

# TELECOMPLUSPLC

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21 May 2014

## Telecom Plus PLC Final Results for the year ended 31 March 2014

Telecom Plus PLC (the "Company"), the UK's leading low-cost multi-utility supplier (Gas, Electricity, Telephony and Broadband), announces its final results for the year ended 31 March 2014.

### Financial Highlights:

- Revenue up 9.5% to £658.8m (2013: £601.5m)
- Adjusted profit before tax up 25.3% to £44.6m (2013: £35.6m)
- Successfully raised £130m of equity capital
- Full year dividend up 12.9% to 35p per share (2013: 31p)

### Operating Highlights:

- Group customer base now exceeds 530,000 customers
- Record increase in service numbers of 305,100 to over 1.9 million
- Continuing strong organic growth
- Improving customer quality
- New 20 year energy supply agreement secured

### Andrew Lindsay, Chief Executive Officer, commented:

"We are very pleased with the continuing strong demand for our unique multi-utility proposition, with a record number of new Members joining our Discount Club during the year.

"We now supply almost two million services to over 530,000 households throughout the UK. With over 5,000 new Partners joining since our annual sales conference in March, and just 2% of the UK market, we believe we are exceptionally placed to deliver further sustained organic growth over the months and years ahead.

"Our focus on genuinely looking after our Members has been one of the key drivers behind our recent strong performance, and we are working hard to secure our position as the Nation's most trusted utility provider. We are delighted that these efforts have started to receive external recognition, with our recent nomination by *Which?* for both "Best Telecom Services Company" and "Best Customer Service" in their forthcoming 2014 Annual Awards.

"We remain comfortable with market expectations for adjusted pre-tax profits for the current year of £63m, and to delivering a progressive increase in dividends as we continue to grow."

***There will be a meeting for analysts at the offices of Peel Hunt, 2<sup>nd</sup> Floor, Moor House, 120 London Wall, London, EC2Y 5ET at 9.00am today.***

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

**[www.utilitywarehouse.co.uk](http://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 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).

## Chairman's Statement

I am delighted to report another successful year for the Company in which we have laid solid foundations for the next phase of our development, whilst continuing to deliver strong levels of organic growth across all the core services we provide.

In particular, the negotiation of a new energy supply agreement with Npower during the autumn, which secures our access to the wholesale energy markets on improved commercial terms for a guaranteed period of 20 years, has already enabled us to improve the competitiveness of our retail energy tariffs compared with those offered by the 'Big 6' suppliers.

The ongoing improvement in the quality of our customer base, combined with the growth in the number of services we are providing, mean that revenue and profitability for the year have again both reached record levels.

### Results overview

Adjusted pre-tax profits increased by over 25% to £44.6m (2013: £35.6m) on revenue up by 9.5% to £658.8m (2013: £601.5m); adjusted earnings per share for the year rose by 26.8% to 50.6p (2013: 39.9p).

The relatively modest rise in revenue is due to continued strong organic growth in the number of customers using our services and industry wide increases in energy and telephony prices last autumn, partially offset by much lower average energy consumption by domestic households during an exceptionally mild winter.

Adjusted pre-tax profits and earnings per share grew at a substantially faster rate than revenue, reflecting the steadily increasing size of our customer base (which was on average 18% higher than during the preceding year), and an initial contribution from the new energy supply arrangements with Npower.

We remain encouraged by the strong growth in the number of services we are providing, which reached 1,907,160 (2013: 1,602,060) by the year end – a record increase of over 305,000 services during the year and almost 40% higher than the growth achieved during the previous year. One of the highlights within this strong performance has been a doubling in the proportion of new Members taking all five of our core services (Gas, Electricity, Home Phone, Mobile and Broadband) since the introduction of our new bundled service structure in November 2013. The average number of services taken by each residential Club Member has increased to 3.64 (2013: 3.54); these figures have been adjusted to reflect the auto-enrolment into the Club for the first time of around 60,000 residential customers (generally those who had moved into a property where we were already the incumbent energy supplier, and who have never consciously bought into our core multi-utility brand proposition), following our decision to abolish membership fees for all residential customers in the autumn.

In line with previous guidance, we are proposing a final dividend of 19p (2013: 18p), bringing the total for the year to 35p (2013: 31p); this represents an increase of almost 13% compared with last year, but on a significantly larger number of shares in issue following the equity fundraising in December 2013. We remain committed to a progressive dividend policy, although the rate of increase will be tempered over the next few years as we service and repay the £100m of debt we borrowed in the autumn to part-fund the transaction with Npower.

We were delighted to receive a number of further endorsements from *Which?* during the year recognising both the value we offer and the quality of service provided by our UK based customer service team, including being ranked first in their most recent survey of Fixed Telephony and Broadband suppliers, and being nominated in two categories at their 2014 Annual Awards. This is a reflection of the continuing focus and significant ongoing resources invested into delivering the best possible service to our Members, consistent with securing our position as the Nation's most trusted utility supplier.

Our share of the profits from Opus Energy Group Limited ("Opus"), in which we maintain a 20% stake, increased during the year to £4.7m (2013: £3.4m). This is an excellent result and reflects the continuing strong trading performance of the business.

### **New Energy Supply Arrangements**

In December 2013 we completed a transformational deal with Npower, which secured our supply of wholesale energy for 20 years on improved commercial terms. This transaction involved us purchasing two of their subsidiaries, Gas Plus Supply Limited and Electricity Plus Supply Limited, for a total consideration of £218m (of which £21.5m is deferred for three years). The initial consideration was funded by a heavily oversubscribed equity fundraising which raised £130m before expenses, and new debt facilities provided by Barclays Bank.

### **Business Development**

We restructured the way we present and sell our services during the autumn by introducing an attractive range of 'Gold' bundles (with enhanced benefits and lower pricing available for Members choosing to take all their utilities from us), making our unique multi-utility sales proposition simpler for new Members to understand and easier for our Partners to promote.

At the same time we reduced the number of energy tariffs we offer to comply with our new licence obligations, following Ofgem's Retail Market Review, whilst taking advantage of the improved commercial terms of our new energy supply arrangements to make our retail prices even more competitive.

In March 2014, we launched a number of new tools designed to help our Partners promote our services and build their businesses more effectively. These included a new film (featuring Sir Terry Wogan) to help them explain our unique Discount Club and the benefits we offer to potential new Members, a simplified new online application process, an animated video to explain our part-time income opportunity, a new 'App' which provides access in one place to all the main resources needed by our Partners, and an interest-free hire purchase scheme to enable them to acquire a suitable Tablet to take best advantage of these new tools.

