations with Shareholders

It is the policy of the Group to maintain a dialogue with institutional shareholders and to keep them informed about the objectives of the business. The Board considers that it is appropriate for the Chief Executive to discuss issues with major shareholders. The Chief Executive feeds back comments from major shareholders to the other directors, in order to ensure that Board members, and in particular non-executive directors, develop a balanced understanding of the views of major investors. Both the Chairman and the Chief Executive have periodic discussions with the Company's Brokers and feed back issues to the Board as appropriate.

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

Financial Reporting

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

Internal Control

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

Going Concern

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

Policy Statement

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

Directors' Remuneration Report

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

Remuneration Committee

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

Remuneration Policy

The overall remuneration policy is to ensure that the Company is able to attract, motivate and retain executives of the quality necessary to ensure the successful management of the Company. The remuneration of directors and senior management is decided having regard to their performance, experience and/or to the level of remuneration of individuals with the same responsibilities in other companies of a similar size and type. All executive directors and senior management have share options or significant shareholdings. Certain of the non-executive directors are also significant shareholders and as such the Company's remuneration policy is based on the principle that the fortunes of the directors and senior management are aligned with those of shareholders. Changes in the remuneration of directors and senior management are decided by the Committee in consultation with the Chief Executive.

Components of Remuneration

All executive directors receive a basic salary. In addition, the service contract of Mr Wigoder provides for a bonus to be paid of 1% of the net profit before tax. Mr Wigoder's and Mr Hateley's service contracts provide for pension contributions equal to 10% of their basic salary to be paid by the Company. Both Mr Wigoder and Mr Hateley were provided with private health insurance during the year.

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

The Remuneration Committee unanimously decided to make an ex gratia bonus payment of £250,000 to Mr Wigoder, in addition to his contractual bonus of £116,000 making a total bonus payable of £366,000 for the year. This additional bonus was approved in recognition of the transformation in the Company's financial position and prospects following the completion of the npower transaction on 31 March 2006 which Mr Wigoder was instrumental in negotiating. Since this date, the Company has generated approaching £20m of positive cash flow, achieved record profitability, and demonstrably eliminated the risks previously associated with the Company's energy supply activities.

Directors' Remuneration Report (continued)

Directors' Remuneration

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

	Basic Salary & Fees £'000	Bonus £'000	Pension Contributions £'000	Compensation for Loss of Office £'000	2007 Total £'000	2006 Total £'000
Peter Nutting	15	-	-	-	15	15
Charles Wigoder	180	366	18	-	564	200
Stephen Davis	158	-	15	110	283	225
Richard Hateley	31	-	3	-	34	-
Melvin Lawson	6	-	-	-	6	-
John Levin	-	-	-	-	-	-
Richard Michell	12	-	-	-	12	99
Michael Pavia	6	-	-	-	6	-
Keith Stella	32	-	-	-	32	22
Dominic Wheatley	-	-	-	-	-	4
	440	366	36	110	952	565

Stephen Davis received compensation totalling £110,100 following his resignation from the Board

The options held by directors are as follows

	1 April 2006	Granted	Exercised	Lapsed	31 March 2007	Exercise price per share	Exercisable from	Expiry date
Richard Hateley								
12 July 2006	-	50,000			50,000	127p	12 July 2009	11 July 2013
4 January 2007	-	25,000			25,000	199.25p	4 January 2010	3 January 2014
Stephen Davis								
13 July 2005	100,000			100,000	-	168p	13 July 2008	12 July 2012

Share Option Schemes

The Company has two share option schemes, the first is available to employees, and the second is available to distributors of the Company. Renewal for both of these schemes is being proposed at the forthcoming AGM.

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 Committee believes it is not appropriate to impose performance criteria within a scheme which seeks to provide incentives to such a wide body of people.

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

Directors' Remuneration Report (continued)

