

TELECOMPLUSPLC

Embargoed until 07.00

14 June 2016

Telecom Plus PLC Final Results for the year ended 31 March 2016

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 2016.

Financial Highlights:

- Results and dividend in line with expectations
- Revenue up 2.1% to £744.7m
- Adjusted profit before tax up 4.2% to £54.4m
- Statutory profit before tax down 3.3% to £40.7m
- Adjusted EPS up 7% to 56.7p
- Strong cash generation
- Full year dividend up 15% to 46p per share

Operating Highlights:

- Further organic growth in both Members and services
- Almost 600,000 Members
- Service numbers up by 4.2% to 2.18 million
- Successful launch of innovative nationwide light bulb replacement service
- Shortlisted by *Which?* for 'Best Telecom Services Company' in 2016 Annual Awards
- Ranked #2 in The UK 2016 Customer Satisfaction Index

Andrew Lindsay, CEO, commented:

"I am very pleased with the further solid progress we have made this year, despite a challenging competitive environment for supplying domestic energy; it demonstrates both the resilience of our business model and the strength of our unique route to market.

"Whilst many other independent energy suppliers appear to be pursuing growth at any cost, our focus is very clearly on growing our profits in a sustainable way, with a view to maximising shareholder value.

"We have seen a material improvement in the quality of new Members joining our Discount Club following the launch of our free LED replacement light bulb service in the autumn. This benefit significantly reduces their electricity bills forever and is of substantially greater value than the short term introductory discounts offered by our competitors. We look forward to helping tens of thousands more homes throughout the UK to reduce their electricity consumption by taking advantage of this unique benefit.

"We were delighted to be ranked second in The UK 2016 Customer Satisfaction Index. Our position was in stark contrast to other utility and telecoms providers, none of whom made it into the top 30, and is a huge endorsement of our commitment to treating our Members fairly.

"The current adverse market conditions will not persist indefinitely, and we are confident that when the recent downward trend in wholesale commodity prices reverses, our growth rate will start returning towards the higher levels we have historically achieved. In the meantime we expect to continue to deliver further modest growth in revenues, profits, earnings per share and dividends for the current year, with adjusted pre-tax profits of between £55m and £59m."

There will be a meeting for analysts at the offices of Peel Hunt, Moor House, 120 London Wall, London, EC2Y 5ET at 8.45 for 9.00am

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About Telecom Plus PLC ('Telecom Plus'):

www.utilitywarehouse.co.uk

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

Members benefit from the convenience of a single monthly statement, consistently good value across all their utilities and exceptional levels of service. Telecom Plus does not advertise, relying instead on 'word of mouth' recommendation by existing satisfied Members and Partners in order to grow its market share.

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

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

Chairman's Statement

I am delighted to report another successful year for the Company with revenues, adjusted profits, earnings and dividends all reaching record levels. Adjusted pre-tax profits increased by 4.2% to £54.4m (2015: £52.2m) on revenue up by 2.1% to £744.7m (2015: £729.2m); adjusted earnings per share for the year rose by 7% to 56.7p (2015: 53.0p).

This performance has been achieved in the face of challenging market conditions, which have led to a slowdown in the double-digit percentage growth rate in service numbers we have achieved historically. The two principal factors behind this are: (i) the material fall in wholesale energy commodity prices over the last 30 months (which has created a significant gap between the standard variable tariffs paid by most customers and the short-term fixed price deals offered by our competitors to customers who switch); and (ii) the decision we took in March 2015 to stop offering introductory deals to new Members in favour of a fairer 'everyday low pricing' approach, consistent with our commitment to being the Nation's most trusted utility supplier.

Against this background, we remain encouraged by the continuing organic growth in the number of services we are providing through our Utility Warehouse brand, which reached 2,181,704 (2015: 2,093,447) by the year end – an increase of more than 88,000 services during the year. Within this total, there has been a significant improvement in customer quality, with 76,765 (2015: 58,753) residential Members now taking all of our five core services (landline, broadband, mobile, gas and electricity).

This has been driven by our decision to re-invest the money we were spending on introductory offers into making our 'Double Gold' bundle (for Members switching all their utilities to us) even more attractive, which we anticipate will lead to lower churn and higher customer satisfaction over the medium term and will materially increase their lifetime value.

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 membership service team, including being ranked as one of the top three suppliers in all the surveys we were featured in, and being shortlisted as 'Best Telecom Services Provider' at their 2016 Annual Awards. We were also recognised by Moneywise for three awards: (i) Best Gas and Electricity Provider for Value for Money; (ii) Best Gas and Electricity Provider for Service; and (iii) Most Recommended bundle Provider - Broadband, Landline and Mobile. Likewise the UK Institute for Customer Service ranked us second (behind Amazon) for customer satisfaction in a recent national cross-industry survey. This is a reflection of the continuing focus and significant resources invested into delivering the best possible service to our Members.

