

# TELECOMPLUSPLC

Embargoed until 0700

20 November 2013

## Telecom Plus PLC

### Half-Year Results for the Six Months ended 30 September 2013

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, today announces its half-year results for the six months ended 30 September 2013.

#### Financial highlights:

- Revenue up 17% to £245.8m (2012: £210.0m) reflecting continued strong organic growth
- Profit before tax excluding share incentive scheme charges up 10.1% to £13.7m (2012: £12.5m)
- Adjusted earnings per share up 11.5% to 15.5p (2012: 13.9p)
- Interim dividend increased by 23% to 16.0p per share (2012: 13.0p)

#### Operating highlights:

- Total services supplied up by 165,714 for the period to 1,767,774 (2012: 1,488,745)
- Customer numbers up by 33,908 for the period to 494,940 (2012: 438,146)
- Further growth in average services per residential Club member to 3.92 (2012: 3.72)
- Launch of new service bundles
- Continuing improvement in customer quality

#### Commenting on today's results, Andrew Lindsay, Chief Executive, said:

"I am extremely excited by the continuing strong momentum being demonstrated by the business; we have now seen nine consecutive quarters in which service numbers have grown by more than 50,000 with a sharp acceleration to over 100,000 net services during our most recent quarter. This strong organic growth has been accompanied by a steady improvement in the quality of our customers, with 60% of new members joining during the period taking at least four major services.

"Since then, we have benefitted from the widespread publicity which has followed the recent price rises announced by most of the 'Big 6' energy companies, which contributed towards a further acceleration in growth during October to over 12,000 net customers and 50,000 net services for the month – taking our total base to over 500,000 customers.

"The anticipated acquisition of our own energy supply licences from npower, which we have announced separately today, enabled us to keep our recent price rises significantly below the average of those which had previously been announced by the 'Big 6'; we intend to maintain consistently competitive energy prices in future as we continue to grow, and look forward to passing on to customers the benefit of any reduction in the cost of the so-called green levies if this widely expected measure is announced by the Chancellor in his forthcoming autumn statement.

“The Board has expressed confidence that we will deliver record turnover, profits and earnings per share for the full year (excluding the benefit or any other impact of the acquisition), notwithstanding the significant and growing amount we are investing each month in expanding our customer base; this is reflected in the 23% increase we are making in our interim dividend payment and by our stated intention to pay a total dividend of 35p for the full year.”

**For more information please contact:**

**Telecom Plus PLC**

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**Analyst call**

Telecom Plus will host an analyst and investor call at 9.00 a.m. today. Please contact MHP Communications for dial in details at [telecomplus@mhpc.com](mailto:telecomplus@mhpc.com).

**About Telecom Plus PLC ('Telecom Plus'):**

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. Its mission is to become the Nation's most trusted Utility Supplier.

Customers benefit from the convenience of receiving all their utilities from the same supplier, a billing summary showing all the services they are taking with just one monthly payment, consistently good value and exceptional levels of customer service. The Company does not advertise, relying instead on 'word of mouth' recommendation by existing satisfied customers and a network of part-time independent distributors in order to grow its market share.

Telecom Plus has a wholly owned subsidiary called Telecommunications Management Limited ("TML") which was purchased in 2002. TML supplies predominantly fixed line telephony and broadband internet to small and medium sized business customers through a network of authorised resellers and dealers.

Telecom Plus also has a 20% shareholding in Opus Energy Group Limited, 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.utilitywarehouse.co.uk](http://www.utilitywarehouse.co.uk).

## Interim Management Report

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

### Financial and Operating Review

#### *Results*

Revenue for the first half of the financial year increased by 17% to £245.8m (2012: £210.0m) and profit before tax increased by 4.5% to £12.6m (2012: £12.1m). Basic earnings per share for the period increased by 5.9% to 14.3p (2012: 13.5p).

Pre-tax profits and earnings for the period were adversely affected by extra short-term costs associated with our faster organic growth and from starting to implement the changes associated with Ofgem's Retail Market Review.

The results also include a much higher charge relating to our various share incentive schemes, which has increased to £1.1m (2012: £0.4m) during the period, reflecting the recent strong rise in the price of our shares. As a result of the increasing relative size of this charge, we have decided to separately disclose the amount on the face of the Consolidated Statement of Comprehensive Income in order to allow a clearer analysis of the underlying performance of the business to be carried out. Adjusting our reported financial performance to exclude this accounting item, we achieved an increase in profit before tax of 10.1% to £13.7m (2012: £12.5m), and an increase in adjusted earnings per share of 11.5% to 15.5p (2012: 13.9p).

The 17% rise in revenues mainly reflects the sustained organic growth we have delivered over the last 12 months, together with the industry wide increase in energy prices last autumn, partially offset by the impact of slightly warmer temperatures compared with last summer.

The slight reduction in our percentage gross margin to 15.9% (2012: 16.8%) for the period is in line with previous guidance, and reflects the increasing proportion of our total revenue that relates to lower margin energy services, as well as the impact of the steps we have been taking to make our customer proposition more attractive to both new and existing customers.