Directors' Contracts of Service

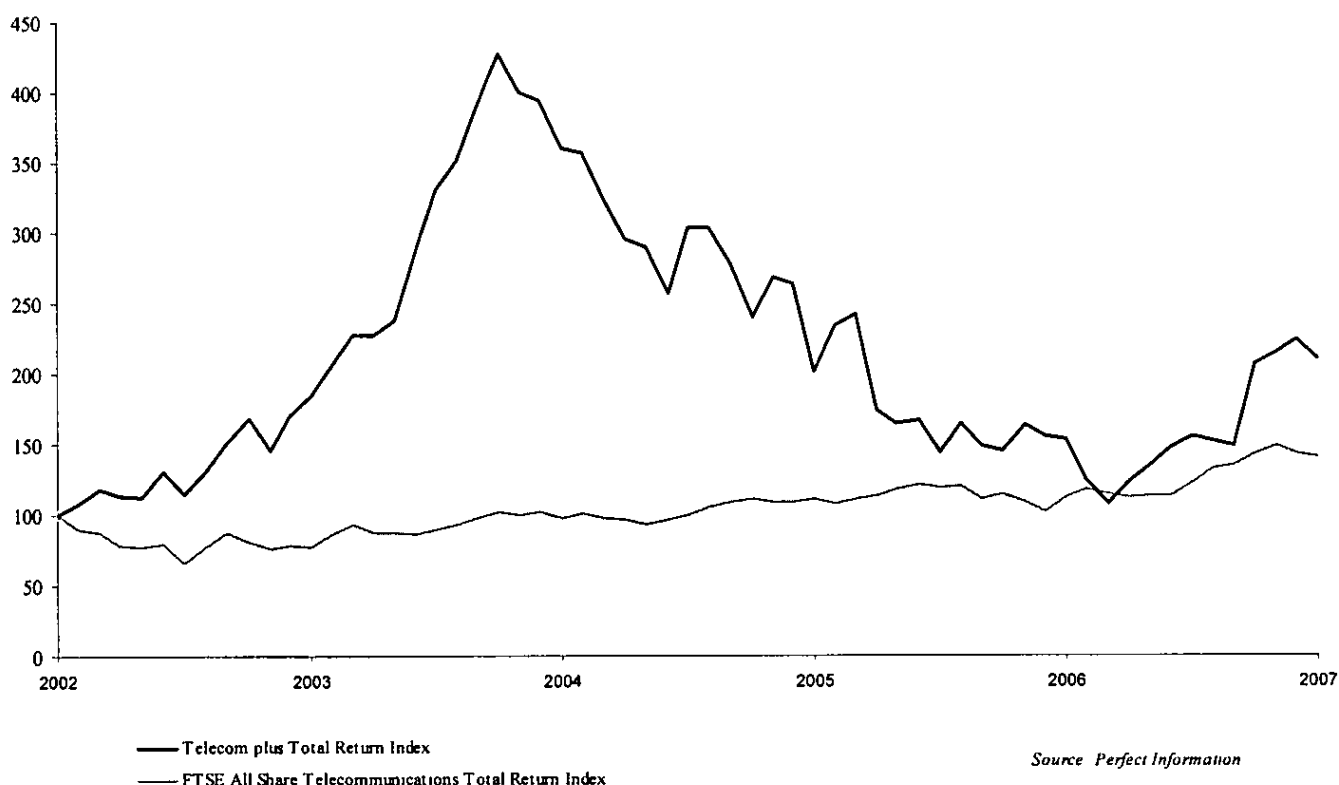
There are Service Contracts or Letters of Appointment for Peter Nutting (4 April 1997), Charles Wigoder (31 March 1998), Richard Hateley (1 June 2006), Melvin Lawson (27 September 2006), Richard Michell (1 September 2006), Michael Pavia (13 December 2006), and Keith Stella (17 July 2000). All of these 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 made no contributions to the pensions of any directors except Mr Wigoder, Mr Hateley and Mr Davis, details of which are shown above.

Performance Graph showing Total Shareholder Return

The following graphs show the Company's performance measured by total shareholder return compared with the performance of the FTSE Telecom Services Index for the period from 1 April 2002 to 31 March 2007. The Remuneration Committee has selected these indices because they are the most appropriate for this purpose.



Peter Nutting
Chairman of the Remuneration Committee
On behalf of the Board

5 June 2007

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements, and have elected to prepare the parent company financial statements, in accordance with International Financial Reporting Standards as adopted by the European Union. The financial statements are required to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that year. In preparing these financial statements the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- 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 Company will continue in business.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TELECOM PLUS PLC

We have audited the Group and parent company financial statements ('the financial statements') of Telecom *plus* PLC for the year ended 31 March 2007 which comprise the consolidated income statement and the consolidated and company balance sheets, cash flow statements and statements of recognised income and expense and the related notes. The financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the Group financial statements have been properly prepared in accordance with article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. The information in the directors' report includes that specific information presented in the Chairman's Statement, Business Review and Financial Review that is cross referenced from the business review section of the directors' report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TELECOM PLUS PLC (continued)

Basis of audit opinion

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

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

Opinion

In our opinion

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2007 and of its profit for the year then ended,
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 March 2007,
- the Group financial statements have been properly prepared in accordance with article 4 of the IAS Regulation,
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