Results overview

Our financial performance reflects the organic growth over the last two years in the number of services we are providing to our Members and an improvement in gross margins from our telephony services, partially offset by higher office occupancy and payroll costs following the move into our new headquarters last spring.

Revenue growth was adversely affected by a fall in average energy consumption within our domestic membership base compared with the previous year, reflecting the progressive impact of the energy efficiency measures that have been delivered by the industry over the last few years; this was exacerbated by lower average energy prices during the year following the price reductions we implemented in early 2015.

Our bad debt charge for the year fell, reflecting the improving quality of our membership base, and we are pleased that delinquency levels (which are a useful lead indicator of future bad debt) saw a further marginal reduction over the course of the year.

In line with previous guidance, we are proposing a final dividend of 24p (2015: 21p), bringing the total for the year to 46p (2015: 40p); this represents an increase of 15% compared with last year, and will be paid on 29 July 2016 to shareholders on the register at the close of business on 8 July 2016 subject to approval by shareholders at the Company's AGM which will be held on 22 July 2016. We remain committed to a progressive dividend policy consistent with the underlying strong cash generation of our business.

Opus

Our share of the profits from Opus Energy Group Limited ('Opus'), in which we maintain a 20% stake, fell slightly to £5.6m (2015: £6.0m) for the year. This performance, during a year in which it achieved further significant growth in customer numbers, was broadly in line with expectations, and reflects the impact of the removal last summer of the exemption from Climate Change Levy ('CCL') for business customers supplied with European power. We anticipate that Opus will deliver a further strong performance in the coming year.

Churn

Our churn has risen as a result of the attractive introductory deals being offered by other suppliers. Notwithstanding the record numbers of households switching energy supplier over recent months, it is most encouraging that our energy churn remains below the industry average.

Competition and Markets Authority ('CMA')

The CMA issued their draft report into the energy industry during March. We consider they have missed an opportunity to address the main issue within the industry, where virtually all other suppliers (excluding ourselves) are using the higher margins earned on legacy customers to cross-subsidise the costs of attracting new customers. We expect this gap to narrow significantly once other suppliers either choose to start acting more responsibly, and/or commodity prices start rising.

Business Development

The continuing downward trend in energy prices has created a temporary and artificial environment where new entrants (who carry neither the burden of energy hedged at historically higher prices nor an obligation to meet the same environmental and social costs imposed on larger and more established suppliers) can offer highly attractive introductory short term fixed-price deals, creating a record gap between the introductory prices available to those who switch, and the standard variable tariffs paid by the vast majority of domestic consumers.

As a result, the market has polarised between the 'Big 6', who are broadly maintaining profitability whilst losing customers, and an increasing number of independent suppliers at the other end of the spectrum, who are gaining market share but (almost without exception) incurring significant losses whilst doing so. All of these market participants are reliant on the same wholesale costs and use the same distribution channels (namely price comparison sites and bulk switching initiatives) to attract customers who generally choose their new supplier based predominantly on price and, in many cases, will switch again as soon as they reach the end of their introductory fixed-price period.

By virtue of our unique route to market and focus on treating our Members fairly, we have found a balance which combines sustainable growth in both service numbers and profitability, thus creating real long term value for all our stakeholders.

Last autumn we announced the nationwide rollout of Project Daffodil, our innovative free LED light bulb replacement service. This is only available to Members (both new and existing) who have switched all their utilities to us, and is expected to reduce their electricity bills by around 11%; this goes a long way towards narrowing the gap between our energy prices and the introductory tariffs available elsewhere for potential new Members, and ensures our Partners can quote substantial savings for over 70% of UK households compared with the prices they are currently paying. This has resulted in a significant improvement in the quality of new Members joining the Club, as well as an increase in the number of existing Members who are adding additional services in order to take advantage of this valuable benefit.

More recently, we launched our first mobile app for our Members, giving them the opportunity to submit meter readings, top-up their mobile and/or CashBack card, track their mobile usage, and find their nearest CashBack retail partners; further functionality will be added in due course.

We remain focussed on growing our business to one million households (and beyond) over the medium term, although it is apparent that growth will be faster during periods when market conditions are favourable, and slower when (as currently) the competitive environment is more challenging. In the meantime we are pleased that the quality of our membership continues to improve and view this as a key driver of future shareholder value.