We achieved customer growth for the half-year of 33,908 (2012: 22,657) and service growth of 165,714 (2012: 107,722), representing an improvement in customer and service growth of almost 50% and 54% respectively compared with the corresponding period last year. This takes our total customer base to 494,940 (31 March 2013: 461,032) and the number of services we are providing to 1,767,774 (31 March 2013: 1,602,060). We are particularly encouraged by the acceleration we saw in our rate of growth over the period, with over 60% of the net growth for the period (in both customer and service numbers) being achieved during the second quarter.

Within these numbers, we added approximately 65,000 energy services, 15,000 mobile services and 27,000 broadband services, despite recent high profile advertising campaigns from some of our competitors who are including free television and/or free sports bundled in with their own broadband packages.

It is pleasing that this improvement in our rate of organic growth has been accompanied by a further increase in the quality of our customers, with 60% of new members during the period applying for at least four major services; this has driven the average number of services taken by each residential Club member to a record high of 3.92 (2012: 3.72).

The ongoing improvement we are seeing in the quality of our overall customer base derives directly from a clear focus by our distribution channel over the last few years on introducing home owners who take a combination of energy and communications services from us, and thus benefit from the simplicity and convenience of our integrated billing and customer service system; we are particularly pleased with the impact this continues to have on reducing both customer churn and delinquency levels.

### *Costs*

Distribution expenses increased by 10% reflecting the impact of our continuing strong organic growth, and consequent increase in the amount of commission paid to distributors.

Within administration costs, our bad debt charge remained constant at approximately 1.9% of turnover, but increased in absolute terms to £4.7m (2012: £3.9m), primarily reflecting the increase in our growth rate, where it is inevitable that defaults will be highest amongst new customers who have not yet established a satisfactory payment history with the Company. Delinquency levels have continued to fall, and are now at a record seasonal low of just under 1%, having fallen progressively from their peak of 2.5% in 2010.

We have also continued to invest in growing head count at all levels within the Company, to ensure we maintain our current high standards of customer service as the business continues to grow.

Overall, administration costs rose by around £2.4m, representing a small reduction to 7.8% of revenues (2012: 8.0%) for the period.

### *Distributors*

Interest in the part-time income opportunity we provide remains strong, with around 8,000 new distributors registering to market our services during the first half of the year. We were pleased to see a record attendance of around 4,200 distributors at the motivational training conferences organised by our key leaders over the weekend of 14/15 September which were again held in Bradford and Cheltenham.

We ran a number of promotions during the period which were designed to assess the impact that changing a number of key drivers would have on both customer gathering and recruitment activity; the knowledge we gained from these experiments has been incorporated into the changes we have recently implemented to how we promote our services, including abolishing the monthly membership fee and restructuring the way our multi-service proposition is presented. These changes have been warmly welcomed by our distributors.

### *Opus Energy Group Limited ("Opus")*

Opus continues to make strong progress in building its market share as the UK's leading independent supplier of energy to business users. The number of electricity sites they supply increased by 12% during the year; with gas site numbers having increased year-on-year by over 43%.

Turnover at Opus remains weighted towards the second half of the financial year; however, the rapid and consistent organic growth they are achieving has resulted in our share of their profits for the first half almost doubling to £1,546,000 (2012: £811,000).

The Opus Board remains confident that the outcome for the full year will be significantly ahead of the record profits they reported last year.

## Customer, Distributor and Service Numbers

Telecom Plus Group	FY2014		FY2013		
	Q2	Q1	Q4	Q3	Q2
<b>Distributors</b>	42,223	39,848	38,902	37,508	37,709
<b>Customers</b>					
Residential Club	399,184	383,231	373,056	363,287	352,733
Business Club	29,289	28,764	28,313	27,957	27,717
<b>Total Club</b>	<b>428,473</b>	<b>411,995</b>	<b>401,369</b>	<b>391,244</b>	<b>380,450</b>
Non Club	59,567	55,123	52,062	49,922	48,379
<b>Total Telecom Plus</b>	<b>488,040</b>	<b>467,118</b>	<b>453,431</b>	<b>441,166</b>	<b>428,829</b>
TML	6,900	7,286	7,601	8,336	9,317
<b>Total Group</b>	<b>494,940</b>	<b>474,404</b>	<b>461,032</b>	<b>449,502</b>	<b>438,146</b>
<b>Services</b>					
Electricity	439,367	417,047	403,922	389,637	375,262
Gas	363,945	345,311	334,565	322,964	311,780
Fixed Telephony	273,168	258,746	250,643	245,251	240,963
Fixed Line Rental	246,624	231,136	221,692	213,782	206,316
Broadband	202,102	185,204	175,337	166,208	157,355
Mobile	104,249	96,691	89,017	83,060	77,344
CashBack card	129,018	122,558	117,025	113,040	108,806
Non Geographic numbers	9,301	9,634	9,859	10,291	10,919
<b>Total Group</b>	<b>1,767,774</b>	<b>1,666,327</b>	<b>1,602,060</b>	<b>1,544,233</b>	<b>1,488,745</b>
Residential Club	1,564,841	1,474,487	1,418,078	1,364,746	1,311,540
Business Club	78,168	75,022	72,676	71,155	69,773
<b>Total Club</b>	<b>1,643,009</b>	<b>1,549,509</b>	<b>1,490,754</b>	<b>1,435,901</b>	<b>1,381,313</b>
Non Club	100,931	92,505	86,724	82,587	79,723
<b>Total Telecom Plus</b>	<b>1,743,940</b>	<b>1,642,014</b>	<b>1,577,478</b>	<b>1,518,488</b>	<b>1,461,036</b>
TML	23,834	24,313	24,582	25,745	27,709
<b>Total Group</b>	<b>1,767,774</b>	<b>1,666,327</b>	<b>1,602,060</b>	<b>1,544,233</b>	<b>1,488,745</b>

