

TELECOM_{plus}PLC

Embargoed until 0700

25 November 2009

Telecom *plus* PLC

Half-Year Results for the Six Months ended 30 September 2009

Telecom *plus* PLC (trading as the Utility Warehouse), which supplies a wide range of utility services (gas, electricity, fixed line telephony, mobile telephony and broadband internet) to both residential and business customers, announces half-year results for the six months ended 30 September 2009.

Financial highlights

- Revenue up 40% to £124.8m (2008: £88.9m) reflecting increased customer numbers
- Profit before tax in line with expectations at £5.8m (2008: £9.8m)
- Continued strong underlying cash generation; net cash £27.9m (2008: £28.9m)
- Earnings per share 6.3p (2008: 10.8p)
- Interim dividend up by 60% to 8p per share (2008: 5p)
- Intention to pay a total dividend of 22p for the current year (2009: 17.5p), in the absence of unforeseen circumstances

Operating Highlights:

- Number of services supplied up by 114,819 to almost 910,000
- Customer numbers increased by around 36,000 to over 317,000
- Focus on attracting higher quality “owner-occupiers”
- Successful autumn sales conference attended by 3,000 distributors
- Distributor numbers increase by almost 5,000 to 31,852
- Recognised by *Which?* magazine as the UK’s best energy provider

Commenting on today’s results, Charles Wigoder, Chief Executive, said:

“I am delighted to report a further period of strong organic growth with customer numbers up by over 36,000 during the period to approaching 320,000 and the total number of services we supply increasing by around 115,000 to almost 910,000.”

“Second half revenues and profits will benefit both from the full year impact of our increasing customer numbers and the seasonal nature of our business, where most customers use around 70% of their annual energy consumption during the second half.

“Our recently enhanced focus on the quality of our customer base is expected to deliver significant financial benefits over the coming years, and I look forward to the future with great confidence.”

For more information please contact:

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About Telecom *plus* PLC:

Telecom *plus*, which owns and operates the Utility Warehouse brand, is the UK's only fully integrated provider of a wide range of competitively priced utility services spanning both the Communications and Energy markets.

Customers benefit from the convenience of a single monthly bill, consistently good value across all their utilities and exceptional levels of customer service. The Company does not advertise, relying instead on "word of mouth" recommendation by existing satisfied customers in order to grow its market share.

Telecom *plus* is listed on the London Stock Exchange (Ticker: TEP LN). For further information please visit: www.telecomplus.co.uk.

Interim Management Report

We are pleased to report a further period of strong organic growth.

Financial and Operating Review

Revenue for the first half of the financial year increased by 40% to £124.8m (2008: £88.9m) whilst pre-tax profits fell in line with expectations to £5.8m (2008: £9.8m). Notwithstanding the significantly higher number of customers using our services during the period, our financial performance was adversely affected by a less favourable environment for supplying energy, higher customer acquisition costs resulting from our faster growth, and a sharp reduction in our financial income due to the combination of lower interest rates and less money on deposit following the purchase of new freehold office buildings last year. Earnings per share of 6.3p (2008: 10.8p) are also lower, in line with the reduced profitability for the period.

Distribution costs rose by £1.2m during the period, reflecting the higher commission payable to our sales channel on the substantially larger number of customers who are now using our services. Administration costs increased, albeit by less than the increase in turnover, illustrating the operational leverage within the business.

The economic climate continues to provide strong support for our position in the market as the sole integrated supplier of a wide range of essential utility services, combining the convenience of a single bill with substantial cost savings and exceptional customer service. The attractiveness of this proposition has again been endorsed by *Which?* magazine, who have recently confirmed our status as the UK's best energy supplier in their latest annual survey.

We have continued to see significant interest in the part-time income opportunity we provide, with the total number of distributors registered to promote our services increasing by almost 5,000 to 31,852 during the period. Our annual Sales Conference, which previously took place each autumn, has been moved and will in future be held in the spring of each year. To fill the one-off gap this left, some of our key leaders organised their own event focusing on motivation and training which was held on the weekend of the 13 and 14 of September; spread across two venues, this was attended by almost 3,000 distributors, reflecting the current high levels of excitement and confidence within our sales channel.