Route to Market

Significant numbers of new Partners continued to join the business during the year, taking the total number of registered Partners at the year end to 45,808. Whilst this is below the level we reported 12 months ago, this simply reflects a normal rate of cancellations by some of the record number who had joined the previous year but found themselves unable (for whatever reason) to take advantage of the opportunity we offer to build an attractive and secure part-time additional income.

Whilst it is more challenging for Partners to gather new Members and build their Utility Warehouse businesses when there are such large pricing differentials in the energy markets, we have been pleased to see many of them still achieve significant success during the year by focussing on the unique strengths of our proposition and the exclusive benefits we offer.

We have invested in improving the personal development programme we make available, free of charge, to both new and existing Partners. This was enhanced during the year with the introduction of a re-vamped classroom based skills training course, designed to help them gather Members more effectively and build a growing long-term residual income.

It is encouraging that despite the absence of 'loss leader' introductory deals for new Members, the combined impact of our improved training courses, effective Partner incentive structure, and attractive benefits for 'Double Gold' Members (including free replacement LED light bulbs), means we are continuing to see a consistently high proportion of new Partners making a successful start to building their Utility Warehouse business.

Board Changes

We are delighted to announce the appointment of Beatrice Hollond as a new independent non-executive director, who will be joining the board of the Company in September. Bea is a member of the Board of Brown Advisory, a non-executive director of M & G Limited, a non-

executive director at Templeton Emerging Markets Investment Trust, Chairman at Millbank Investment Managers, Chairman at Keystone Investment Trust and non-executive director and Chairman of the Audit Committee at Henderson Smaller Companies Investment Trust. She spent 16 years at Credit Suisse Asset Management in Global Fixed Income and began her career as an equity analyst at Morgan Grenfell Asset Management. It is expected that she will bring a refreshing new perspective to the Board.

We are sorry to bid farewell to Michael Pavia, who will be retiring at the forthcoming AGM, having completed a little over nine years as an independent non-executive director with the Company. During that time he has made a much valued contribution to the business, both as a member of the board and as Chairman of the Audit Committee. He leaves with our sincere thanks and best wishes for the future.

Julian Schild, current senior independent non-executive director, will replace Michael Pavia as Chairman of the Audit Committee at the forthcoming AGM. In addition to having been Group Finance Director of Huntleigh Technology PLC, Julian is also a member and former Chairman of the Finance and Audit Committee of the Hospital of St John & Elizabeth in London. The chairmanships of the other committees of the Board will be reviewed in the coming year.

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.

We propose to amend our remuneration policy by introducing a new long term incentive plan, which has the potential to provide entrepreneurial rewards to the management team for creating significant real shareholder value over a 10 year time frame. Full details of this new plan (which will include malus and clawback provisions in line with current best practice) are included in the Directors' Remuneration Report in the Annual Report.

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

Outlook

Recent Trading

Our annual sales conference took place on 19/20 March, and was attended by over 6,000 Partners. The focus was on making our 'Double Gold' bundle easier for them to promote, and we also announced a new Refer-A-Friend scheme.

As a result we have seen a significant improvement in the quality of new Members over the last 10 weeks, albeit in relation to quantity we are only running slightly ahead of the level achieved in the previous quarter. The proportion of new Members being signed up by our Partners who take our 'Double Gold' bundle is now running at c. 55%. This compares with

just 34% of new Members on a like-for-like basis in August 2015, the month immediately before we announced the national rollout of Project Daffodil.

Energy Prices

Within the energy sector significant costs will be incurred 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, fund capacity incentives, and to pay for the various renewable energy programmes which have been introduced. These are expected to exert upward pressure on retail energy prices over the next few years, although their impact is currently being offset by the fall in wholesale energy commodity costs we have seen over the last 30 months.

Regulatory

The Competition and Markets Authority has been carrying out a detailed review of the domestic energy market, and their final report is due to be published shortly.

We welcome their draft proposals to remove the current restrictions on discounts, bundling, and the number of tariffs each supplier can offer, which will significantly increase our flexibility to offer an attractive choice of packages as we expand our existing range of services in future.

However, we were disappointed that the CMA did not propose more radical initiatives to address the widespread practice within the market by other suppliers of offering new customers attractive introductory deals, at the expense of the vast majority of their customer base who pay significantly higher prices on a standard variable tariff; in our view, this was a missed opportunity to create a fairer energy market for consumers, protecting those who (for whatever reasons) choose not to engage with the energy market on a regular basis.