## Acquisition of Energy Supply Licences

We have today separately announced the proposed acquisition for £218m of Gas Plus Supply Limited and Electricity Plus Supply Limited, which are the companies that hold the supply licences for our energy customers. This deal is expected to be earnings-enhancing immediately, and will enable us to maintain an even more competitive market position in future as we continue to grow.

The transaction is subject to shareholder approval and the Office of Fair Trading not referring the proposed acquisition to the Competition Commission; further information has been published today in a separate announcement and a full prospectus will be posted to shareholders shortly.

## Charity of the Year Partnership

Thanks to the enthusiastic and generous support of customers, distributors and staff, our new charity partnership with Prostate Cancer UK and the Breast Cancer Campaign has made an encouraging start towards raising £200,000 in the current financial year to support their efforts to find a cure for two cancers which affect a significant number of people each year.

## **Future Opportunities**

We continue to invest significant resources in developing our online presence, which we believe offers significant medium-term potential to increase our current growth using complementary marketing initiatives aimed at both new (e.g. a customer referral scheme), existing (e.g. additional services) and former members (e.g. a win-back campaign). We look forward to rolling out these programs over the course of 2014 once the necessary development work is complete.

The television space remains confusing, with multiple hardware platforms, distribution technologies and content providers all jockeying for position (Cable, Satellite, Broadband, Freeview, YouView, Google, Apple and many others), not to mention the battle over sporting rights being fought out at ever increasing cost between BT and Sky. We are retaining a 'watching brief' on this market until it becomes clear which, if any, commercial opportunities can sensibly be harnessed for the benefit of all our stakeholders.

In relation to energy, we strongly welcome the final proposals contained in the Retail Market Review issued by Ofgem this summer. As these are implemented in phases over the coming months, they will improve transparency, ensure customers who are switching achieve real savings, and strengthen competition in the domestic supply market. We believe our unique business model places us in a strong position to be one of the main net beneficiaries from these changes, and we have developed a clear strategy to re-position our current service proposition to further increase our organic growth in future. We have recently shared these changes with our customers and distributors, and look forward to the positive impact we believe these changes will have on our future growth.

We also welcome the groundswell of opinion which is building behind the suggestion that some of the so-called green levies should be rolled back and possibly funded out of general taxation in future, rather than the regressive way in which they are currently collected from all customers through their energy bills. This would immediately reduce energy prices for virtually all UK households, create a stronger competitive environment, and help to start rebuilding trust in the energy industry by reducing the wide disparity in prices between large and small suppliers (who do not currently pay these charges); we look forward to the Chancellor's Autumn Statement on 4 December 2013 which is widely expected to include some steps in this direction, and which would enable us to reduce our own energy prices commensurate with any such reduction.

The main utility service we are still unable to provide remains the supply of water to domestic customers. This will create an exciting opportunity for us when this market eventually opens up to competition, albeit that no decision to do so has yet been made by either the Government or Ofwat.

## **Dividend**

The Board has resolved to increase the interim dividend by 23% to 16p per share (2012: 13p). This will be paid on 16 December 2013 to shareholders on the register on 29 November 2013, and represents a higher proportion of the total expected dividend for the year than has been the case in previous years, as we complete our previously announced move towards a more even split between the interim and final dividend payments. The Company's shares will go ex-dividend on Wednesday 27 November 2013.

In the absence of unforeseen circumstances, and on the assumption that the acquisition is successfully completed, the Board intends to propose a final dividend on the enlarged share capital of 19p (2013: 18p) making a total of 35p (2013: 31p) for the full year.

Following the proposed acquisition announced today, the Board re-iterates its intention to pursue a progressive dividend policy in future, consistent with the growing working capital requirements of the business and the repayment obligations under the Company's new borrowing facilities which will be entered into at completion of the proposed acquisition.

## Cash Flow

Our underlying cash flow remains strong, with a small net debt position at the end of the period of £1.4m, compared with a net cash position of £0.8m at the year end. This movement includes payment of our final dividend for last year of £12.7m in August, and increased customer acquisition costs during the second quarter as our rate of organic growth accelerated.

We anticipate continued steady underlying cash generation each month going forward, although the borrowings we are taking on to help fund the proposed acquisition we have announced today means we expect to remain in a net debt position for the next few years.

Details of our new borrowing facilities are contained in the prospectus which will be posted to shareholders shortly.

## Tax

Our lower effective tax rate in the first half of 20% (2012: 22%) reflects the inclusion of our share of the profits of Opus (in which we have a 20% shareholding) which is shown on our Consolidated Statement of Comprehensive Income net of tax.

## Principal Risks and Uncertainties

The principal risks and uncertainties affecting the Company's activities are set out in Note 5 to this Half-Yearly Report.