Driven by the large number of new distributors joining the Company, the growth rate in both new customers and the number of services we supply has remained at near record levels. Customer numbers increased by over 36,000 during the period to 317,388 (2008: 239,758) and the total number of services we supply has increased by almost 115,000 to 908,937 (2008: 659,525). This strong performance was achieved notwithstanding our decision at the end of July to make it less attractive for our distributors to target people living in rental properties, due to the greater administration costs, higher bad debt levels and lower average spend which are typically associated with this profile of customer.

We moved into our new Head Office accommodation during the period, the top floors of which (representing around 50% of the total available space) have been refurbished on schedule and on budget. These new premises will enable the Company to support well in excess of a million customers, which remains our medium term target as we progressively reap the benefits from our continuing strong levels of organic growth.

Oxford Power Holdings, in which we have a 20% equity investment, continues to make strong progress in building its market share. It has recently decided to extend the scope of its activities to encompass supplying gas to its customers alongside electricity, and paid a dividend of £5.1m last month (of which we received £1.02m). Our share of its profits for the first half of the current year increased to £323,000 (2008: £125,000). This is an exciting, highly profitable and cash generative business, and we were pleased that the International Power call option lapsed during the period; the management team is now focused on maximising the value of the business over the medium term.

Cash Flow

Our underlying cash flow remains strong. The closing net cash balance of £27.9m is slightly lower than last year (2008: £28.9m) following our final dividend payment of £8.53m in August. All our cash is held on deposit at Barclays Bank plc and we have no debt. We have borrowing facilities available of £15m in order to meet the anticipated increase in our working capital requirements during the peak winter trading period, largely relating to energy customers who are paying on budget plans.

Interim Dividend

In the light of our strong growth and positive cash flow, the Board has decided to pay an interim dividend of 8p (2008: 5p) which will be made on 4 January 2010 to shareholders on the register on 11 December 2009. We remain comfortable with our previously stated intention to pay a total dividend of 22p for the current year, in the absence of unforeseen circumstances.

Appointment of Joint Broker

On 6 November 2009 we announced the appointment of Brewin Dolphin Investment Bank alongside KBC Peel Hunt to act as joint brokers to the Company, with a view to generating a better understanding of our business amongst a wider pool of potential investors.

Principal Risks and Uncertainties

The principal risks and uncertainties affecting the Company's activities which are detailed on pages 15 and 16 of the Report and Accounts for the year ended 31 March 2009 are unchanged and are repeated in Note 5 to this Half-Yearly Report. A copy of the Report and Accounts is available on the Company's website at www.telecomplus.co.uk/annualreport.

Responsibility Statement

The Directors are responsible for the preparation of the condensed set of financial statements and interim management report comprising this set of Half-Yearly Results for the six months ended 30 September 2009, each of whom accordingly confirms that to the best of his knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 and provides a true and fair view of the assets, liabilities, financial position and profit of the Group as a whole;
- the interim management report includes a fair review of the information required by the Financial Statements Disclosure and Transparency Rules (DTR) 4.2.7R (indication of important events during the first six months and their impact on the financial statements and description of principal risks and uncertainties for the remaining six months of the year); and
- the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosures of related party transactions and changes therein).

The Directors of Telecom *plus* PLC are:

Peter Nutting	Non-Executive Chairman
Charles Wigoder	Chief Executive
Chris Houghton	Finance Director
Andrew Lindsay	Chief Operating Officer
Keith Stella	Senior Non-Executive Director
Melvin Lawson	Non-Executive Director
Richard Michell	Non-Executive Director
Michael Pavia	Non-Executive Director

Outlook

Wholesale energy prices remain volatile. Whilst in absolute terms they have fallen considerably from their peak, the forward curve is still showing a significant premium to current prices. After taking into account the increasing proportion of each customer bill that relates to non-commodity costs (distribution, billing, energy efficiency etc), and the investment in infrastructure that the UK energy industry will need to make over the coming decade (eg: new generating capacity and smart metering) the future trend for retail energy prices still seems likely to be in an upward direction. Our wholesale purchasing arrangements with npower mean however that we are not directly exposed to these issues, and can continue to concentrate on our core strengths in customer acquisition and management.

Growing our customer base organically by more than 30% in the last 12 months has been a considerable achievement, and I would like to thank both our distributors and loyal staff for the role they have played in this success. We are determined to build on this over the coming months, in order to capitalise on the opportunities provided by the continuing uncertain economic climate and our unique market position.