PKF (UK) LLP

PKF (UK) LLP
Registered Auditors

London, UK
5 June 2007

Consolidated income statement

For the year ended 31 March 2007

	Note	2007 £'000	2006 £'000
Revenue	1	176,065	136,343
Cost of sales		141,136	117,603
Gross profit		34,929	18,740
Distribution expenses		8,327	7,810
Administrative expenses		16,584	11,659
Operating profit/(loss) before exceptional costs		10,018	(729)
Exceptional costs in respect of restructuring the energy business	4	-	(1,860)
Operating profit/(loss)	2	10,018	(2,589)
Financial income		1,105	641
Financial expenses		6	39
Net financial income	5	1,099	602
Share of profit of associates		473	343
Profit/(loss) before taxation		11,590	(1,644)
Taxation	6	(2,982)	263
Profit/(loss) for the year		8,608	(1,381)
Basic earnings/(loss) per share	15	12 5p	(2 1p)
Diluted earnings/(loss) per share	15	12 5p	(2 1p)

Statement of recognised income and expense

For the year ended 31 March 2007

	<i>Note</i>	Group		Company	
		2007	2006	2007	2006
		£'000	£'000	£'000	£'000
Profit/(loss) for the year		8,608	(1,381)	7,551	149
Deferred tax on share options recognised directly in equity	10	18	(11)	18	(11)
Total recognised income and expense for the year		8,626	(1,392)	7,569	138

Balance sheet

As at 31 March 2007

	Note	Group		Company	
		2007	2006	2007	2006
		£'000	£'000	£'000	£'000
Assets					
Non-current assets					
Property, plant and equipment	7	884	1,016	884	1,016
Goodwill and intangible assets	8	3,761	3,894	19	152
Investments in associates	9	1,422	940	1,047	1,038
Deferred tax	10	904	509	890	509
Other receivables	9	858	2,954	858	2,954
Total non-current assets		7,829	9,313	3,698	5,669
Current assets					
Inventories	11	202	512	202	512
Trade and other receivables	12	3,258	4,951	4,621	6,991
Prepayments and accrued income	12	28,649	25,078	27,567	24,006
Cash and cash equivalents		25,801	5,888	25,796	5,879
Total current assets		57,910	36,429	58,186	37,388
Total assets		65,739	45,742	61,884	43,057
Current liabilities					
Trade and other payables	13	3,727	5,906	2,792	4,840
Current tax payable		1,969	12	1,842	12
Accrued expenses and deferred income		27,695	14,869	26,843	14,134
Total current liabilities		33,391	20,787	31,477	18,986
Total assets less total liabilities		32,348	24,955	30,407	24,071
Equity					
Share capital	14	3,446	3,421	3,446	3,421
Share premium		19,444	19,065	19,444	19,065
Retained earnings		9,458	2,469	7,517	1,585
Total equity	14	32,348	24,955	30,407	24,071

These accounts were approved and authorised for issue by the Board on 5 June 2007

Charles Wigoder  Director

Richard Hateley  Director

Statement of cash flows

For the year ended 31 March 2007

	Group		Company	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Operating activities				
Operating profit/(loss)	10,018	(2,589)	9,597	(722)
Depreciation of property, plant and equipment	447	445	447	443
Amortisation of intangible assets	133	131	133	131
Profit on disposal of property, plant and equipment	(44)	(282)	(44)	(282)
Decrease in inventories	310	622	310	622
Decrease/(increase) in trade and other receivables	218	(14,266)	36	(17,240)
Increase in trade and other payables	10,647	7,439	10,661	7,481
Repayment of inter-company receivable	-	-	871	707
Costs attributed to the issue of share options	425	434	425	434
Corporation tax paid	(1,402)	(1,601)	(1,680)	(1,248)
Net cash flow from operating activities	20,752	(9,667)	20,756	(9,674)
Investing activities				
Investment in associates	(9)	-	(9)	-
Purchase of property, plant and equipment	(341)	(484)	(341)	(484)
Sale of property, plant and equipment	70	1,028	70	1,028
Cash flow from investing activities	(280)	544	(280)	544
Financing activities				
Dividends paid	(2,062)	(4,099)	(2,062)	(4,099)
Interest received	1,105	641	1,105	641
Interest paid	(6)	(39)	(6)	(39)
Issue of ordinary shares	404	12,233	404	12,233
Cash flow from financing activities	(559)	8,736	(559)	8,736
Increase/(decrease) in cash and cash equivalents	19,913	(387)	19,917	(394)
Cash and cash equivalents at the beginning of the year	5,888	6,275	5,879	6,273
Cash and cash equivalents at the end of the year	25,801	5,888	25,796	5,879

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 2007 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 5 June 2007.

(a) Statement of compliance

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

(b) Basis of preparation

The accounts are prepared under the historical cost convention.

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.

(c) Basis of consolidation

(i) Subsidiaries

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

(ii) Associates

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

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

Notes to the consolidated financial statements

Significant accounting policies (continued)

(d) Business combinations

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

(e) Revenue

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

(f) Interest income

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

(g) Leases

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

(h) Taxation

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

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

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

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

(i) Property, plant and equipment

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

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

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

Notes to the consolidated financial statements

Significant accounting policies (continued)

(j) Intangible assets

(i) Goodwill

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

(ii) Other intangible assets

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

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

(k) Impairment

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

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

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

(l) Investments

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

(m) Inventories

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

(n) Trade receivables

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

(o) Cash and cash equivalents

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

(p) Trade payables

Trade payables are stated at their nominal value.