We have continued to invest in providing customer service that is genuinely best in class; improving the clarity and transparency of the benefits we offer; and to consistently exceed our customers' expectations. As a result, we have earned a higher level of trust amongst our customers than any other utility supplier, consistent endorsements from *Which?* in their regular surveys, and a Net Promoter Score that typically fluctuates between +40 and +45 on a monthly basis.

The steps we have taken over the last few years to improve our customer service and the quality of our customer base have led to a continuing progressive reduction in both our levels of churn and the proportion of Members who are delinquent (ie: have at least two outstanding bills). Our bad debt charge for the year remained at 1.5% of revenue (2013: 1.5%), even though a significant number of new Members joined during the year.

## **Route to Market**

The number of new Partners joining the business during the year averaged around 1,300 per month (2013: 1,002), taking the total number of registered Partners at the year end to a record high of over 44,000 (2013: 39,848).

We believe the continuing high level of interest in joining our business is being driven by the combination of continuing pressure on household budgets, growing awareness of our brand, and the attractiveness of the secure part-time additional income opportunity we offer. We have enhanced the personal development programme we offer to help new Partners get started more quickly, promote our services more effectively, and build a growing long-term residual income.

Confidence and morale amongst our partners is currently extremely high, following our recent annual sales conference in March which saw a record attendance. We are delighted with the positive reaction we have seen to the range of new tools we introduced, and the boost this has given to the strong momentum we were already seeing.

## **Corporate Governance**

The UK Corporate Governance Code (the "Code") encourages the Chairman to report personally on how the principles in the Code relating to the role and effectiveness of the Board have been applied.

As a Board we are responsible to the Company's shareholders for delivering sustainable shareholder value over the long term through effective management and good governance. A key role of mine, as Executive Chairman, is to provide strong leadership to enable the Board to operate effectively.

We believe that open and rigorous debate around key strategic issues and risks faced by the Company is important in achieving our objectives and the Company is fortunate to have non-executive directors with diverse and extensive business experience who actively contribute to these discussions.

Further detail of the Company's governance processes and compliance with the Code is set out in the Corporate Governance Statement in the full annual report and accounts.

## **Outlook**

### *Recent Trading*

A record number of Partners attended our annual sales conference in March, where we launched a range of new tools to help them build their businesses more effectively. These resulted in an immediate uplift in activity by our Partners, as announced in our trading update on 4 April 2014; we are delighted that this momentum continued throughout April, taking the total number of new Partners recruited since our sales conference to over 5,000.

The combination of record numbers of new Partners requiring training for the first time, and existing Partners wanting to repeat their training so they could fully understand how to take advantage of the new tools we had announced means we have provided 8,000 training places since late March to cope with the increased demand – this is around four times the number of places usually required.

The backlog this created has now been cleared, and customer gathering activity is starting to show an improvement over what were already extremely healthy levels. If current trends continue, the number of services we provide will show further significant net growth over the course of the year, with our customer base increasing to around 600,000 by the end of the year.

### *Energy Prices*

Within the energy sector as a whole, significant investment is needed over the next decade to renew and extend the distribution network, replace nuclear and coal-fired generating plant that is approaching the end of its useful life, roll out smart meters, and encourage the take up of energy efficiency and renewable energy programmes. The costs associated with delivering these initiatives are likely to put continued upward pressure on retail energy prices over the medium term, irrespective of any movements in wholesale energy commodity costs, although these may be partially offset by the shifting of certain social and environmental costs from consumer bills into general taxation.

### *Regulatory*

The proposals set out in Ofgem's Retail Market Review have now been implemented. These include a provision requiring each supplier to inform their customers (on each bill they receive) of any cheaper tariffs available, which is intended to make it more difficult for suppliers to cross-subsidise attractive acquisition tariffs by overcharging their legacy customer base. We anticipate benefitting from these new disclosure requirements, as customers receive this additional information on future bills from our competitors over the course of the next 12 months. In the meantime, our tariffs, bills and marketing are all fully compliant with the new licence conditions.

The forthcoming review by the Competition and Markets Authority is focussed on the 'Big 6' energy suppliers, and in particular whether their vertically integrated structure is acting against the public interest. As such, we do not expect it to have any adverse impact on us as the leading independent supplier. It should be noted that our wholesale energy supply arrangements with Npower are expected to largely insulate us against any margin pressure from the proposed 20-month price freeze likely to be included in the Labour Party manifesto for the forthcoming election.

### *Prospects*

Our Partners continue to demonstrate their ability to gather high quality new Members in substantial volumes, and the high proportion of new Members taking all five of our core services (now running at around 25%) is particularly encouraging.

Having reached the 500,000 customer milestone a few months ago, our focus now is on doubling this to 1 million customers and beyond over the medium term; this would represent a UK market share of less than 4%, and seems eminently achievable given our track record of consistently delivering 15%-20% annual growth in the number of services we supply over the last few years. Current high levels of confidence amongst our existing Partners, and the record numbers of new Partners who have joined the business since our sales conference in March, give us confidence that these strong rates of organic growth are sustainable going forward.

The steadily improving quality of our customer base gives us good visibility over future revenues and margins on the various services we provide, and our adjusted pre-tax profits

for the current year will show a significant increase over last year's reported numbers, reflecting both the strong organic customer growth we have achieved over the last 12 months, combined with the financial benefits of the transaction with Npower we completed in December.

We remain comfortable with market expectations for adjusted pre-tax profits for the current year of £63m, an increase of almost 50% on last year. As a result, shareholders can look forward to progressive growth in the level of our dividends, notwithstanding that we will be repaying £20m of debt over the course of the current year.

It only remains for me to thank my boardroom colleagues for their support and all our staff and Partners for their loyalty and hard work during the past year, and to wish each and every one of them success in the years to come.

**Charles Wigoder**  
Executive Chairman  
20 May 2014

# Chief Executive's Review

## Markets

We supply a wide range of essential utility services (Gas, Electricity, Landline, Broadband and Mobile) to both domestic and small business customers; these are all substantial markets and represent a vast opportunity for further organic growth.

The markets we operate in are dominated by a relatively small number of former monopoly suppliers and other owners of infrastructure assets, although in each there are also a number of independent suppliers carving out their own niches, generally based on price.

## Business model

The Utility Warehouse has a fundamentally different business model to any other utility provider in the UK in three key respects:

- Firstly, we provide our services through the Utility Warehouse Discount Club, in which each customer becomes a Member;
- secondly, we are the only fully integrated provider of both energy and communications services, with a single set of overheads that we can spread across our multiple revenue streams; and
- thirdly, we have a unique route to market, with an 'army' of over 44,000 part-time self-employed Partners. This means that instead of seeking to attract new Members through expensive advertising on television or in the national press, direct marketing, or price comparison sites, we instead benefit from genuine personal recommendations by both our Partners, and also by existing Members.