## Directors' responsibilities

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 2013, 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 "Interim Financial Reporting" 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:

Charles Wigoder	Executive Chairman
Julian Schild	Non-Executive Deputy Chairman
Andrew Lindsay	Chief Executive
Chris Houghton	Finance Director
Melvin Lawson	Non-Executive Director
Michael Pavia	Non-Executive Director

## Outlook

We saw record activity from our distribution channel during October, with net growth of over 12,000 customers and over 50,000 services. Whilst we generally see increased activity when the energy industry is receiving a higher profile in the national press, the impact on this occasion has been of a different order of magnitude, and clearly also reflects the confidence of our distribution channel in the value and service we are providing. Although we anticipate another good month during November, it is

likely our numbers will tail off during the run-up to Christmas and over the New Year holiday period, which have historically always seen a brief lull in activity.

This strong performance takes our annualised growth in new Club members to almost 20% since the start of this financial year, and means that we now have over 500,000 customers using our services - a landmark achievement we are delighted to have reached on our journey to become the Nation's most trusted utility supplier.

There is currently some uncertainty as to what the eventual level of domestic energy prices for this coming winter will be, with four of the 'Big 6' announcing price increases averaging around 9% some weeks ago. Since then, speculation has intensified that the Chancellor will roll back some of the green levies in his autumn statement on 4 December, and in anticipation of such action EDF announced a price rise of just 3.9% last week. These increases compare with our own price rise of 6.9% which we announced about 10 days ago, but this did not take account of any possible reduction in the cost of green levies. We fully understand the difficulties faced by our customers as a result of energy prices continuing to climb faster than inflation, and look forward to reducing our prices for this winter if the aforementioned speculation proves accurate.

We believe the new multi-service bundles we announced recently, combined with the even more competitive energy prices we are now offering (where customers taking all their utilities from us can benefit from a guaranteed saving of 5% compared with the average variable tariffs offered by the 'Big 6'), place us in a uniquely strong position to capitalise on the current high levels of mistrust between domestic consumers and their current suppliers, and will enable us to deliver even faster organic growth over the months and years ahead.

The consistent growth in services that we have seen over the last 15 months is being driven by an increasing proportion of new members taking four or more major services from us, where the lifetime value is many times greater than the 'energy only' or 'telephony only' customers which were gathered historically; we are encouraged that these high quality customers now account for 42% (2012: 36.9%) of our residential Club membership. This steady improvement in the proportion of our customers who fall into this category is expected to generate increasing levels of profitability (with lower churn and lower bad debts) for many years to come.

The continuing difficult economic climate is providing 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. We anticipate distributor recruitment continuing at around the current level of 1,000 per month for the foreseeable future, reflecting the attractiveness of the secure and reliable part-time business opportunity we provide.

The growth in service numbers achieved over the last 12 months and the improvements we have seen in the quality of our customer base give us considerable confidence in the outcome for the full year; we expect revenues, profits and earnings per share all to set new records in line with market expectations, excluding any impact from the acquisition. We remain well placed to benefit from the opportunities which lie ahead.

Given on behalf of the Board

**CHARLES WIGODER**  
Executive Chairman

**ANDREW LINDSAY**  
Chief Executive

**CHRIS HOUGHTON**  
Finance Director

19 November 2013

# Independent Review Report to Telecom Plus PLC

## Introduction

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 2013 which comprises the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated cash flow statement, the 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.

## 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 Conduct Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards (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.

Our report has been prepared in accordance with the terms of our engagement to assist the company in meeting its responsibilities in respect of half-yearly financial reporting in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

## 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 2013 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 Conduct Authority.

## **BDO LLP**

Chartered Accountants and Registered Auditors

London

United Kingdom

19 November 2013

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

## Consolidated Statement of Comprehensive Income

	6 months ended 30 September 2013 (unaudited) £'000	6 months ended 30 September 2012 (unaudited) £'000	Year ended 31 March 2013 (audited) £'000
<b>Revenue</b>	245,817	210,020	601,505
Cost of sales	<u>(206,661)</u>	<u>(174,648)</u>	<u>(517,950)</u>
<b>Gross profit</b>	39,156	35,372	83,555
Distribution expenses	(8,160)	(7,421)	(17,635)
Administrative expenses	(19,200)	(16,779)	(34,636)
Share incentive scheme charges	(1,103)	(382)	(931)
Other income	<u>391</u>	<u>484</u>	<u>907</u>
<b>Operating profit</b>	<u>11,084</u>	<u>11,274</u>	<u>31,260</u>
Financial income	31	24	49
Financial expense	<u>(41)</u>	<u>(30)</u>	<u>(82)</u>
Net financial expense	(10)	(6)	(33)
Share of profit of associates	1,546	811	3,404
<b>Profit before taxation</b>	<u>12,620</u>	<u>12,079</u>	<u>34,631</u>
Taxation	<u>(2,567)</u>	<u>(2,679)</u>	<u>(7,565)</u>
<b>Profit and total comprehensive income for the period attributable to owners of the parent</b>	<u>10,053</u>	<u>9,400</u>	<u>27,066</u>
<b>Basic earnings per share</b>	<u>14.3p</u>	<u>13.5p</u>	<u>38.7p</u>
<b>Diluted earnings per share</b>	<u>14.0p</u>	<u>13.2p</u>	<u>38.1p</u>
<b>Interim dividend per share</b>	<u>16.0p</u>	<u>13.0p</u>	