Notes to the consolidated financial statements

Significant accounting policies (continued)

(q) Research and development

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

(r) Share based payments

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

(s) Segmental reporting

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

(t) Provisions

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

(u) Pensions

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

(v) Dividends

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

(w) New standards issued but not yet effective

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

Notes to the consolidated financial statements

1. Segment reporting

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

Customer Management, and
Customer Acquisition

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

Business segments

	Year ended 31 March 2007			Year ended 31 March 2006		
	Customer Management	Customer Acquisition	Total	Customer Management	Customer Acquisition	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue						
External sales	173,735	2,330	176,065	133,877	2,466	136,343
Segment result	13,107	(3,089)	10,018	2,762	(3,491)	(729)
Operating profit/(loss) before exceptional items			10,018			(729)
Exceptional costs in respect of restructuring the energy business			-			(1,860)
Operating profit/(loss)			10,018			(2,589)
Net financing income			1,099			602
Share of profit of associates			473			343
Taxation			(2,982)			263
Profit/(loss) for the year			8,608			(1,381)
Segment assets	63,008	1,309	64,317	43,600	1,202	44,802
Investment in equity method associates	1,422	-	1,422	940	-	940
Total assets	64,430	1,309	65,739	44,540	1,202	45,742
Segment liabilities	(33,079)	(312)	(33,391)	(18,111)	(2,676)	(20,787)
Capital expenditure	336	5	341	484	-	484
Depreciation and amortisation	572	8	580	576	-	576

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

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

Notes to the consolidated financial statements

2. Operating profit/(loss)

Operating profit/(loss) is stated after charging

	2007 £'000	2006 £'000
Depreciation and amortisation	580	576
(Profit) on disposal of fixed assets	(44)	(282)
Operating lease rentals - land and buildings	239	174
Auditors' remuneration - audit of the Company	43	41
Auditors' remuneration - audit of associates of the Company	11	10
Auditors' remuneration - taxation services	31	25
Auditors' remuneration - corporate finance services	-	20
Auditors' remuneration - other services	-	3
Restructuring costs expensed as incurred (see note 4)	-	1,860
Inventories expensed	1,665	1,687
Inventory write-down expense	195	278
Trade receivable impairment cost	2,191	1,940

3. Personnel expenses

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
The total charge in the income statement comprised the following				
Wages and salaries	7,212	5,894	6,972	5,656
Social security costs	733	597	704	569
Pension contributions	129	107	120	98
	8,074	6,598	7,796	6,323

	Number	Number	Number	Number
Average number employed by the Group during the year (excluding directors)	241	211	237	207

	Group	
	2007 £'000	2006 £'000
The aggregate remuneration of the directors (included above) was as follows		
Salaries, fees and other benefits	806	524
Compensation for loss of office	110	-
Pension contributions	36	41
	952	565
Share based payments	21	15
	973	580

The emoluments of the highest paid director were £546,000 (2006 £205,000) and pension costs were £18,000 (2006 £20,000). Three directors had contributions paid to their personal pension schemes. Details of directors' emoluments, pension contributions and interests in share options are included in the Directors' Remuneration Report.

Notes to the consolidated financial statements

4. Reorganisation costs

During the year to 31 March 2006, the Group reorganised its energy business, the total cost of which amounted to £1,860,000. The reorganisation involved transferring the Group's energy customers to individually licensed companies (which were purchased from the Company's associate, Oxford Power Holdings Limited), which were ultimately disposed of to npower Limited on 31 March 2006.

5. Net financial income

	2007 £'000	2006 £'000
Interest income	1,105	641
Interest expense		
Bank interest	(6)	(39)
Net financial income	<u>1,099</u>	<u>602</u>

6. Taxation

(i) Recognised in the income statement

	2007 £'000	2006 £'000
Current tax charge/(credit)		
Current year	3,647	13
Adjustments for prior years	(288)	8
	<u>3,359</u>	<u>21</u>
Deferred tax credit		
Decelerated capital allowances	(3)	(43)
Other temporary differences	(227)	(241)
Deduction in respect of share options	(101)	-
Adjustment for prior years	(46)	-
	<u>(377)</u>	<u>(284)</u>
Total income tax charge/(credit)	<u>2,982</u>	<u>(263)</u>