Our decision to focus from 1 August 2009 on attracting customers who own their homes means that our net customer growth during the second half, whilst still expected to be significant, is likely to be lower than the record rate at which we were growing during the 12 months preceding that date. However, any adverse impact on our future profitability from this slightly slower growth should be largely offset by the benefits of improving the overall quality of our customer base. Indeed, we have already seen a significant improvement over the last few months in the proportion of new customers applying for our CashBack card (giving them substantial additional savings on their utilities) and in the average number of services for which they are applying, which should together lead to both lower churn and a reduction in bad debts in due course.

We remain an obvious beneficiary from consumers searching for a better value supplier, underpinned by an increasing pool of potential distributors as unemployment continues to rise. The recurring income we provide to our largely part-time network of independent distributors is extremely attractive to both new and existing distributors, particularly as the broader economy shows few signs of improvement.

We have developed and funded a dedicated training programme for a number of years, aimed at providing our distributors with the knowledge they need to promote our services; this now spans 45 regional venues around the UK and over 15,000 people benefited from our training during the period. To further assist them in realising their full potential as distributors by promoting our services more effectively, we have recently introduced a new skills based training course to complement the knowledge based training already being provided.

Our recent announcement that npower had not exercised their call option (which lapsed last week) was positively received by our distribution channel, as it removed any residual uncertainty about our future status as an independent supplier. Npower will continue to supply all the energy used by our customers for the foreseeable future under an exclusive supply agreement which remains subject to two years rolling notice on either side.

Full year revenues and profits will benefit from the impact of our increasing customer base and the seasonal nature of our business, where most customers use around 70% of their annual energy consumption during the second half. We are on target to report both record revenue and a record dividend for the full year. Looking further out, our continuing strong customer growth will generate increasing economies of scale, and provide a platform from which the Company can deliver significantly higher profits in due course. We look forward to the future with great confidence.

Given on behalf of the Board

CHARLES WIGODER
Chief Executive
24 November 2009

CHRIS HOUGHTON
Finance Director

Independent Review Report to Telecom *plus* PLC

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2009 which comprises the consolidated Statement of Comprehensive Income, consolidated Balance Sheet, consolidated Cash-Flow Statement, consolidated Statement of Changes in Equity and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements

This report is made solely to the Company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PKF (UK) LLP

London, UK
24 November 2009

Consolidated Statement of Comprehensive Income

	6 months ended 30 September 2009 (unaudited) £'000	6 months ended 30 September 2008 (unaudited) £'000	Year ended 31 March 2009 (audited) £'000
Revenue	124,789	88,939	278,342
Cost of sales	<u>(102,305)</u>	<u>(67,043)</u>	<u>(226,581)</u>
Gross profit	22,484	21,896	51,761
Distribution expenses	(5,534)	(4,342)	(11,745)
Administrative expenses	(11,712)	(8,680)	(20,107)
Other income	<u>207</u>	<u>-</u>	<u>73</u>
Operating profit	<u>5,445</u>	<u>8,874</u>	<u>19,982</u>
Financial income	62	848	1,647
Financial expense	<u>-</u>	<u>(2)</u>	<u>(26)</u>
Net financial income	62	846	1,621
Share of profit of associates	323	125	888
Profit before taxation	<u>5,830</u>	<u>9,845</u>	<u>22,491</u>
Taxation	<u>(1,516)</u>	<u>(2,641)</u>	<u>(6,307)</u>
Profit for the period	<u>4,314</u>	<u>7,204</u>	<u>16,184</u>
Deferred tax on share options	(12)	300	22
Comprehensive income for the period	<u>4,302</u>	<u>7,504</u>	<u>16,206</u>
Basic earnings per share	<u>6.3p</u>	<u>10.8p</u>	<u>24.2p</u>
Diluted earnings per share	<u>6.3p</u>	<u>10.7p</u>	<u>23.9p</u>
Interim dividend per share	<u>8.0p</u>	<u>5.0p</u>	