## Consolidated Balance Sheet

	As at 30 September 2013 (unaudited) £'000	As at 30 September 2012 (unaudited) £'000	As at 31 March 2013 (audited) £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	19,111	18,880	18,950
Intangible assets	2,969	2,969	2,969
Goodwill	3,742	3,742	3,742
Investments in associates	5,706	4,624	7,216
Deferred tax	1,817	1,545	1,646
Non-current receivables	11,985	8,189	10,300
<b>Total non-current assets</b>	<u>45,330</u>	<u>39,949</u>	<u>44,823</u>
<b>Current assets</b>			
Inventories	578	339	491
Trade and other receivables	17,271	16,254	16,541
Prepayments and accrued income	82,386	63,038	115,947
Cash	3,344	3,492	3,378
<b>Total current assets</b>	<u>103,579</u>	<u>83,123</u>	<u>136,357</u>
<b>Total assets</b>	<u>148,909</u>	<u>123,072</u>	<u>181,180</u>
<b>Current liabilities</b>			
Short term borrowings	(4,736)	(2,757)	(2,605)
Trade and other payables	(5,721)	(5,039)	(7,504)
Current tax payable	(2,156)	(2,212)	(2,815)
Accrued expenses and deferred income	(65,593)	(51,679)	(96,829)
<b>Total current liabilities</b>	<u>(78,206)</u>	<u>(61,687)</u>	<u>(109,753)</u>
<b>Non-current liabilities</b>			
JSOP creditor	(1,477)	-	(685)
<b>Total assets less total liabilities</b>	<u>69,226</u>	<u>61,385</u>	<u>70,742</u>
<b>Equity</b>			
Share capital	3,542	3,520	3,530
Share premium	9,069	8,133	8,508
JSOP reserve	(2,275)	(2,275)	(2,275)
Retained earnings	58,890	52,007	60,979
<b>Total equity</b>	<u>69,226</u>	<u>61,385</u>	<u>70,742</u>

## Consolidated Cash Flow Statement

	6 months ended 30 September 2013 (unaudited) £'000	6 months ended 30 September 2012 (unaudited) £'000	Year ended 31 March 2013 (audited) £'000
<b>Operating activities</b>			
Operating profit	11,084	11,274	31,260
Depreciation of property, plant and equipment	630	614	1,254
Distribution from associated company	3,056	2,365	2,365
(Increase) / decrease in inventories	(87)	113	(39)
Decrease / (increase) in trade and other receivables	31,146	14,941	(40,366)
(Decrease) / increase in trade and other payables	(33,019)	(14,757)	32,858
Share incentive scheme charges	1,103	382	931
Corporation tax paid	(3,194)	(3,432)	(7,284)
<b>Net cash flow from operating activities</b>	<u>10,719</u>	<u>11,500</u>	<u>20,979</u>
<b>Investing activities</b>			
Purchase of property, plant and equipment	(791)	(238)	(948)
Purchase of shares in associated company	-	(18)	(18)
<b>Cash flow from investing activities</b>	<u>(791)</u>	<u>(256)</u>	<u>(966)</u>
<b>Financing activities</b>			
Dividends paid	(12,656)	(11,876)	(20,965)
Interest received	31	24	49
Interest paid	(41)	(30)	(82)
Issue of new ordinary shares	573	427	812
<b>Cash flow from financing activities</b>	<u>(12,093)</u>	<u>(11,455)</u>	<u>(20,186)</u>
<b>Decrease in cash and cash equivalents</b>	(2,165)	(211)	(173)
Net cash and cash equivalents at the beginning of the period	<u>773</u>	<u>946</u>	<u>946</u>
<b>Net cash and cash equivalents at the end of the period</b>	<u>(1,392)</u>	<u>735</u>	<u>773</u>
Cash	3,344	3,492	3,378
Short term borrowings	(4,736)	(2,757)	(2,605)
<b>Net cash and cash equivalents at the end of the period</b>	<u>(1,392)</u>	<u>735</u>	<u>773</u>

## Consolidated Statement of Changes in Equity

	Share Capital £'000	Share Premium £'000	JSOP Reserve £'000	Retained Earnings £'000	Total £'000
<b>Balance at 1 April 2012</b>	3,510	7,716	(2,275)	53,860	62,811
Profit and total comprehensive income for the period				9,400	9,400
Deferred tax on share options				241	241
Dividends				(11,876)	(11,876)
Credit arising on share options				382	382
Issue of new shares	10	417			427
Balance at 30 September 2012	3,520	8,133	(2,275)	52,007	61,385
<b>Balance at 1 October 2012</b>	3,520	8,133	(2,275)	52,007	61,385
Profit and total comprehensive income for the period				17,666	17,666
Deferred tax on share options				535	535
Dividends				(9,089)	(9,089)
Debit arising on share options				(140)	(140)
Issue of new shares	10	375			385
Balance at 31 March 2013	3,530	8,508	(2,275)	60,979	70,742
<b>Balance at 1 April 2013</b>	3,530	8,508	(2,275)	60,979	70,742
Profit and total comprehensive income for the period				10,053	10,053
Deferred tax on share options				203	203
Dividends				(12,656)	(12,656)
Credit arising on share options				311	311
Issue of new shares	12	561			573
<b>Balance at 30 September 2013</b>	3,542	9,069	(2,275)	58,890	69,226

# 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. The financial information contained in this Half-Yearly Report has not been audited but has been subject to a review by the auditor.