Notes to the consolidated financial statements

6. Taxation (continued)

(ii) Reconciliation of total tax charge

	2007 £'000	2006 £'000
Profit/(loss) before tax	11,590	(1,644)
Corporation tax using the UK corporation tax rate (30%)	3,477	(493)
Expenses not deductible for taxation purposes	129	429
Deduction in respect of share options exercised	(137)	(34)
Other differences	-	(16)
Research and development tax relief	-	(22)
Taxable gains different to profit on disposal	-	(32)
Share of associate's tax charge	(142)	(103)
Marginal rate relief	(11)	-
Adjustments in respect of prior years - current tax	(288)	8
Adjustments in respect of prior years - deferred tax	(46)	-
	<u>2,982</u>	<u>(263)</u>

(iii) Tax on items charged to equity

	2007 £'000	2006 £'000
Deferred tax credit on share options	18	(11)

Notes to the consolidated financial statements

7. Property, plant and equipment

	Freehold land and buildings £'000	Leasehold improvements £'000	Computer and office equipment £'000	Motor vehicles £'000	Total £'000
Group					
2007					
Cost					
At 1 April 2006	150	181	2,178	327	2,836
Additions	-	33	304	4	341
Disposals	-	-	-	(141)	(141)
At 31 March 2007	150	214	2,482	190	3,036
Depreciation					
At 1 April 2006	18	144	1,442	216	1,820
Depreciation charge for the year	3	28	368	48	447
Disposals	-	-	-	(115)	(115)
At 31 March 2007	21	172	1,810	149	2,152
Net book amounts					
At 31 March 2007	129	42	672	41	884
At 31 March 2006	132	37	736	111	1,016
2006					
Cost					
At 1 April 2005	980	156	1,889	278	3,303
Additions	-	25	410	49	484
Disposals	(830)	-	(121)	-	(951)
At 31 March 2006	150	181	2,178	327	2,836
Depreciation					
At 1 April 2005	85	111	1,237	147	1,580
Depreciation charge for the year	17	33	326	69	445
Disposals	(84)	-	(121)	-	(205)
At 31 March 2006	18	144	1,442	216	1,820
Net book amounts					
At 31 March 2006	132	37	736	111	1,016
At 31 March 2005	895	45	652	131	1,723

Notes to the consolidated financial statements

7. Property, plant and equipment (continued)

	Freehold land and buildings £'000	Leasehold improvements £'000	Computer and office equipment £'000	Motor vehicles £'000	Total £'000
Company					
2007					
Cost					
At 1 April 2006	150	181	2,178	327	2,836
Additions	-	33	304	4	341
Disposals	-	-	-	(141)	(141)
At 31 March 2007	150	214	2,482	190	3,036
Depreciation					
At 1 April 2006	18	144	1,442	216	1,820
Depreciation charge for the year	3	28	368	48	447
Disposals	-	-	-	(115)	(115)
At 31 March 2007	21	172	1,810	149	2,152
Net book amounts					
At 31 March 2007	129	42	672	41	884
At 31 March 2006	132	37	736	111	1,016
2006					
Cost					
At 1 April 2005	980	156	1,768	278	3,182
Additions	-	25	410	49	484
Disposals	(830)	-	-	-	(830)
At 31 March 2006	150	181	2,178	327	2,836
Depreciation					
At 1 April 2005	85	111	1,118	147	1,461
Depreciation charge for the year	17	33	324	69	443
Disposals	(84)	-	-	-	(84)
At 31 March 2006	18	144	1,442	216	1,820
Net book amounts					
At 31 March 2006	132	37	736	111	1,016
At 31 March 2005	895	45	650	131	1,721

Notes to the consolidated financial statements

8 Goodwill and intangible assets

	Billing system £'000	Goodwill £'000	Total £'000
Group			
2007			
Cost			
At 1 April 2006 and 31 March 2007	839	4,558	5,397
Amortisation			
At 1 April 2006	687	816	1,503
Amortisation for the year	133	-	133
At 31 March 2007	820	816	1,636
Carrying amounts			
At 31 March 2007	19	3,742	3,761
At 31 March 2006	152	3,742	3,894
2006			
Cost			
At 1 April 2005 and 31 March 2006	839	4,558	5,397
Amortisation			
At 1 April 2005	556	816	1,372
Amortisation for the year	131	-	131
At 31 March 2006	687	816	1,503
Carrying amounts			
At 31 March 2006	152	3,742	3,894
At 31 March 2005	283	3,742	4,025

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 2007 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 2007 indicated that no impairment is necessary.

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

Company

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

Notes to the consolidated financial statements

9. Investments

Fixed asset investments

	2007 £'000	2006 £'000
Associated undertaking		
Cost less impairment		
At 1 April	1,038	1,038
Additions	9	-
At 31 March	<u>1,047</u>	<u>1,038</u>
Share of profit/(loss)		
At 1 April	(98)	(441)
Share of profit after taxation for the year	473	343
At 31 March	<u>375</u>	<u>(98)</u>
Carrying amounts		
At 31 March	<u>1,422</u>	<u>940</u>

Investment in subsidiary companies

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

Notes to the consolidated financial statements

9. Investments (continued)

Fixed asset investments (continued)

Associated company

The investment in the associate represents the cost of purchasing a 20.0% (2006: 15.8%) equity interest in the ordinary share capital of Oxford Power Holdings Limited (OPH), together with the Group's share of retained reserves.