Partners can earn a small percentage of the monthly revenues generated by any Members gathered, either personally, or by someone in their team. On a similar basis, Members are directly rewarded with shopping vouchers when they introduce a new Member, and receive additional vouchers annually in December provided the Member(s) they have introduced are still using our services.

We continue to invest heavily in our bespoke IT systems; these enable us to integrate all the services we supply into a single monthly bill, supported by just one set of central overheads (including all administrative and customer service functions). This highly efficient cost base is a key factor in enabling us to offer attractive pricing and a wide range of valuable benefits to our Members, a secure residual income to our Partners, and a growing dividend stream to shareholders.

Our business model requires us to provide exceptional customer service in order to convert our Members into fans, and ensure our Partners have the confidence to recommend us to their friends and family. We are extremely pleased with the further progress we have made this year towards achieving these goals, and in securing our position as the Nation's most trusted utility provider.

## Strategy

Our strategy is to build on the current strong levels of organic growth we are achieving, in order to progressively increase our share of the markets in which we operate.

We will achieve this by maintaining our focus on delivering best-in-class customer service, investing in our systems and staff, simplifying and, where possible, improving the competitiveness of our services even further, encouraging existing Members to talk about the unique benefits we offer to their friends and acquaintances, and making it easier for our Partners to promote our services more effectively.

We continue to explore the possibility of expanding our current range of core services into areas where we can leverage our existing strong relationship with our Members to offer them improved service and better value on services they currently obtain from other suppliers, whilst also delivering a satisfactory return for our shareholders. Potential additional services include water, television and/or a range of insurance products (eg: home and motor policies).

### Operational performance and non-financial KPIs

Our overall performance for the year has been extremely encouraging in a number of key respects:

- continuing strong organic growth with service numbers up by 305,100 (2013: 221,037)
- lower churn
- lower delinquency
- growing proportion of Members taking all five of our core services
- significant increase in the number of new Partners
- positive reviews and recognition from *Which?* for both energy and telephony services
- consistently high Net Promoter Scores

Against the background of a broadly flat economy, and with household incomes remaining under pressure, our value-based consumer proposition and the part-time income opportunity we offer are extremely attractive to both Members and Partners respectively.

Our continuing strong organic growth is underpinned by high levels of confidence amongst our Partners in our brand and financial strength, the good value provided by our services, and our commitment to delivering best-in-class customer service.

#### Customers

	<u>2014</u>	<u>2013</u>
Residential Club	495,234	425,118
Business Club	29,098	28,313
<b>Total Club</b>	<b>524,332</b>	<b>453,431</b>
TML	6,307	7,601
<b>Total Group</b>	<b>530,639</b>	<b>461,032</b>

Our customer base can be split into three groups as set out in the above table, each of which has different characteristics:

- (i) Residential customers who are Members of the Utility Warehouse Discount Club (93.3% of our customers) taking on average 3.64 services from us;

- (ii) Small businesses who are Members of the Utility Warehouse Discount Club for Business (5.5% of our customers) taking on average 2.74 services from us; and
- (iii) Other small businesses signed up through our wholly owned Telecommunications Management Limited ("TML") subsidiary (1.2% of our customers) taking on average 3.56 services from us. These customers are no longer considered a core part of the business, and their contribution is becoming progressively less material in the context of the Group.

Within the residential Club, there is a further difference in quality (and therefore in the revenues and profits they will generate over the time they remain a Club Member) between Members, depending on whether they are a homeowner, and on the number of services we provide to them. We are therefore pleased that against the backdrop of an increasing national trend towards renting, the proportion of homeowners amongst new Members has remained broadly steady at around 75%, and the proportion of new Members taking all five of our core services has increased significantly compared with the previous year:

	Percentage of new residential Club Members taking five core services
Q1 FY14	13.3%
Q2 FY14	13.2%
Q3 FY14	16.3%
Q4 FY14	24.4%

Although on average a new Member taking all five of our core services requires a greater initial investment, these Members benefit from our most competitive prices, generate higher commission for our Partners, and provide the greatest lifetime value to the Company.

Overall churn within our customer base has continued to fall. This is best illustrated by analysing individual energy supply point churn, which declined to an average of just 0.8% per month during the final quarter, and demonstrates one of the key benefits from progressively improving the quality of our customer base:

	Energy supply point churn
FY11	16.3%
FY12	13.3%
FY13	11.2%
FY14	10.4%

Average revenue per customer would have shown a further increase during the year due to the improvement in the quality of our customer base and slightly higher retail prices, but these positive factors were more than offset by lower energy consumption during an exceptionally mild winter this year, and the comparison with an exceptionally cold winter which inflated energy spend the previous year:

	<u>Average Revenue per Customer</u>
1999	£190
2000	£286
2001	£316
2002	£329
2003	£459
2004	£482
2005	£505
2006	£634
2007	£801
2008	£824
2009	£1,057
2010	£1,152
2011	£1,162
2012	£1,190
2013	£1,363
2014	£1,302

*(These revenue figures relate to the Customer Management operating segment and exclude our TML subsidiary)*

We enjoy high levels of overall customer satisfaction, as evidenced by the positive reviews we receive from *Which?* magazine on a regular basis, and the feedback we receive from the surveys we send out each month to Members who have contacted our call centre. This feedback is consistently generating a positive Net Promoter Score of around +40; to put this into context, any score above zero in the utility sector would be considered highly acceptable (E.ON has reported a score of -21 in its residential supply business, and the average in a 2013 Satmetrix industry report on internet service providers was +9).

Our innovative CashBack card continues to generate significant monthly savings for our Discount Club Members, with the total value of CashBack credited to Members since launching this programme now in excess of £18m. In addition, we have seen increasing numbers of Members using our online shopping portal and price comparison service to help them find the cheapest online supplier for a wide range of everyday household goods, and to earn additional CashBack.

### *Services*

Our full range of services include Fixed Telephony (calls and line rental), Broadband, Mobile, Gas, Electricity, and CashBack card. At the year end, we supplied a total of 1,907,160 services (2013: 1,602,060), representing a record net increase of 305,100 during the year.

	<u>2014</u>	<u>2013</u>
Electricity	474,123	403,922
Gas	392,744	334,565
Fixed Telephony (calls and NGN)	296,820	260,502
Fixed Telephony (line rental)	264,341	221,692
Broadband	221,938	175,337
Mobile	117,425	89,017
CashBack card	139,769	117,025

<b>Total</b>	<b>1,907,160</b>	<b>1,602,060</b>
Residential Club	1,804,830	1,504,802
Business Club	79,864	72,676
<b>Total Club</b>	<b>1,884,694</b>	<b>1,577,478</b>
TML	22,466	24,582
<b>Total Group</b>	<b>1,907,160</b>	<b>1,602,060</b>

We saw consistent quarterly growth throughout the year in all the core services we provide (Gas, Electricity, Mobile, Home Phone and Broadband), with a particularly pleasing 31.9% rise in the number of mobile services provided. This increase means penetration of Mobile within our residential Club has risen from 12.5% to 23.7% over the last three years as a result of our continuing investment in making this service more attractive to Members. With around 35% of new Members taking this service, there remains significant scope for further improvement in this level of penetration over the next few years.