The statutory accounts for year ended 31 March 2013 which were prepared under International Financial Reporting Standards as adopted by the European Union, have been filed with the Registrar of Companies. The auditor's 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 2013 and has been drawn up in accordance with International Accounting Standard 34, "Interim Financial Reporting".

As a result of the increasing relative size of share incentive scheme charges it has been decided to separately disclose the amount on the face of the Consolidated Statement of Comprehensive Income for the period. The increase in this charge mainly reflects the recent strong rise in the Company's share price and therefore separate disclosure was deemed appropriate in order to allow a clearer analysis of the underlying performance of the business to be carried out.

In order to be consistent with the separate presentation of share incentive scheme charges on the face of the Consolidated Statement of Comprehensive Income for the current half year, comparative figures set out in this report have been amended to also show such charges separately for prior periods. Historically share incentive scheme charges, as calculated in accordance with IFRS 2, were classified in distribution expenses to the extent they related to the distributor share option scheme and administrative expenses to the extent they related to staff and directors.

Total share incentive scheme charges of approximately £62,000 were previously included within distribution expenses for the six month period ended 30 September 2012 (year ended 31 March 2013: £118,000) and total share incentive scheme charges of approximately £320,000 were previously included within administrative expenses for the six month period ended 30 September 2012 (year ended 31 March 2013: £813,000).

Seasonality of business: in respect of the energy supplied by the Group, approximately two thirds is consumed by customers in the second half of the financial year.

This Half-Yearly Report was approved for issue by the Board of Directors on 19 November 2013.

## Notes to the Half-Yearly Report (continued)

### 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 segment information.

	6 months ended 30 September 2013 (unaudited)		6 months ended 30 September 2012 (unaudited)		Year ended 31 March 2013 (audited)	
	Revenue £'000	Segment Result £'000	Revenue £'000	Segment Result £'000	Revenue £'000	Segment Result £'000
Customer Management	238,229	16,819	205,645	15,689	592,182	41,403
Customer Acquisition	7,588	(5,735)	4,375	(4,415)	9,323	(10,143)
Total	<u>245,817</u>	<u>11,084</u>	<u>210,020</u>	<u>11,274</u>	<u>601,505</u>	<u>31,260</u>
		<b>£'000</b>		<b>£'000</b>		<b>£'000</b>
Customer Management		145,211		120,063		177,649
Customer Acquisition		3,698		3,009		3,531
Total Assets		<u>148,909</u>		<u>123,072</u>		<u>181,180</u>

	6 months ended 30 September 2013 (unaudited)	6 months ended 30 September 2012 (unaudited)	Year ended 31 March 2013 (audited)
	£'000	£'000	£'000

### 3. Dividends

Final dividend for the year ended 31 March 2013 of 18p per share (2012: 17p)	12,656	11,876	11,876
Interim dividend for the year ended 31 March 2013 of 13p per share (2012: 10p)	<u>-</u>	<u>-</u>	<u>9,089</u>

An interim dividend of 16p per share will be paid on 16 December 2013 to shareholders on the register at close of business on 29 November 2013. The estimated amount of this dividend to be paid is £11.3 million and, in accordance with IFRS accounting requirements, has not been recognised in these accounts.

#### 4. Earnings per share

	6 months ended 30 September 2013 (unaudited)	6 months ended 30 September 2012 (unaudited)	Year ended 31 March 2013 (audited)
The calculation of the basic and diluted earnings per share is based on the following data:	£'000	£'000	£'000
Earnings for the purpose of basic and diluted earnings per share	10,053	9,400	27,066
Share incentive scheme charges (net of tax)	<u>850</u>	<u>290</u>	<u>707</u>
Earnings excluding share incentive scheme charges for the purpose of adjusted basic and diluted earnings per share	<u>10,903</u>	<u>9,690</u>	<u>27,773</u>
	<b>Number (000s)</b>	<b>Number (000s)</b>	<b>Number (000s)</b>
Weighted average number of ordinary shares for the purpose of basic earnings per share	70,211	69,797	69,887
Effect of dilutive potential ordinary shares (share options)	<u>1,439</u>	<u>1,147</u>	<u>1,120</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>71,650</u>	<u>70,944</u>	<u>71,007</u>
Adjusted basic earnings per share <sup>1</sup>	<u>15.5p</u>	<u>13.9p</u>	<u>39.7p</u>
Basic earnings per share	<u>14.3p</u>	<u>13.5p</u>	<u>38.7p</u>
Adjusted diluted earnings per share <sup>1</sup>	<u>15.2p</u>	<u>13.7p</u>	<u>39.1p</u>
Diluted earnings per share	<u>14.0p</u>	<u>13.2p</u>	<u>38.1p</u>

As set out in the Annual Report, and in accordance with accounting rules, awards made under the Company's JSOP share incentive scheme are deemed to be cash-settled. However, whilst approximately £792,000 of the share incentive scheme charges during the current half year relate to JSOP awards, and could therefore be settled in cash, in practice it is expected that any settlement of awards under the JSOP will be made in equity. It is therefore deemed appropriate to present the above analysis of earnings per share as adjusted for share incentive scheme charges.