Consolidated Balance Sheet

	As at 30 September 2009 (unaudited) £'000	As at 30 September 2008 (unaudited) £'000	As at 31 March 2009 (audited) £'000
Assets			
Non-current assets			
Property, plant and equipment	12,267	9,843	11,470
Goodwill and intangible assets	3,743	3,745	3,743
Investments in associates	3,026	1,940	2,703
Deferred tax	1,996	1,681	2,036
Other receivables	2,023	1,510	1,697
Total non-current assets	<u>23,055</u>	<u>18,719</u>	<u>21,649</u>
Current assets			
Inventories	303	149	357
Trade and other receivables	8,198	4,004	5,071
Prepayments and accrued income	36,119	25,744	51,120
Cash and cash equivalents	27,912	28,854	25,357
Total current assets	<u>72,532</u>	<u>58,751</u>	<u>81,905</u>
Total assets	<u>95,587</u>	<u>77,470</u>	<u>103,554</u>
Current liabilities			
Trade and other payables	(3,750)	(3,128)	(16,322)
Current tax payable	(1,413)	(2,948)	(3,944)
Accrued expenses and deferred income	(49,940)	(37,270)	(38,696)
Total current liabilities	<u>(55,103)</u>	<u>(43,346)</u>	<u>(58,962)</u>
Total assets less total liabilities	<u>40,484</u>	<u>34,124</u>	<u>44,592</u>
Equity			
Share capital	3,452	3,452	3,452
Share premium	1,993	35	1,992
Treasury shares	(1,505)	(4,392)	(1,457)
Retained earnings	36,544	35,029	40,605
Total equity	<u>40,484</u>	<u>34,124</u>	<u>44,592</u>

Consolidated Cash Flow Statement

	6 months ended 30 September 2009 (unaudited) £'000	6 months ended 30 September 2008 (unaudited) £'000	Year ended 31 March 2009 (audited) £'000
Operating activities			
Operating profit	5,445	8,874	19,982
Depreciation of property, plant and equipment	460	247	579
Amortisation of intangible assets	1	4	6
Decrease / (increase) in inventories	54	26	(182)
Decrease / (increase) in trade and other receivables	11,548	382	(26,248)
(Decrease) / increase in trade and other payables	(1,328)	5,914	20,534
Costs attributed to the issue of share options	231	208	454
Corporation tax paid	(4,019)	(2,725)	(6,030)
Net cash flow from operating activities	<u>12,392</u>	<u>12,930</u>	<u>9,095</u>
Investing activities			
Purchase of property, plant and equipment	<u>(1,258)</u>	<u>(9,224)</u>	<u>(11,183)</u>
Cash flow from investing activities	<u>(1,258)</u>	<u>(9,224)</u>	<u>(11,183)</u>
Financing activities			
Dividends paid	(8,526)	(6,656)	(9,988)
Net financial income	62	839	1,621
Purchase of own shares	(272)	-	-
Sale of Treasury shares	157	634	5,481
Cash flow from financing activities	<u>(8,579)</u>	<u>(5,183)</u>	<u>(2,886)</u>
Increase / (decrease) in cash and cash equivalents	<u>2,555</u>	<u>(1,477)</u>	<u>(4,974)</u>
Cash and cash equivalents at the beginning of the period	25,357	30,331	30,331
Cash and cash equivalents at the end of the period	<u>27,912</u>	<u>28,854</u>	<u>25,357</u>

Consolidated Statement of Changes in Equity

	Ordinary Shares '000	Share Capital £'000	Share Premium £'000	Treasury Shares £'000	Retained Earnings £'000	Total £'000
Balance at 1 April 2008	69,032	3,452	2	(5,286)	34,266	32,434
Profit for the period ended 30 September 2008					7,204	7,204
Deferred tax on share options					300	300
					<u>7,504</u>	<u>7,504</u>
Dividends					(6,656)	(6,656)
Sale of treasury shares			33	894	(293)	634
Credit arising on share options					208	208
Balance at 30 September 2008	<u>69,032</u>	<u>3,452</u>	<u>35</u>	<u>(4,392)</u>	<u>35,029</u>	<u>34,124</u>
Balance at 1 October 2008	69,032	3,452	35	(4,392)	35,029	34,124
Profit for the period ended 31 March 2009					8,980	8,980
Deferred tax on share options					(278)	(278)
					<u>8,702</u>	<u>8,702</u>
Dividends					(3,332)	(3,332)
Sale of treasury shares			1,957	2,935	(40)	4,852
Credit arising on share options					246	246
Balances at 31 March 2009	<u>69,032</u>	<u>3,452</u>	<u>1,992</u>	<u>(1,457)</u>	<u>40,605</u>	<u>44,592</u>
Balance at 1 April 2009	69,032	3,452	1,992	(1,457)	40,605	44,592
Profit for the period ended 30 September 2009					4,314	4,314
Deferred tax on share options					(12)	(12)
					<u>4,302</u>	<u>4,302</u>
Dividends					(8,526)	(8,526)
Purchase of treasury shares				(272)		(272)
Sale of treasury shares			1	224	(68)	157
Credit arising on share options					231	231
Balance at 30 September 2009	<u>69,032</u>	<u>3,452</u>	<u>1,993</u>	<u>(1,505)</u>	<u>36,544</u>	<u>40,484</u>