#### *CashBack card*

Our exclusive CashBack card has proven itself as an important Member acquisition and retention tool. It gives our Members the opportunity to achieve additional savings of between 3% and 7% on their shopping at a wide range of participating retailers, which they receive as a credit on their next monthly bill from us.

We have seen a 19% increase during the year in the number of cards in issue to 139,769 (2013: 117,025), with a little under one third of new residential Club Members applying for a card. We believe this steady level of demand is a reflection of the continuing challenging economic climate, where many new Members find it difficult to fund the switch from paying in arrears on their credit card, to paying for their purchases in advance with a prepayment card.

We paid over £4.6m (2013: £4.4m) in CashBack to our Members during the year (funded entirely by the retailers in the programme), with many Members achieving a reduction of between 20% and 30% on the amount they pay for the utilities we are supplying to them each month, simply by using their CashBack card (instead of an alternative payment card) for most of their regular household shopping.

#### *Customer Service*

We pride ourselves on delivering first-class service to our Members through a single call centre based in the UK. We try to ensure where possible that the first person a Member speaks to is able to resolve any issues they may have with their multi-utility account.

We have a relentless focus on improving the service experience we deliver to our Members; we readily invest in technology that we believe will genuinely achieve this objective, and continually assess the numerous qualitative and quantitative performance measurement tools that we employ to monitor all aspects of our Members' interactions with us in order to ensure the overall quality of their experience.

We have been delighted at the consistently high customer service ratings we receive in *Which?* magazine, and the overwhelmingly positive feedback we receive from Members in our own surveys.

## *Partners*

Our Partners are one of the key strengths of our business. In contrast to the routes to market adopted by other suppliers of essential household services, the alignment of financial interest provided by our revenue-sharing model, the structure of our compensation plan, and the substantial number of Partners who hold equity or share options in the Company, incentivise them to focus their activities on finding creditworthy higher-spending customers who will reap the maximum savings from using our services, and will thus be least likely to churn; by doing so, they maximise their own long-term income. This ensures that cases of mis-selling are generally both inadvertent and extremely rare.

We provide a variety of training and personal development courses both online and classroom based, designed to provide the skills and knowledge they need to gather Members and recruit other Partners effectively and successfully; all of these courses are free to attend. In addition, we have recently introduced an interest-free hire purchase scheme to allow our Partners access to a Tablet to help them present the benefits of our unique Discount Club.

Our Car Plan, which provides eligible Partners with a subsidised Utility Warehouse branded BMW Mini, remains extremely popular and around 575 vehicles are now in circulation (2013: 500). Owners inform us that they find these helpful in raising their local profile, resulting in enquiries from both potential new Members and Partners.

## *Premises and Systems*

We are making good progress with the refurbishment of our new headquarters office building which we purchased in February 2012. Once this project is completed towards the end of this year, it will provide sufficient space to support our growing business needs for the foreseeable future. From a systems perspective, we have the capacity to manage a substantial increase in our current customer and service numbers, without the need for any material further investment.

**Andrew Lindsay MBE**

Chief Executive Officer

20 May 2014

# Financial Review

## Overview of Results

	Adjusted <sup>1</sup>			Statutory		
	2014	2013	Change	2014	2013	Change
Revenue	£658.8m	£601.5m	9.5%	£658.8m	£601.5m	9.5%
Profit before tax	£44.6m	£35.6m	25.3%	£36.6m	£34.6m	5.8%
Basic EPS	50.6p	39.9p	26.8%	39.8p	38.7p	2.8%
Dividend per share	35.0p	31.0p	12.9%	35.0p	31.0p	12.9%

<sup>1</sup> In order to provide a clearer presentation of the underlying performance of the Group, adjusted profit before tax and adjusted basic EPS exclude share incentive scheme charges and the amortisation of the intangible asset arising on entering into the new energy supply arrangements with Npower in December 2013.

## Summary

The increase in revenue during the year has been driven by continuing strong organic growth in the number of services we provide combined with modest price increases, partially offset by the swing from an extremely cold winter in 2013 to an unseasonably mild winter in 2014.

The improvement in adjusted pre-tax profits of 25.3% reflects the underlying increase in the average number of customers during the year, improving economies of scale, and an initial contribution from our new energy supply arrangements since December.

The increase in both the quantity and quality of new customers added over the course of the year has led to an increased loss from our Customer Acquisition operating segment of £12.1m (2013: £10.1m), although the average acquisition cost per customer fell during the second half following the introduction of our new 'Gold' Bundle structure.

Distribution expenses remained broadly flat as a proportion of revenue, reflecting the progressive implementation of the new distributor compensation plan we announced almost 18 months ago. In absolute terms they increased by £1.0m as a result of higher payments to Partners arising from our continuing strong organic growth and the higher revenue we achieved for the year.

Administrative expenses increased during the year by £7.0m to £41.6m (2013: £34.6m) as a result of higher staff costs, an increase in bank charges relating to our new debt facilities with Barclays, greater telephony costs (following our decision to introduce a free phone 0800 number for customer services), and the one-off costs associated with the energy Retail Market Review.

Adjusted earnings per share increased by 26.8% to 50.6p (2013: 39.9p). In accordance with previous guidance and our strong cash position, the Company is proposing to pay a final dividend of 19p (2013: 18p) per share, making a total dividend of 35p (2013: 31p) per share for the year.

## Margins

Our overall gross margin for the year was slightly above previous guidance at 15.2% (2013: 13.9%) as a direct consequence of our new energy supply arrangements with Npower which

were completed in December 2013. We are therefore updating our guidance on gross profit margins, and now expect them to be within a range of 15% to 17% (previously 13% to 15%) for the foreseeable future.

### Customer Management Business

Our customer management business delivered record growth of over 300,000 services during the year, making eleven consecutive quarters in which we have delivered net growth of over 50,000 services:

	<u>Net growth in services</u>
Q1 FY12	38,140
Q2 FY12	61,363
Q3 FY12	51,529
Q4 FY12	58,855
Q1 FY13	53,316
Q2 FY13	54,406
Q3 FY13	55,488
Q4 FY13	57,827
Q1 FY14	64,267
Q2 FY14	101,447
Q3 FY14	81,429
Q4 FY14	57,957

The consistency of these numbers reflects our continuing focus on making it easier for our Partners to gather new members by simplifying our processes, improving membership benefits, making our services more competitive, and improving our customer service. As a result, all our core services are now seeing strong monthly growth.