<sup>1</sup> Adjusted basic and diluted earnings per share exclude share incentive scheme charges

## Notes to the Half-Yearly Report (continued)

### 5. Principal Risks

#### Background

The Group faces various risk factors, both internal and external, which could have a material impact on long-term performance. However, the Group's underlying business model is considered relatively low-risk, with no need for management to take any disproportionate risks in order to preserve or generate shareholder value.

The Group 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, prioritised and (where possible) eliminated, and that systems of control are in place to manage any remaining risks.

A formal document is prepared by the executive directors and senior management team on a regular basis detailing the key risks faced by the Group and the operational controls in place to mitigate those risks; this document is then reviewed by the Audit Committee.

#### Business model

The principal risks outlined below should be viewed in the context of the Group's business model as a reseller of utility services (gas, electricity, fixed line telephony, mobile telephony and broadband internet) under the Utility Warehouse and TML brands. As a reseller, the Group does not own any of the network infrastructure required to deliver its services to customer. This means that while the Group is heavily reliant on third party providers, it is insulated from all the direct risks associated with owning and/or operating such capital intensive infrastructure itself.

The Group's services are promoted using 'word of mouth' by a large network of independent distributors, who are paid solely on a commission basis. This means that the Group has minimal fixed costs associated with acquiring new customers.

The principal specific risks arising from the Group's business model, and the measures taken to mitigate those risks, are set out below:

#### Reputational risk

The Group's reputation amongst its customers, suppliers and Distributors is believed to be fundamental to the future success of the Group. Failure to meet expectations in terms of the services provided by the Group, the way the Group does business or in the Group's financial performance could have a material negative impact on the Group's performance.

In relation to customer service, reputational risk is principally mitigated through the Group's recruitment processes, a focus on closely monitoring staff performance, including the use of direct customer feedback surveys (Net Promoter Score), and through the provision of rigorous staff training.

Responsibility for maintaining effective relationships with suppliers and Distributors rests primarily with the appropriate member of the Group's senior management team with responsibility for the relevant area. Any material changes to supplier agreements and Distributor commission arrangements which could impact the Group's relationships are generally negotiated by the executive Directors and ultimately approved by the full Board.

#### Information technology risk

The Group is dependent on its proprietary billing and customer management software for the successful operation of its business model. This software is developed and maintained in accordance with the changing needs of the business by a team of highly skilled, long-standing, motivated and experienced individuals.

All significant changes which are made to the billing and customer management software are tested as extensively as reasonably practical before launch and are ultimately approved by the heads of the IT and Billing departments in consultation with the Chief Executive as appropriate.

Back-ups of both the software and underlying billing and customer data are made on a regular basis and securely stored off-site. The Group also has extensive back-up information technology infrastructure in the event of a failure of the main system, designed to ensure that a near-seamless service to customers can be maintained.

### **Legislative and regulatory risk**

The Group is subject to varying laws and regulations, including possible adverse effects from European regulatory intervention. The energy markets in the UK and Continental Europe are subject to comprehensive operating requirements as defined by the relevant sector regulators and/or government departments. Amendments to the regulatory regime could have an impact on the Group's ability to achieve its financial goals. Furthermore, the Group is obliged to comply with retail supply procedures, amendments to which could have an impact on operating costs.

Recent regulatory changes such as the new requirements in relation to smart energy meters (with the potential for additional costs if existing meters must be replaced prior to the end of their planned lives) and supplier social tariffs, and changes to the current decommissioning regime could all have a potentially significant impact on the sector, although any additional costs associated with smart metering are not expected to affect the net margins earned by energy suppliers (as any such extra costs are likely to be reflected in higher retail charges).

In general, the majority of the Group's services are supplied into highly regulated markets, and this could restrict the operational flexibility of the Group's business. In order to mitigate this risk, the Group maintains an appropriate relationship with both Ofgem and Ofcom (the UK regulators for the energy and communications markets respectively). The Group engages with officials from both these organisations on a periodic basis to ensure they are aware of the Group's views when they are consulting on proposed regulatory changes or if there are competition issues the Group need to raise with them: in particular, the Group has had a number of meetings with Ofgem over the course of the last year to discuss their Retail Market Review, which seems likely to have a significant impact on the way energy will be sold in the UK going forward.

However, it should be noted that the regulatory environment for the various markets in which the Group operates is generally focussed on promoting competition. As one of the new entrants, it seems reasonable to expect that most such changes will broadly be beneficial to the Group, given the Group's relatively small size compared to the former monopoly incumbents with whom it competes, although these changes, and their actual impact, remain uncertain at present. Furthermore, the governmental focus on reform of the energy market appears to be targeted at the large vertically integrated suppliers, with the objective of breaking the link between energy generation and retail supply.

Political and consumer concern over rising energy prices and fuel poverty, may lead to further reviews of the energy market which could result in further consumer protection legislation being introduced through energy supply licences. The Government could also choose to introduce adverse measures such as a windfall tax on the Group or price controls for certain customer segments. In addition, political and regulatory developments affecting the energy markets within which the Group operates may have a material adverse effect on the Group's business, results of operations and overall financial condition.