On 11 May 2006, the Company exercised its warrants and anti-dilution rights at a cost of £8,694 to increase its shareholding in OPH to 20%. A summary of the company's balance sheet and income statement is as follows:

	2007 £'000	2006 £'000
Total assets	20,168	21,764
Total liabilities	17,058	20,386
	<u>3,110</u>	<u>1,378</u>
Income	75,602	64,476
Expenses	72,717	61,454
Profit before tax	<u>2,885</u>	<u>3,022</u>

Included in "Trade and other receivables" is an amount of £2,000,000 (2006: "non-current assets - other receivables" £2,000,000) due from Oxford Power Holdings Limited, which is due for repayment on 31 December 2007.

Notes to the consolidated financial statements

10. Deferred tax asset

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

	Group		Company	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Tax effect of timing differences				
Excess of qualifying depreciation over tax allowances	141	85	132	85
Other short term timing differences	642	422	637	422
Employee benefits in excess of amount vested	121	2	121	2
	<u>904</u>	<u>509</u>	<u>890</u>	<u>509</u>

	Group		Company	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
At 1 April	509	236	509	236
Credited to the income statement	377	284	363	284
Taken to equity	18	(11)	18	(11)
At 31 March	<u>904</u>	<u>509</u>	<u>890</u>	<u>509</u>

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

Notes to the consolidated financial statements

11. Inventories

	Group		Company	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Inventories comprise the following				
Mobile phones, modems, routers and related equipment	93	379	93	379
Marketing materials	109	133	109	133
	<u>202</u>	<u>512</u>	<u>202</u>	<u>512</u>

12. Trade and other receivables

	Group		Company	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Trade receivables	875	515	932	497
Other receivables	2,383	4,436	2,338	4,272
Amount owed by subsidiary undertaking	-	-	1,351	2,222
	<u>3,258</u>	<u>4,951</u>	<u>4,621</u>	<u>6,991</u>

Prepayments and accrued income includes services provided but not billed of £26,176,000 (2006 £24,791,000)

Included in "Other receivables" is an amount of £2,000,000 (2006 "non-current assets - other receivables" £2,000,000) due from Oxford Power Holdings Limited, which is due for repayment on 31 December 2007

Credit risk in respect of trade receivables is low due to the large number of customers supplied, who are primarily invoiced monthly with payment being collected by direct debit

13 Trade and other payables

	Group		Company	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Trade payables	2,321	5,376	1,740	4,668
Other taxation and social security	1,406	530	1,052	172
	<u>3,727</u>	<u>5,906</u>	<u>2,792</u>	<u>4,840</u>

Notes to the consolidated financial statements

14. Capital and reserves

Reconciliation of movement in capital and reserves

Group	Ordinary shares '000	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
Balance at 1 April 2005	62,161	3,108	7,145	7,526	17,779
Loss for the year ended 31 March 2006				(1,381)	(1,381)
Deferred tax on share options				(11)	(11)
				<u>(1,392)</u>	<u>(1,392)</u>
Dividends				(4,099)	(4,099)
Issue of share capital	6,268	313	12,120		12,433
Share issue costs			(200)		(200)
Credit arising on share options				434	434
Balance at 31 March 2006	68,429	3,421	19,065	2,469	24,955
Profit for the year ended 31 March 2007				8,608	8,608
Deferred tax on share options				18	18
				<u>8,626</u>	<u>8,626</u>
Dividends				(2,062)	(2,062)
Issue of share capital	500	25	379		404
Credit arising on share options				425	425
Balance at 31 March 2007	68,929	3,446	19,444	9,458	32,348

Notes to the consolidated financial statements

14. Capital and reserves (continued)

Reconciliation of movement in capital and reserves (continued)

Company	Ordinary shares '000	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
Balance at 1 April 2005	62,161	3,108	7,145	5,112	15,365
Profit for the year ended 31 March 2006				149	149
Deferred tax on share options				(11)	(11)
				<u>138</u>	<u>138</u>
Dividends				(4,099)	(4,099)
Issue of share capital	6,268	313	12,120		12,433
Share issue costs			(200)		(200)
Credit arising on share options				434	434
Balance at 31 March 2006	<u>68,429</u>	<u>3,421</u>	<u>19,065</u>	<u>1,585</u>	<u>24,071</u>
Profit for the year ended 31 March 2007				7,551	7,551
Deferred tax on share options				18	18
				<u>7,569</u>	<u>7,569</u>
Dividends				(2,062)	(2,062)
Issue of share capital	500	25	379		404
Credit arising on share options				425	425
Balance at 31 March 2007	<u>68,929</u>	<u>3,446</u>	<u>19,444</u>	<u>7,517</u>	<u>30,407</u>