The particularly high growth in service numbers during Q2 and Q3 last year was due to exceptionally favourable market conditions and strong promotional activity, and should not be interpreted as a precedent for similar seasonal outperformance in these periods in future years.

The progressive improvement in the quality of our customer base, with lower levels of delinquency and a steady increase in the average number of services being taken by each customer, has resulted in a progressive reduction in both churn and bad debts over the last four years.

Revenues increased across all our services during the year, however the exceptionally mild winter resulted in significantly lower gas consumption than expected.

<b>Revenue by Service (£m)</b>	<b>2014</b>	<b>2013</b>
Electricity	270.3	235.2
Gas	257.6	256.5
Fixed Communications (Telephony / Broadband)	82.2	71.8
Mobile	16.7	13.7
Other	15.7	15.0
	<hr/> 642.5	592.2

## Customer Acquisition

Our net investment in acquiring new customers increased during the year to £12.1m (2013: £10.1m), reflecting the strong organic growth we achieved in the number of services being provided.

Although the initial cost of acquiring a customer who takes one of our 'Gold' Bundles can be considerably higher than for a household taking fewer services, our experience shows that the lifetime value of such customers more than compensates for the higher upfront costs we incur.

## Distribution and Administrative Expenses

Distribution expenses, which primarily represent the share of our revenues that we pay as commission to Partners, increased by £1.0m to £18.6m (2013: £17.6m); this reflects an increase in the amount of residual income we paid, combined with higher bonus and incentive payments resulting from the significant increase in our organic growth compared with the previous year.

Within administrative expenses, the bad debt charge for the year remained constant at 1.5% of revenues (2013: 1.5%), but increased slightly in absolute terms to £9.9m (2013: £9.0m), partly due to an increase in the number of fraudulent applications for premium mobile phones during the first half of the year which triggered an immediate tightening of our credit checking procedures.

Whilst remaining sympathetic to the financial difficulties some households are experiencing in paying for their energy, we continue to manage our bad debt risk by installing prepayment meters at properties where the occupiers are unwilling to pay for the energy they are using by any other means. We installed 8,958 of them during the year (2013: 6,584), many of them at the customer's own request, which helped grow our base of prepayment meters to 50,095 (2013: 33,563) representing approximately 5.8% of the energy services we supply. This remains significantly below the average level of prepayment meters within the industry of around 15%.

Looking to the future, the further reduction we have seen in the proportion of delinquent customers across the year is, we believe, a useful forward indicator to the level of bad debts we can expect over the medium term.

	<u>Delinquent customers</u>
Q2 FY11	2.40%
Q3 FY11	1.95%
Q4 FY11	1.82%
Q1 FY12	1.71%
Q2 FY12	1.53%
Q3 FY12	1.26%
Q4 FY12	1.34%
Q1 FY13	1.33%
Q2 FY13	1.17%
Q3 FY13	1.08%
Q4 FY13	1.32%
Q1 FY14	1.30%
Q2 FY14	1.15%
Q3 FY14	1.00%
Q4 FY14	1.15%

The average number of employees increased from 604 to 696, most of which took place in the second half of the year; this increase in headcount of 15% is below the increase we saw during the year in the number of services we are providing, as we continue to enhance our systems to manage our growing customer base more effectively. Personnel expenses (excluding the non-cash accounting cost of share incentive schemes) increased by 20.8% during the year to £23.8m (2013: £19.7m), as we continue to strengthen our management team.

Other year-on-year adverse movements in administrative expenses included an increase in bank charges relating to our new debt facilities with Barclays, greater telephony costs (following our decision to introduce a free-phone 0800 number for customer services), and the one-off costs associated with the energy Retail Market Review.

Overall, administrative expenses represented 6.3% of revenue for the year (2013: 5.8%), mainly due to substantially lower spend by Members on their energy during an exceptionally mild winter. We continue to look for efficiency savings throughout the business to maximise economies of scale as we continue to grow.

## **Opus**

Our share of the profits from Opus Energy Group Limited ("Opus"), in which we maintain a 20% stake, increased during the year to £4.7m (2013: £3.4m). This excellent result reflects a continuing strong trading performance, and the further steady progress they have made in supplying gas alongside electricity into the small business and corporate sector, for which they are now buying renewable energy from over 500 small UK generators. Opus revenues increased by 17.6% to just over £434m (2013: £369m) and profit before tax increased from £22.4m to £30.2m.

We remain encouraged by the resilience of the business model and the strength and experience of the Opus management team, and expect to receive a dividend of approximately £4.1m in July 2014. Our shareholding in Opus is valued on our balance sheet at £8.8m in line with standard accounting policy, notwithstanding the likelihood that its market value is substantially in excess of this figure; we are extremely pleased to have such significant exposure to this rapidly growing, profitable and highly cash generative business.

## **New Energy Supply Arrangements**

In December 2013 we improved the commercial terms of our energy supply arrangements with Npower by acquiring Electricity Plus Supply Limited and Gas Plus Supply Limited for a total consideration of £218m (of which £21.5m is deferred for three years).

To fund this transaction and other working capital requirements associated with our recent rapid organic growth, we raised £130m of equity from shareholders and £100m of debt from Barclays Bank. The debt is due to be repaid over three years.

This transaction has given rise to the creation of a significant intangible asset in the balance sheet of the Group. In accordance with the relevant accounting standards, we will be amortising it on a straight-line basis over the 20 year life of the new energy supply arrangements. As this amortisation is a non-cash item, and unrelated to the underlying trading performance of the business, the financial results on which we will be focussing each year will exclude any impact from this amortisation.

## **Cash, Capital Expenditure and Working Capital**

Our cash balances at the year-end increased to £45.4m (2013: £3.4m). This reflects continuing strong underlying operational cash generation, combined with advance funding from Npower to cover various industry related costs which they were paying directly prior to the new energy supply agreement coming into effect.

Cash outflows are expected to be significantly higher this year, as we complete the £20m refurbishment of our new headquarters office building, support our distribution channel with branded BMW Minis and Tablets, and fund growing demand from customers for 'free' smartphones. Facilities have been arranged with Barclays Bank to enable us to fund these costs without affecting our progressive dividend policy.

We anticipate a modest rise in our working capital requirements over the next two years due to a number of factors: (i) the costs associated with funding the growth in our mobile business (where increasing numbers of customers are choosing to be provided with a premium mobile handset, which they can obtain from us with no upfront cost on a 24 month contract; (ii) an increase in the number of BMW Minis supplied to Partners on hire purchase agreements; and (iii) the cost of providing them with Tablets (on 30 months interest-free credit) to help them build their businesses more effectively.

