

16 April 2015

Telecom Plus PLC

Trading Update and Notice of Results

Telecom Plus PLC (trading as the Utility Warehouse), which supplies a wide range of utility services to both residential and business customers, today issues a trading update for its financial year ended 31 March 2015.

Highlights

- Customer numbers for the year ahead by almost 11% to 587,223
- Service numbers up by 207,416 to over 2.1m
- Expected final dividend of 21p making a total of 40p (14% up on last year)
- Record attendance at recent Partner sales conference
- Launch of new two-year fixed price energy tariff
- Balance sheet write down of unbilled energy debtor with no impact on cash
- Strong profit growth expected for 2015 but significantly below market expectations
- Slower profit growth expected for 2016 with dividend increasing by 15% to 46p

Customer and Service Growth

We saw very satisfactory levels of growth during the first two quarters of the year in both customer and service numbers, a much weaker performance during Q3, and a strong recovery during Q4.

	<u>Net customer growth</u>	<u>Net service growth</u>
Q1:	16,739	56,574
Q2:	17,994	69,963
Q3:	6,146	26,495
Q4:	<u>15,705</u>	<u>54,384</u>
Total:	<u>56,584</u>	<u>207,416</u>
Annual growth:	10.7%	10.9%

These figures incorporate sustained growth throughout the year in all the core services we supply: Landline, Broadband, Mobile, Gas and Electricity.

The Board believes this strong overall performance in the face of considerable headwinds is a major endorsement of our unique integrated multi-utility business model, during a period when all established energy suppliers, who had adopted prudent hedging strategies, found themselves at a significant competitive disadvantage compared with newer independent suppliers benefitting from both substantially lower wholesale commodity prices and not being exposed to the full burden of regulatory and environmental costs.

Over the last two weeks, we have successfully completed the relocation of over 750 staff to our new headquarters in North London, which give us the capacity to manage a significantly larger business and demonstrate the Board's continuing confidence in our future prospects.

Annual Sales Conference for distribution network

Our annual sales conference took place on 21/22 March and was attended by over 7,000 Partners and guests. At the event, our focus was on improving the competitiveness of our 'Double Gold' bundle for multi-service homeowners. These changes included the introduction of a new two-year fixed price energy tariff which is available to both new and existing members who are owner-occupiers, and offers considerable savings compared with the cheapest standard variable tariff which we were previously offering them.

We also rebalanced our customer proposition in line with our key goal of ensuring members are treated fairly by removing various introductory offers for new members and replacing them with additional benefits for loyal existing members.

Over time, we anticipate these changes will lead to a further improvement in the quality of our customer base, with higher average revenues per member, lower churn and a reduction in our already low levels of bad debt.

Recent trading

We saw high levels of Partner activity during the last quarter, with over 6,000 new Partners signing up to promote our services, further strengthening our geographic reach to even more domestic customers across the UK. This enhanced activity has been driven by a number of incentives, some of which will continue to run throughout the current calendar year.

Although it is still too early to draw any firm conclusions, initial indications are that the changes we announced at our recent sales conference were well received, and are starting to achieve the desired results in terms of boosting both the quality and quantity of new members signing up, with a higher proportion of homeowners and an increase in the proportion of new members switching all their services to us.

Write down of unbilled energy debtor

We have recently conducted a detailed review of the unbilled energy debtor carried on our balance sheet, and have concluded that a total of approximately £11 million (net of anticipated tax credit), which has accumulated over the seven years between April 2007 and March 2014, is not recoverable. This relates to higher levels of leakage and theft within the gas distribution network than had previously been anticipated.

Background

In common with other domestic energy suppliers, the majority of customer invoices are prepared using estimated meter readings, as actual meter readings are rarely available on the date that bills are produced. This gives rise to timing differences between the estimated volumes of energy invoiced to customers, and the actual volume of energy invoiced to the Company by energy industry system operators, which contribute to the unbilled energy debtor carried forward on our balance sheet.

We have recently undertaken a detailed assessment of the accuracy of the estimates created by our billing system and the recoverability of the unbilled energy debtor. This review provided a strong endorsement of the accuracy of our billing system in calculating customer usage, but has shown that leakage and theft within the gas industry (which will ultimately not be billable to customers) has been running at a higher rate than we had previously expected.

We therefore intend to write down the unbilled energy debtor to bring its value in line with the amount we now expect to be recoverable.

Gas

Fully writing down the unbilled gas debtor insofar as it relates to leakage and theft, which has built up over the seven years to March 2014, will have a negative balance sheet impact of around £11 million (net of the anticipated £1.5 million tax credit). For future financial periods, full provision against leakage and theft is expected to reduce gas revenues by between 2% and 3%.