Notes to the consolidated financial statements

14. Capital and reserves (continued)

Share capital and share premium

	2007 £'000	2006 £'000
Issued share capital		
Ordinary shares of 5p each		
Authorised – 80,000,000 (2006 80,000,000)	4,000	4,000
Allotted, called up and fully paid – 68,928,583 (2006 68,428,610)	3,446	3,421

On 31 May 2005, the Company issued 6,000,000 new shares by way of a placing at a price of 205p

At several dates during the year shares were allotted fully paid 499,973 shares were allotted for cash on exercise of share options at prices from 83p to 200p The weighted average share price at the date of exercise was 167p 26,904 shares have been allotted since the year end

At the year end the Company's share price was 197 25p and the range during the financial year was 95p to 232p

Dividends

	2007 £'000	2006 £'000
Prior year final paid 1p (2006 6p) per share	684	4,099
Interim paid 2p (2006 nil) per share	1,378	-

The Directors have proposed a final dividend of 6p per ordinary share totalling £4,136,000, payable on 10 August 2007, to shareholders on the register at the close of business on 13 July 2007 The dividend has not been included as a liability as at 31 March 2007

Notes to the consolidated financial statements

15. Earnings/(loss) per share

Basic earnings/(loss) per share

The calculation of basic earnings per share at 31 March 2007 was based on the profit attributable to ordinary shareholders of £8,608,000 (2006 loss £1,381,000) and a weighted average number of ordinary shares outstanding during the year ended 31 March 2007 of 68,606,607 (2006 67,170,166)

	2007	2006
Basic earnings/(loss) per share	12 5p	(2 1)p
Diluted earnings/(loss) per share	<u>12 5p</u>	<u>(2 1)p</u>

Diluted earnings/(loss) per share

Diluted earnings/(loss) per share assumes dilutive options have been converted into ordinary shares. The calculations are as follows

	2007		2006	
	Profit £'000	Number of shares '000	Profit £'000	Number of shares '000
Basic earnings/(loss)	8,608	68,607	(1,381)	67,170
Dilutive effects – Options		171	-	-
Diluted earnings/(loss)	<u>8,608</u>	<u>68,778</u>	<u>(1,381)</u>	<u>67,170</u>

The share options may be dilutive in future periods

16. Operating lease liabilities

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

	Group		Company	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Amounts payable				
Less than one year	228	239	228	239
Between one and five years	880	894	880	894
More than five years	608	908	608	908
	<u>1,716</u>	<u>2,041</u>	<u>1,716</u>	<u>2,041</u>

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

Notes to the consolidated financial statements

17. Share-based payments

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 related to their seniority and length of service. The employee scheme is not subject to any performance criteria.

The Networkers and Consultants Share Option Scheme exists to provide incentives to the people who are most successful in gathering new customers for the Company. As it is not possible to measure directly the benefit received from these activities, the fair value of the benefit received has been measured by reference to the fair value of the equity instruments granted.

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

	2007 £'000	2006 £'000
Distribution expenses	212	239
Administrative expenses	213	195
Total charge	425	434

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

	2007		2006	
	Number	Weighted average exercise price	Number	Weighted average exercise price
At 1 April	3,718,919	170p	3,407,676	131p
Options granted	427,500	153p	644,875	165p
Options exercised	(499,973)	91p	(267,982)	50p
Options lapsed/expired	(606,647)	161p	(65,650)	122p
At 31 March	3,039,799	182p	3,718,919	170p

Notes to the consolidated financial statements

17. Share-based payments (continued)

During the year the Group issued share options to employees on two occasions as set out below

	1997 Share Option Scheme	1997 Share Option Scheme
Date of grant	12/07/06	04/01/07
Number of options originally granted	274,000	153,500
Contractual life	7 years	7 years
Exercise price (pence)	127	199 25
Share price at date of grant (pence)	127	199 25
Number of employees	37	40
Expected volatility	62 43%	54 86%
Expected option life	7 years	7 years
Risk free rate	5 00%	5 00%
Expected dividend yield	1 57%	1 51%
Fair value per option (pence)	74 30	107 30

During the year ended 31 March 2006, the Group issued share options to employees and distributors on three occasions as set out below

	1997 Share Option Scheme	1997 Share Option Scheme	Networkers and Consultants Share Option Scheme
Date of grant	13/07/05	17/02/06	17/02/06
Number of options originally granted	253,000	103,000	288,875
Contractual life	7 years	7 years	7 years
Exercise price (pence)	168	162	162
Share price at date of grant (pence)	168	162	162
Number of employees	40	27	293
Expected volatility	59 99%	65 73%	65 73%
Expected option life	7 years	7 years	7 years
Risk free rate	5 00%	5 00%	5 00%
Expected dividend yield	6 55%	1 85%	1 85%
Fair value per option (pence)	71 84	96 40	96 40