Under the terms of the new energy supply arrangements Npower remains responsible for funding the working capital requirements associated with our energy budget plan customers.

## **Borrowings**

Our balance sheet at the year end shows a net debt position of £53.6m (2013: net cash £0.8m) which principally reflects the impact of the £100m we borrowed from Barclays to help fund the recent transaction with Npower.

## **Dividend**

The final dividend of 19p per share (2013: 18p) will be paid on 1 August 2014 to shareholders on the register at the close of business on 18 July 2014 and is subject to approval by shareholders at the Company's Annual General Meeting which will be held on 15 July 2014. This makes a total dividend payable for the year of 35p (2013: 31p).

We remain firmly committed to a progressive dividend policy, but the level of distributions to shareholders for the current year will need to reflect the impact of starting to repay the borrowings we arranged in December to part-fund our recent transaction with Npower. Our current expectation is that the total dividend for the current year will therefore increase by around 15%, and thereafter that further growth in earnings from the level we achieve this year should be reflected in a corresponding rise in the level of distributions to shareholders.

## **Share Incentive Scheme Charges**

Operating profit is stated after share incentive scheme charges of £4.2m (2013: £0.9m). These expenses relate to an accounting charge under IFRS 2 Share Based Payments ("IFRS 2").

As a result of the increasing relative importance of share incentive scheme charges as a proportion of our pre-tax profits, we are separately disclosing this amount within the Consolidated Statement of Comprehensive Income for the period (and excluding these charges from our calculation of adjusted profits and earnings). The increase in this charge mainly reflects the strong rise in the Company's share price during the financial year, and therefore

separate disclosure is considered appropriate so that the underlying performance of the business can be clearly identified.

In accordance with IFRS 2, awards made under the Company's JSOP share incentive scheme are deemed to be cash-settled. However, whilst approximately £3.4m (2013: £0.4m) of the share incentive scheme charges during the 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. Our current earnings per share have therefore been adjusted to eliminate these share incentive scheme charges.

## **Taxation**

A full analysis of the taxation charge for the year is set out in note 4 to the financial statements in the Annual Report. The tax charge for the year is £7.7m (2013: £7.6m).

The effective tax rate for the year was 20.9% (2013: 21.8%).

**Chris Houghton**

Finance Director

20 May 2014

# Principal Risks and Uncertainties

## 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 customers. 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 Partners, 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 Partners 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 Partners 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 Partner 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.

The Group is a licensed gas and electricity supplier, and therefore has a direct regulatory relationship with Ofgem. If the Group fails to maintain an effective relationship with Ofgem and comply with its licence obligations, it could be subject to fines or to the removal of its respective licences.

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 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) and the Department for Energy and Climate Change ("DECC"). The Group engages with officials from all 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 needs to raise with them.

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 and the recently announced investigation by the Competition and Markets Authority, appears to be targeted at the large vertically integrated suppliers, with consideration being given to the desirability 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, although the proposed Labour Party energy price freeze for 20 months following the forthcoming election is not expected to put pressure on the margins of the Group if implemented.

### **Financing risk**

As a result of the recent transaction with Npower, the Group has entered 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 these 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 and Tablets) from the Group; the Group regularly reviews and 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 various volume-related growth incentives which have been agreed with the Group's three largest 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 prolonged disruption isolated to the Group's principal supplier within a particular market, services required by customers could be sourced from another provider.

# Consolidated Statement of Comprehensive Income

For the year ended 31 March 2014

	<i>Note</i>	2014 £'000	2013 £'000
Revenue	1	658,760	601,505
Cost of sales		<u>(558,509)</u>	<u>(517,950)</u>
<b>Gross profit</b>		100,251	83,555
Distribution expenses		(18,641)	(17,635)
Share incentive scheme charges		(125)	(118)
Total distribution expenses		(18,766)	(17,753)
Administrative expenses		(41,560)	(34,636)
Share incentive scheme charges		(4,068)	(813)
Amortisation of intangible assets		(3,785)	-
Total administrative expenses		(49,413)	(35,449)
Other income		650	907
<b>Operating profit</b>	1	<u>32,722</u>	<u>31,260</u>
Financial income		109	49
Financial expenses		(855)	(82)
<b>Net financial expense</b>		<u>(746)</u>	<u>(33)</u>
Share of profit of associates		4,654	3,404
<b>Profit before taxation</b>		36,630	34,631
Taxation		<u>(7,655)</u>	<u>(7,565)</u>
<b>Profit and total comprehensive income for the year attributable to owners of the parent</b>		<u>28,975</u>	<u>27,066</u>
Basic earnings per share	2	<u>39.8p</u>	<u>38.7p</u>
Diluted earnings per share	2	<u>39.2p</u>	<u>38.1p</u>

# Consolidated Balance Sheet

As at 31 March 2014

	Group	
	2014	2013
	£'000	£'000
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	23,379	18,950
Intangible assets	220,778	2,969
Goodwill	3,742	3,742
Investments in associates	8,814	7,216
Deferred tax	2,399	1,646
Other non-current receivables	13,061	10,300
<b>Total non-current assets</b>	<u>272,173</u>	<u>44,823</u>
<b>Current assets</b>		
Inventories	1,771	491
Trade and other receivables	39,336	16,541
Prepayments and accrued income	120,786	115,947
Cash	45,389	3,378
<b>Total current assets</b>	<u>207,282</u>	<u>136,357</u>
<b>Total assets</b>	<u>479,455</u>	<u>181,180</u>
<b>Current liabilities</b>		
Short term borrowings	(19,804)	(2,605)
Trade and other payables	(7,749)	(7,504)
Current tax payable	(3,360)	(2,815)
Accrued expenses and deferred income	(137,780)	(96,829)
<b>Total current liabilities</b>	<u>(168,693)</u>	<u>(109,753)</u>
<b>Non-current liabilities</b>		
Long term borrowings	(79,216)	-
Deferred consideration	(21,500)	-
JSOP creditor	(4,080)	(685)
<b>Total non-current liabilities</b>	<u>(104,796)</u>	<u>(685)</u>
<b>Total assets less total liabilities</b>	<u>205,966</u>	<u>70,742</u>
<b>Equity</b>		
Share capital	4,001	3,530
Share premium	136,651	8,508
JSOP reserve	(2,275)	(2,275)
Retained earnings	67,589	60,979
<b>Total equity</b>	<u>205,966</u>	<u>70,742</u>

