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Telecom Plus PLC
16 February 2006

Telecom plus plc (the "Company")

Change of Energy Supply Arrangements

The Company announces today that it has agreed to sell its Energy Companies (Gas Plus Supply Limited, Electricity Plus Supply Limited and Plus Shipping Services Limited) to Npower Limited ("npower") for a nominal consideration and to simultaneously enter into a Management Services Agreement with npower and the Energy Companies. In addition, the Company is entering into a Put Option Agreement with npower which is deemed to be a Class 1 transaction for the purposes of the Listing Rules (together the "Transaction"). As such the Put Option Agreement requires shareholder approval and if approved, the Transaction will take effect retrospectively from 1 January 2006. The Company will be posting a circular to shareholders in connection with the Transaction to seek such approval in due course.

Details of the Transaction

The Transaction involves npower assuming the obligation to supply gas and electricity to Telecom plus' customers. It comprises the following principal elements:

- sale of the Energy Companies to npower, which will mean that npower will thereby become responsible for the supply of gas and electricity to the customers of those companies.
- provision of management services by the Company to npower and the Energy Companies. The Company will remain responsible for managing all aspects of the customer relationship with the energy customers on behalf of npower and the Energy Companies, including billing (as part of its multi-utility proposition), customer service, metering, debt collection and administration, in return for a commission on energy used by the customers.
- grant of the put option by the Company – under the terms of the Put Option Agreement, in the event of a change of majority control of the Company prior to six months after the call options set out below lapsing, the Company can be required to repurchase the Energy Companies or the customer contracts of the Energy Companies. The amount payable to npower in the event that the Put Option is exercised is £50 per energy service supplied together with a commission of 10 per cent. of the revenues generated from such customers over the succeeding five years.

The transaction is conditional upon a number of conditions being satisfied by 27 March 2006 including the approval of the shareholders of the Company to the terms of the Put Option Agreement. In addition, npower has the right to rescind the sale agreement in the event of a material breach of warranty prior to Completion.

Call Option over Directors' Shareholdings

As a condition of entering into the Transaction, npower has requested that certain directors and shareholders each grant them an option to acquire the majority of their shareholdings in the Company. Accordingly, Charles Wigoder has, conditional upon completion of the Transaction, granted an option over 12,956,041 Ordinary Shares (representing approximately 19 per cent. of the existing issued share capital of the Company) and completion of the Transaction is conditional on further options being granted such that npower has options to acquire an aggregate of 19,817,711 Ordinary Shares, representing approximately 29 per cent of the existing

issued share capital of the Company. These options are exercisable in the six months following publication of the Company's results for the year ending 31 March 2009. The price per Ordinary Share payable by npower on exercise of the Call Options is equal to four times EBITDA for the year ending 31 March 2008 plus eight times the EBITDA for the year ending 31 March 2009 (net, in each case, of cash and debt) divided by the number of Ordinary Shares in issue at the time of exercise of the Call Option, or market value if higher (based on the average closing price for the preceding 20 dealing days).

Background to and reasons for the Transaction

On 23 November 2005, the Company issued a trading statement explaining that the record prices and increasing volatility in the wholesale energy markets were resulting in substantial losses being incurred on its gas business. On 13 December 2005, the Company further updated shareholders when it published its interim results for the period to 30 September 2005, which stated that the Directors were actively exploring strategic options with a view to controlling these losses.

Since that date, the wholesale cost of gas has remained substantially higher than the price the Company has been able to charge its customers in a competitive market. If these losses had been allowed to continue, the future viability of the Group would have been placed at risk.

The Directors believe that investors' perception of the Company has been adversely affected over the last two years by the risks associated with the increasingly volatile wholesale energy markets. If completed, the Transaction will eliminate those risks, and should enable the Company to earn a small positive contribution from its energy business in future.

As part of the Transaction, the Company will enter into a management contract with npower under which responsibility for purchasing and hedging energy will reside with npower. The Company will continue to promote an integrated multi-utility proposition to the customers and receive an ongoing share of revenue on the energy which they use. The Board believe that this will preserve the current business model as well as boost morale within the Distribution Network as they will continue to receive a share of the revenues generated by the energy customers and be able to continue offering prospective new customers a wide range of competitively-priced utility services.

Information on the Energy Companies

Gas Plus Supply Limited had contracts to supply gas to 83,403 customers at 31 December 2005.

Electricity Plus Supply Limited had contracts to supply electricity to 97,989 customers at 31 December 2005.

Plus Shipping Services Limited operates as the licensed gas shipper for Gas Plus Supply Limited.

Financial effects of the Transaction

The principal financial effect of the Transaction will be to remove the Company's exposure to volatile wholesale energy prices and enable the Company to earn a positive contribution towards its earnings through the commission payable to it on the energy used by customers of the Energy Companies in future.

The Continuing Group

Notwithstanding the disposal of these subsidiaries, the Company will continue to offer customers a substantially identical marketing proposition for their utilities as currently. Customers will continue to receive a single integrated monthly bill from the Company covering all their services, and the Company will remain responsible for all aspects of the customer relationship including billing, administration, account management, customer service and debt collection.

Current trading and prospects

As anticipated in the interim statement, gas prices have remained high and the Company has incurred significant losses so far this winter. In addition, there have been substantial exceptional costs relating to the restructuring of the Group in order to enter into the proposed Transaction.

The Board believe the Transaction will however leave the Company strongly positioned as the UK's only integrated multi-utility supplier, clearly focused on marketing and promoting its services, with no exposure to either future volatility in the wholesale energy markets or working capital issues relating to an energy hedge book which would have needed to expand rapidly in line with rising wholesale energy prices and the steady growth of our customer base.

The Company will not be in a position to pay a dividend for the current financial year. However, the Directors anticipate being in a position to resume dividend payments in respect of the forthcoming financial year, although these will of course be dependent on growth, working capital and the level of profitability achieved.

Extraordinary General Meeting

Entering into the Put Option Agreement is deemed to be a Class 1 transaction for the purposes of the Listing Rules and as such requires Shareholders' approval. Accordingly a circular containing a notice convening an extraordinary general meeting of the Company will be sent to shareholders shortly.

Commenting on the Transaction, Charles Wigoder, Chief Executive, stated:

"This transaction ends a period of uncertainty caused by rising and highly volatile energy prices. It will enable us to clearly focus on what we do best, which is the marketing and promotion of our services and looking after customers. We are delighted that under these new arrangements we will be able to maintain our current attractive multi-utility offer, and that our new partner shares our commitment to our innovative distribution channel and passion for delivering quality customer service and value for money."

Enquiries

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