### **Proposed acquisition risk**

The directors believe that the proposed acquisition of Electricity Plus Supply Limited and Gas Plus Supply Limited ("the Energy Companies") from npower will provide significant benefits for the Group. However, as a result of the proposed acquisition the Group will become a licensed gas and electricity supplier and therefore also have a direct regulatory relationship with Ofgem, which is a role it has not carried out in its own right since it sold the Energy Companies to npower in 2006. If the Group fails to

maintain an effective relationship with Ofgem and comply with its ongoing licensing obligations, it could be subject to fines or to the removal of its respective licences.

As a result of the proposed acquisition the Group will enter into new debt facilities leading to increased debt service obligations which may place operating and financial restrictions on the Group. This debt could have adverse consequences insofar as it: (a) requires the Group to dedicate a material proportion of its cash flows from operations to fund payments in respect of the debt, thereby reducing the flexibility of the Group to utilise its cash to invest in and/or grow the business; (b) increases the Group's vulnerability to adverse general economic and/or industry conditions; (c) may limit the Group's flexibility in planning for, or reacting to, changes in its business or the industry in which it operates; (d) may limit the Group's ability to raise additional debt in the long term; and (e) could restrict the Group from making larger strategic acquisitions or exploiting business opportunities.

Each of the prospective adverse consequences (or a combination of some or all of them) could result in the potential growth of the Group being at a slower rate than may otherwise be achieved.

### **Fraud and bad debt risk**

The Group has a universal supply obligation in relation to the provision of energy to domestic customers. This means that although the Group is entitled to request a reasonable deposit from potential new customers who are not considered creditworthy, the Group 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 Group is able to control 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 fully recovered.

Fraud within the telephony industry may arise from customers using the services without intending to pay their supplier. The amounts involved are generally relatively small as the Group has sophisticated call traffic monitoring systems to identify material occurrences of fraud. The Group is able to immediately eliminate any further bad debt exposure by disconnecting any telephony service that demonstrates a suspicious usage profile, or falls into arrears on payments.

More generally, the Group is also exposed to payment card fraud, where customers use stolen cards to obtain credit (e.g. on their CashBack card) or goods (e.g. Smartphones) from the Group; the Group consistently refines its fraud protection systems to reduce its potential exposure to such risks.

### **Wholesale prices risk**

The Group does not own or operate any utility network infrastructure itself, choosing instead to purchase the capacity needed from third parties. The advantage of this approach is that the Group is protected from technological risk, capacity risk or the risk of obsolescence, as it can purchase the 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 Group 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 and broadband). The profile of the Group's customers, the significant quantities of each service they consume in aggregate, and its clearly differentiated route to market has historically proven attractive to potential partners, who compete aggressively to secure a share of the Group's growing business.

The supply of energy, which accounts for an increasing proportion of 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. The Group has a long-standing supply relationship with npower under which the latter assumes the substantive risks and rewards of hedging and buying energy for the Group's customers. If the Group did not have the benefit of this long term

supply agreement it would be exposed to the pricing risk of securing access to the necessary energy on the open market.

### **Competitive risk**

The Group operates in highly competitive markets and significant service innovations or increased price competition could impact future profit margins. In order to maintain its competitive position, there is a consistent focus on ways of improving operational efficiency and keeping the cost base as low as possible. New service innovations are monitored closely by senior management and the Group is typically able to respond rapidly by offering any new services using the infrastructure of its existing suppliers. The Group offers a unique multiservice proposition. The increasing proportion of customers who are benefiting from a genuine multi-utility solution, that is unavailable from any other known supplier, materially reduces any competitive threat.

The Directors anticipate that the Group will face continued competition in the future as the market grows, new companies enter the market and alternative technologies and services become available. The Group's services and expertise may be rendered obsolete or uneconomic by technological advances or novel approaches developed by one or more of the Group's competitors. The existing approaches of the Group's competitors or new approaches or technologies developed by such competitors may be more effective or affordable than those supplied to the Group. There can be no assurance that the Group's competitors will not develop more effective or more affordable technologies or services, thus rendering the Group's technologies and/or services obsolete, uncompetitive or uneconomical. There can be no assurance that the Group will be able to compete successfully with existing or potential competitors or that competitive factors will not have a material adverse effect on the Group's business, financial condition or results of operations. However, as the Group's customer base continues to rise, competition amongst suppliers of services to the Group is expected to increase. This has already been evidenced by recently agreed volume-related growth incentives with the Group's three major wholesale suppliers. This should ensure that the Group has direct access to new technologies and services available to the market.

### **Infrastructure risk**

The provision of services to the Group's customers is reliant on the efficient operation of third party physical infrastructure. There is a risk of disruption to the supply of services to customers through any failure in the infrastructure e.g. gas shortages, power cuts or damage to communications networks. However, as the infrastructure is generally shared with other suppliers, any material disruption to the supply of services is likely to impact a large part of the market as a whole and it is unlikely that the Group would be disproportionately affected. In the event of any pro-longed disruption isolated to the Group's principal supplier within a particular market, services required by customers could be sourced from another provider.