# Consolidated Cash Flow Statement

For the year ended 31 March 2014

	Group	
	2014	2013
	£'000	£'000
<b>Operating activities</b>		
Profit before taxation	36,630	34,631
Adjustments for:		
Share of profit of associates	(4,654)	(3,404)
Net financial expense	746	33
Depreciation of property, plant and equipment	1,307	1,254
Amortisation of intangible assets	3,785	-
Amortisation of debt arrangement fees	118	-
Increase in inventories	(1,280)	(39)
Decrease/(increase) in trade and other receivables	41,284	(40,366)
(Decrease)/increase in trade and other payables	(92,208)	32,858
Share incentive scheme charges	4,193	931
Corporation tax paid	(7,104)	(7,284)
<b>Net cash flow from operating activities</b>	<u>(17,183)</u>	<u>18,614</u>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(5,736)	(948)
New energy supply agreement:		
- Cash consideration and fees paid	(202,629)	-
- Cash held in statutory entities acquired	64,175	-
Distribution from associated company	3,056	2,365
Purchase of shares in associated company	-	(18)
Interest received	107	49
<b>Cash flow from investing activities</b>	<u>(141,027)</u>	<u>1,448</u>
<b>Financing activities</b>		
Dividends paid	(23,921)	(20,965)
Interest paid	(769)	(82)
Drawdown of long term borrowing facilities	100,000	-
Fees associated with long term borrowing facilities	(1,098)	-
Issue of new ordinary shares	131,061	812
Payment of share issue costs	(2,447)	-
<b>Cash flow from financing activities</b>	<u>202,826</u>	<u>(20,235)</u>
Increase/(decrease) in cash and cash equivalents	44,616	(173)
Net cash and cash equivalents at the beginning of the year	773	946
<b>Net cash and cash equivalents at the year end</b>	<u>45,389</u>	<u>773</u>
Cash	45,389	3,378
Short term borrowings	-	(2,605)
<b>Net cash and cash equivalents at the year end</b>	<u>45,389</u>	<u>773</u>

## Consolidated Statement of Changes in Equity

For the year ended 31 March 2014

<b>Consolidated</b>	Share capital £'000	Share premium £'000	JSOP reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 April 2012	3,510	7,716	(2,275)	53,860	62,811
Profit and total comprehensive income for the year				27,066	27,066
Deferred tax on share options				776	776
Dividends	-	-	-	(20,965)	(20,965)
Credit arising on share options	-	-	-	242	242
Issue of new ordinary shares	20	792	-	-	812
Balance at 31 March 2013	3,530	8,508	(2,275)	60,979	70,742
Profit and total comprehensive income for the year				28,975	28,975
Deferred tax on share options				748	748
Dividends	-	-	-	(23,921)	(23,921)
Credit arising on share options	-	-	-	808	808
Issue of new ordinary shares	471	130,590	-	-	131,061
Costs associated with the issue of new ordinary shares	-	(2,447)	-	-	(2,447)
Balance at 31 March 2014	4,001	136,651	(2,275)	67,589	205,966

## Notes

### 1. Segment reporting

The Group's reportable segments reflect the two distinct activities around which the Group is organised:

- Customer Acquisition; and
- Customer Management.

Customer Acquisition revenues represent joining fees from the Group's distributors, the sale of marketing materials and sales of equipment including mobile phone handsets and wireless internet routers. Customer Management revenues are principally derived from the supply of fixed telephony, mobile telephony, gas, electricity and internet services to residential and small business customers.

The Board measures the performance of its operating segments based on revenue and segment result, which is referred to as operating profit. The Group applies the same significant accounting policies across both operating segments.

### Operating segments

	Year ended 31 March 2014			Year ended 31 March 2013		
	Customer Management	Customer Acquisition	Total	Customer Management	Customer Acquisition	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue:						
External sales	642,541	16,219	658,760	592,182	9,323	601,505
Segment result	44,858	(12,136)	32,722	41,403	(10,143)	31,260
Operating profit			32,722			31,260
Net financing expense			(746)			(33)
Share of profit of associates			4,654			3,404
Profit before taxation			36,630			34,631
Taxation			(7,655)			(7,565)
Profit for the year			28,975			27,066
Segment assets	465,331	5,310	470,641	170,433	3,531	173,964
Investment in associates	8,814	-	8,814	7,216	-	7,216
Total assets	474,145	5,310	479,455	177,649	3,531	181,180
Segment liabilities	(269,841)	(3,648)	(273,489)	(108,835)	(1,603)	(110,438)
Net assets			205,966			70,742
Capital expenditure	(5,595)	(141)	(5,736)	(933)	(15)	(948)
Depreciation	1,275	32	1,307	1,235	19	1,254
Amortisation	3,785	-	3,785	-	-	-

The share of profit of associates relates to the Customer Management operating segment.

## Revenue by service

	2014	2013
	£'000	£'000
Customer Management		
- Electricity	270,322	235,222
- Gas	257,617	256,500
- Fixed communications	82,189	71,767
- Mobile	16,664	13,673
- Other	15,749	15,020
	<u>642,541</u>	<u>592,182</u>
Customer Acquisition	16,219	9,323
	<u>658,760</u>	<u>601,505</u>

The Group operates solely in the United Kingdom.

## 2. Earnings per share

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

	2014	2013
	£'000	£'000
Earnings for the purpose of basic and diluted earnings per share	28,975	27,066
Share incentive scheme charges (net of tax)	4,038	842
Amortisation of intangible assets	<u>3,785</u>	<u>-</u>
Earnings excluding share incentive scheme charges and amortisation of intangibles for the purpose of adjusted basic and diluted earnings per share	<u>36,798</u>	<u>27,908</u>
	<b>Number</b>	<b>Number</b>
	('000s)	('000s)
Weighted average number of ordinary shares for the purpose of basic earnings per share	72,775	69,887
Effect of dilutive potential ordinary shares (share incentive awards)	1,223	1,120
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>73,998</u>	<u>71,007</u>

Adjusted basic earnings per share <sup>1</sup>	<u>50.6p</u>	<u>39.9p</u>
Basic earnings per share	<u>39.8p</u>	<u>38.7p</u>
Adjusted diluted earnings per share <sup>1</sup>	<u>49.7p</u>	<u>39.3p</u>
Diluted earnings per share	<u>39.2p</u>	<u>38.1p</u>

In accordance with IFRS 2 Share Based Payments ("IFRS 2"), awards made under the Company's JSOP share incentive scheme are deemed to be cash-settled. However, whilst approximately £3,395,000 of the share incentive scheme charge during the 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 has therefore been deemed appropriate to present the above analysis of earnings per share as adjusted for share incentive scheme charges.

It has also been deemed appropriate to present the analysis of adjusted earnings per share excluding the amortisation of intangible assets arising from the new energy supply agreement with Npower in order to present a clearer picture of the underlying trading performance of the Group.