Electricity

As a result of the more sophisticated way in which wholesale costs are reconciled to actual customer meter readings by electricity industry system operators, the net impact on the balance sheet is small, and relates solely to providing accurately for timing differences.

Summary

Subject to final confirmation from our new auditors, the Board intends to restate the Company's accounts to reflect the impact of this write-down on previous years providing stakeholders with an accurate reflection of the historic underlying trend in the performance of the business.

Although the total level of leakage and theft for gas is projected to be between 2% and 3% (as indicated above), there are a number of industry initiatives under way which are expected to bring the gas industry more in line with the electricity industry and which should reduce the amount of leakage and theft allocated to domestic suppliers. These include Project Nexus (whereby gas meter readings for domestic customers will be fully reconciled by the gas industry system operators in a similar manner to electricity) and the roll-out of smart meters which are currently scheduled to be installed over the next five years.

It is important to note that the writing down of this historically accumulated unbilled energy debtor has no impact on the reported cash position of the Company (other than a c.£1.5m positive cash benefit in respect of the anticipated related tax credit to be refunded in due course), nor its ability to increase dividends in line with market expectations.

Full year results

Our full year results for the year to 31 March 2015 are expected to be announced on 23 June 2015, and the close period in the Company's shares will therefore start on 22 April 2015.

The Board anticipates reporting adjusted pre-tax profits of between £52 million and £53 million after taking account of the current year c.£6 million impact of higher than anticipated leakage and theft in the gas system. Excluding this impact, the outcome will be below the level we were expecting to achieve, due to the cumulative effect of retail energy price reductions during the fourth quarter and lower energy usage during the year (mainly caused by un-seasonally warm weather).

The Board re-iterates its intention to recommend a final dividend for the current year of 21p per share, making a total of 40p for the year, and representing an increase of 14% over last year.

Outlook

The Board does not believe that the combination of unfavourable circumstances which has prevailed throughout the last financial year will continue indefinitely, and expects the industry-wide gap between the standard variable tariffs currently paid by most customers and the cheaper introductory short-term fixed tariffs available to new customers will start to narrow over the coming year. This should enable us to deliver further strong organic growth in the number of customers using our services of between 40,000 and 60,000 over the next 12 months.

Notwithstanding this anticipated improvement in our competitive position, the outlook for the new financial year is subject to more uncertainty than usual, with the overlay of political and regulatory dimensions on top of any possible impact from movements in the wholesale energy markets or fluctuations in consumer demand caused by un-seasonally warm (or cold) weather. The forthcoming general election and subsequent announcement by the CMA of its preliminary findings expected shortly thereafter will help to provide greater visibility, although as previously indicated, the unique nature of our long-term energy supply arrangements with npower should insulate us from the worst effects of any possible government imposed price freeze or regulatory intervention aimed at reducing tariffs.

The Board expects the growth trend in customer numbers already observed will result in the Company reporting an increase in adjusted pre-tax profits for the year to March 2016 to between £54 million and £58 million, notwithstanding anticipated further energy price reductions following the general election and the steps recently taken to improve the Company's competitive position. In the absence of unforeseen circumstances, this should enable us to increase the dividend by at least 15%, to not less than 46p per share.

Andrew Lindsay, Chief Executive Officer, said:

“I take great confidence from the performance of the business over the past 12 months in the face of unprecedented headwinds which are not expected to persist. This further growth clearly demonstrates the long-term strength and sustainability of our unique business model.”

“It is disappointing that the higher levels of leakage and theft within the gas distribution network will result in a rebasing of our earnings progression from a lower level than previously anticipated, but this has no impact on the underlying performance of the business, its highly cash generative nature, or its future growth prospects.”

“We have just completed the relocation of over 750 staff to our new headquarters in North London. These offices give us the capacity to manage a significantly larger business, and enable us to remain firmly focussed on our medium term organic growth strategy of building our customer numbers to one million and beyond.”

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About Telecom Plus PLC ('Telecom Plus'):

www.utilitywarehouse.co.uk

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 statement, consistently good value across all their utilities and exceptional levels of customer service. Telecom Plus does not advertise, relying instead on 'word of mouth' recommendation by existing satisfied customers and distributors in order to grow its market share.

Telecom Plus also has a 20% shareholding in Opus Energy Group Ltd, a successful, profitable and fast growing independent supplier of Gas and Electricity to small, medium and large business customers.

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