Notes to the Half-Yearly Report

1. General Information

The financial information contained in this Half-Yearly Report does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. No statutory accounts for the period have been delivered to the Registrar of Companies. The financial information contained in this Half-Yearly Report has not been audited but has been subject to a review by the auditors.

The statutory accounts for year ended 31 March 2009 have been filed with the Registrar of Companies. The auditors' report on these accounts was unqualified and did not contain a statement under section 498(2) or 498(3) of the Companies Act 2006.

The Group's consolidated financial information has been prepared on the going concern basis and in accordance with accounting policies consistent with those adopted in the financial statements for the year ended 31 March 2009 and has been drawn up in accordance with International Accounting Standard 34, "Interim Financial Reporting", except in relation to the presentational change required by IAS 1 (revised) to the income statement.

This Half-Yearly Report was approved for issue by the Board of Directors on 24 November 2009.

Seasonality of business: in respect of the energy supplied by the Company, approximately two thirds is consumed by customers in the second half of the financial year. However, due to the majority of our energy customers being on budget plans paying equal monthly instalments during the year, our cash flow generation is biased towards the first half of the year.

2. Operating segments

For management reporting purposes, the Group is currently organised into two operating divisions: Customer Management and Customer Acquisition. These divisions form the basis on which the Group reports its primary segment information.

	6 months ended 30 September 2009 (unaudited)		6 months ended 30 September 2008 (unaudited)		Year ended 31 March 2009 (audited)	
	Revenue £'000	Operating Profit £'000	Revenue £'000	Operating Profit £'000	Revenue £'000	Operating Profit £'000
Customer Management	122,414	8,049	87,191	10,721	274,012	24,957
Customer Acquisition	2,375	(2,604)	1,748	(1,847)	4,330	(4,975)
Total	<u>124,789</u>	<u>5,445</u>	<u>88,939</u>	<u>8,874</u>	<u>278,342</u>	<u>19,982</u>

Notes to the Half-Yearly Report (cont.)

	6 months ended 30 September 2009 (unaudited) £'000	6 months ended 30 September 2008 (unaudited) £'000	Year ended 31 March 2009 (audited) £'000
3. Dividends			
Final dividend for the year ended 31 March 2009 of 12.5p per share (2008: 10.0p)	8,526	6,656	6,656
Interim dividend for the year ended 31 March 2009 of 5.0p per share (2008: 4.0p)	-	-	3,332

An interim dividend of 8.0p per share will be paid on 4 January 2010 to shareholders on the register at close of business on 11 December 2009. The estimated amount of this dividend is £5.5 million and, in accordance with IFRS accounting requirements, has not been recognised in these accounts.

4. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

Earnings for the purpose of basic and diluted earnings per share	4,314	7,204	16,184
	Number (000s)	Number (000s)	Number (000s)
Weighted average number of ordinary shares for the purpose of basic earnings per share	68,227	66,416	66,757
Effect of dilutive potential ordinary shares (share options)	595	833	827
Weighted average number of ordinary shares for the purpose of diluted earnings per share	68,822	67,249	67,584

Notes to the Half-Yearly Report (cont.)

5. Principal Risks

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

Reputation risk

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

Wholesale prices

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

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

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

Bad debt risk on energy customers

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

Bad debt risk on telephony customers

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

Information technology risk

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

Competitive risk

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

Legislation and regulatory risk

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

Risk management

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