### 3. Dividends

	2014	2013
	£'000	£'000
Prior year final paid 18p (2013: 17p) per share	12,656	11,876
Interim paid 16p (2013: 13p) per share	<u>11,265</u>	<u>9,089</u>

The Directors have proposed a final dividend of 19p per ordinary share totalling approximately £15.1 million, payable on 1 August 2014, to shareholders on the register at the close of business on 18 July 2014. In accordance with the Group's accounting policies the dividend has not been included as a liability as at 31 March 2014. This dividend will be subject to income tax at each recipient's individual marginal income tax rate.

### 4. Related parties

#### Identity of related parties

The Company has related party relationships with its subsidiaries, its associate and with its directors and executive officers.

#### Transactions with key management personnel

Directors of the Company and their immediate relatives control approximately 23% of the voting shares of the Company.

Details of the total remuneration paid to the directors of the Company as key management personnel for qualifying services are set out below:

<sup>1</sup> Adjusted basic and diluted earnings per share exclude share incentive scheme charges and the amortisation of the intangible asset recognised as a result of the new energy supply arrangements entered into with Npower in December 2013.

	2014	2013
	£'000	£'000
Short term employee benefits	1,142	1,024
Social security costs	601	133
Post employment benefits	106	95
	<u>1,849</u>	<u>1,252</u>
Share incentive scheme charges	3,454	469
	<u>5,303</u>	<u>1,721</u>

During the year, the Company acquired goods and services worth approximately £16,000 (2013: £17,000) from companies in which directors have a beneficial interest. No amounts were owed to these companies by the Company as at 31 March 2014. During the year, the Company sold goods and services worth approximately £10,000 (2013: £Nil) to companies in which directors have a beneficial interest.

During the year directors purchased goods and services on behalf of the Company worth approximately £1,841,000 (2013: £736,000). The directors were fully reimbursed for the purchases and no amounts were owing to the directors by the Company as at 31 March 2014.

As disclosed in the circular sent to shareholders on 20 November 2013, certain directors participated in a firm placing of new ordinary shares in the Company as follows: Mr Andrew Lindsay: £750,000, Mr Julian Schild: £240,000 and Mr Michael Pavia: £10,000.

## **Other related party transactions**

### **Associates**

During the year ended 31 March 2014, the associate supplied goods to the Group which amounted to £903,000 (2013: £877,000) and at 31 March 2014 the associate was owed £72,000 by the Group which is recognised within trade payables (2013: £66,000). Transactions with the associate are priced on an arm's length basis. Dividends received during the year from the associate amounted to £3,056,000 (2013: £2,365,000) relating to the financial year to 31 March 2013.

### **Subsidiary companies**

During the year ended 31 March 2014, the Company's subsidiaries purchased goods and services from the Company in the amount of £9,350,000 (2013: £5,816,000). At 31 March 2014 the Company was owed £226,000 by the subsidiaries which is recognised within trade receivables (2013: £3,558,000 owed by the Company to the subsidiary).

## **5. New energy supply arrangements and acquisition of subsidiary undertakings**

The Company entered into new energy supply arrangements with Npower through the acquisition of Electricity Plus Supply Limited and Gas Plus Supply Limited ("the Companies") from Npower Limited on 20 December 2013 ("the Transaction"). The Transaction had economic effect from 1 December 2013.

The accounting treatment for the Transaction was considered against the guidance set out in IFRS 3 Business Combinations ("IFRS 3").

It was determined that the acquisition of the Companies did not represent business combinations under IFRS 3 as both Companies did not have the three key elements of a

standalone business as set out in IFRS 3 (i.e. inputs, processes and outputs). The principal factors behind this determination were as follows: (i) the Companies were originally set up solely as legal vehicles to facilitate the supply of energy to Telecom Plus customers by Npower; (ii) all customer relationships were acquired, held and managed by Telecom Plus; (iii) the Companies did not have any influence over the terms on which energy was supplied to them; (iv) the Companies were not able to influence who their customers were and had no pricing discretion for the onward supply of energy; (v) the Companies did not have any infrastructure, management or employees with all functions being carried out by either Telecom Plus or Npower; and (vi) given the unique nature of the Companies and the associated energy supply agreement between Telecom Plus and Npower, it was not considered feasible that another market participant could effectively acquire and operate the Companies on a standalone basis.

As a result of these factors the acquisition of the Companies has been accounted for as an acquisition of assets rather than as business combinations.

The total consideration for the Transaction comprised a cash payment to Npower of £196.5 million on 20 December 2014, a deferred cash amount of £21.5 million payable on 20 December 2016 and a cash payment of £2.5 million made in January 2014 for the net assets acquired in the Companies which comprised cash and short term working capital balances.

Summary balance sheets for the Companies as at 30 November 2013, adjusted for the payment of pre-disposal permitted dividends to Npower Limited on 11 December 2013 (Gas Plus Supply Limited: £1,378,000 and Electricity Plus Supply Limited: £1,876,000), are set out below:

#### **Gas Plus Supply Limited**

<b>As at 30 November</b>	<b>2013</b>
	£'000
Current assets	
Accrued revenues	32,372
Cash	<u>31,136</u>
Total assets	63,508
Current liabilities	
Accruals and other creditors	<u>(62,352)</u>
Total liabilities	(63,352)
Net assets	<u>1,156</u>

#### **Electricity Plus Supply Limited**

<b>As at 30 November</b>	<b>2013</b>
	£'000
Current assets	
Accrued revenues	23,455
Prepayments and other debtors	15,849
Cash	<u>33,039</u>

Total assets	<u>72,343</u>
Current liabilities	
Trade creditors	(8,506)
Accruals and other creditors	<u>(62,459)</u>
Total liabilities	<u>(70,965)</u>
Net assets	<u>1,378</u>

## 6. Basis of preparation

The financial information set out above does not constitute the Group's statutory information for the years ended 31 March 2014 or 2013, but is derived from those accounts. The Group's consolidated financial information has been prepared in accordance with accounting policies consistent with those adopted for the year ended 31 March 2013. Statutory accounts for 2013 have been delivered to the Registrar of Companies and those for 2014 will be delivered following the Company's annual general meeting. The auditor has reported on these accounts, their reports were unqualified and did not contain statements under the Companies Act 2006, s498(2) or (3).

## 7. Directors' responsibility statement

The directors confirm, to the best of their knowledge:

- (a) the financial statements, prepared in accordance with International Financial Reporting Statements ("IFRSs") as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and
- (b) the Chairman's Statement, Chief Executive's Review, Financial Review and Principal Risks and Uncertainties include a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The directors of Telecom Plus PLC and their functions are listed below:

Charles Wigoder – Executive Chairman  
Julian Schild – Deputy Chairman and Senior Non Executive Director  
Andrew Lindsay – Chief Executive Officer  
Chris Houghton – Finance Director  
Melvin Lawson – Non Executive Director  
Michael Pavia – Non Executive Director

By order of the Board