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

Notes to the consolidated financial statements

17. Share-based payments (continued)

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

	Number 1 April 2006	Number 31 March 2007	Exercise price per share	Exercisable from	Expiry date
Networkers and Consultants Share Option Scheme					
30 Dec 1999	453,878	-	83p	30 Dec 2002	29 Dec 2006
1 Jul 2000	383,790	378,960	200p	1 Jul 2003	30 Jun 2007
1 Jul 2001	336,756	326,324	120p	1 Jul 2004	30 Jun 2008
25 Jun 2002	50,000	40,000	106 5p	25 Jun 2006	24 Jun 2009
24 Jun 2003	594,020	593,140	192 5p	24 Jun 2006	23 Jun 2010
15 Jul 2004	276,000	276,000	284p	15 Jul 2007	14 Jul 2011
27 Jan 2005	26,000	26,000	251 5p	27 Jan 2008	26 Jan 2012
17 Feb 2006	288,875	288,875	162p	17 Feb 2009	16 Feb 2013

1997 Share Option Scheme

1 Sep 1999	18,100	-	51 5p	1 Sep 2002	31 Aug 2006
30 Dec 1999	8,500	-	83p	30 Dec 2002	29 Dec 2006
15 Jun 2001	166,500	100,500	118p	15 Jun 2004	14 Jun 2008
25 Jun 2002	160,500	120,500	106 5p	25 Jun 2005	24 Jun 2009
10 Dec 2002	231,000	161,000	140p	10 Dec 2005	9 Dec 2009
20 Jan 2003	6,000	3,000	147 5p	20 Jan 2006	19 Jan 2010
7 Jul 2003	71,000	68,000	201p	7 Jul 2006	6 Jul 2010
5 Jan 2004	43,000	35,500	375p	5 Jan 2007	4 Jan 2011
14 Jul 2004	85,000	76,000	284p	14 Jul 2007	13 Jul 2011
27 Jan 2005	48,000	34,500	251 5p	27 Jan 2008	26 Jan 2012
7 Feb 2005	116,000	16,000	253 5p	7 Feb 2008	6 Feb 2012
13 Jul 2005	253,000	87,500	168p	13 Jul 2008	12 Jul 2012
17 Feb 2006	103,000	89,500	162p	17 Feb 2009	16 Feb 2013
12 Jul 2006	-	165,000	127p	12 Jul 2009	11 Jul 2013
4 Jan 2007	-	153,500	199 25p	4 Jan 2010	3 Jan 2014

3,718,919	3,039,799
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Weighted average
exercise price

170p	182p
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At 31 March 2007 1,826,924 share options were exercisable (2006 1,815,024) at a weighted average exercise price of 169p (2006 128p). The average remaining contractual life of the outstanding options was 3.4 years at 31 March 2007 (2006 3.7 years).

Notes to the consolidated financial statements

18 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 finances its operations primarily through the issue of equity shares and from cash generated and retained within the business. The Group does not currently require any external loan funding, and as such there is no interest rate risk.

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 £857,000 (2006: £954,000) due from employees and distributors which earns interest at variable rates above Base Rate, and during 2006, a loan to Oxford Power Holdings Limited of £2,000,000 which earns interest at 1.5% over Base Rate. The loan to Oxford Power Holdings Limited of £2,000,000 is included within current assets in the current year.

Borrowing facilities

At 31 March 2007, the Group had no committed bank borrowing facilities (2006: £4,200,000) and has a facility of £21,800,000 (2006: £18,800,000) for Bonds, Guarantees and/or Indemnities. Bank facilities are subject to review at the end of the year.

Fair values

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

Notes to the consolidated financial statements

19. Related parties

Identity of related parties

The Group has a related party relationship with its subsidiary (see note 9), associates (see note 9) and with its directors and executive officers

Transactions with key management personnel

Directors of the Company and their immediate relatives control 28 per cent of the voting shares of the Company

The Company had an agreement with Trialfile Limited, a company owned by Charles Wigoder, for the rent of premises. On 13 December 2005 Trialfile Limited disposed of its interest in the property to an unrelated third party. There is no charge in this year's financial statements (2006 £60,000)

Other related party transactions

Associates

During the year ended 31 March 2007, associates supplied goods to the Group in the amount of £214,000 (2006 £56,095,000) and at 31 March 2007 associates owed the Group £1,928,000 (2006 £1,563,000). Transactions with associates are priced on an arm's length basis. No dividends were received from associates in 2007 or in 2006.

Subsidiary company

During the year ended 31 March 2007, the subsidiary purchased goods and services from the Company in the amount of £7,781,000 (2006 £4,144,000).