We have started rolling out the installation of smart meters for our Members, and this programme is expected to gather pace as we head towards the 2020 target completion date for replacing all domestic meters. However, the continuing delays in finalising the specification of SMETS2 meters, in getting them certified, and in the smart Data Communications Company ('DCC') testing schedule, have created a broad consensus amongst energy suppliers that the original target completion date for this programme is no longer achievable, and maintaining this deadline will simply lead to even higher fulfilment costs which will ultimately be borne by consumers.

We remain concerned at the high and increasing costs imposed on the industry in order to comply with government policy, much of which seems to be imposed with inadequate thought apparently given to delivering such initiatives in a way that will minimise costs, which ultimately get passed on by suppliers to customers through higher bills. Examples include the current faster switching initiative, the establishment of Smart Energy GB, the structure of the smart meter roll-out programme, the over-engineering of the specification for the DCC, and the unrealistic time-frames which are invariably adopted for any industry change.

Regulation has an important role to play in ensuring the energy markets are operating in a transparent manner, creating a framework which encourages real competition, protecting the rights of consumers, and ensuring they receive a fair deal for their energy. However, it is not clear that the right balance has recently always been struck. We look forward to a less detailed and more principles-based approach in future, where innovation can flourish, and there is a clearer understanding of the need to reduce the burden of regulation which ultimately falls on those least able to afford it – namely domestic customers.

Within the telecoms markets, we were pleased to see the EU decision blocking the proposed merger between the '3' and O2 mobile networks, which ensures that four networks will remain available for Mobile Virtual Network Operators ('MVNO's') such as ourselves to work with in future. We retain a good working relationship with EE following their recent acquisition by BT, and have recently extended our MVNO agreement with them on improved commercial terms; this includes giving us access to their 4G network later this year.

We were also pleased to see the announcement earlier this year that the Government is committed to deregulating the domestic water supply market before the end of the current parliament. This potentially creates an exciting new opportunity for us to add the supply of water to the existing range of utilities we offer, further extending the benefits to consumers of our integrated multi-utility approach.

Prospects

Notwithstanding the slower growth levels currently being achieved, we remain excited about the medium-term prospects for the business. Wholesale energy prices will not continue falling forever, and when the direction changes, the competitive environment will change very quickly. We believe we are in a strong position to take advantage of this when it happens.

In the meantime, there is much that we can (and will) do to strengthen the business, improve our financial and operating performance, and position ourselves for the future:

1. Senior Management Team

We continue to seek to attract the very best talent available, and over the last year have appointed a Chief Technology Officer and Legal and Compliance Director. We are also in the process of materially strengthening our Technology teams and have a number of further important middle and senior management positions we are actively looking to fill.

2. IT systems

Whilst our existing systems still have the capacity for significant future growth, and are delivering an exceptional level of operational efficiency relative to our competitors, we recognise that advances in technology mean that significant further improvement is possible. We are therefore investing in upgrading and enhancing our systems progressively over the next three to five years in order to benefit from this opportunity and build upon the competitive advantage we currently enjoy.

3. Member retention

We are currently improving our processes and recruiting additional employees to build our retentions team with a view to reducing the number of Members we lose each month, particularly as a result of people moving home.

4. Retail proposition

We constantly search for opportunities to make the proposition we offer our Members more attractive and look forward to launching a 4G mobile service later this year. We are considering how and when to change our current bundle and discount structure to take advantage of the more flexible rules being introduced into the energy market following the conclusion of the CMA enquiry.

5. Insurance

We believe there is an exciting opportunity to offer our Members a range of insurance products, where: (i) the cost of the policies they choose can be paid to us monthly alongside the other essential household services we supply; and (ii) they will not need to switch to a new insurer each year in order to retain a competitive deal. We intend to start with home insurance (buildings and contents), with a view to expanding the range in due course to include motor, pet and travel cover.

6. Improving our digital presence

We have recently launched both a new online Clubhouse and a mobile app for Members. Future plans include an improved investor relations website, and a new online Partner portal to help them manage and build their Utility Warehouse businesses more effectively.

7. Direct Marketing

We have trialled a number of direct marketing campaigns to existing Members to encourage them to take additional services, using the opportunity of receiving free LED bulbs to induce them to do so. We are planning to roll this out to a wider cross-section of our existing membership base over the coming months, as well as targeting former Members as part of a win-back campaign.

In the meantime, the steadily improving quality of our membership base is extremely encouraging, and gives us good visibility over future revenues and margins on the various services we provide.

In the absence of unforeseen circumstances, we expect adjusted pre-tax profits for the current year to be between £55m and £59m and to increase our dividend in line with growth in adjusted earnings per share.

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
13 June 2016

Chief Executive's Review

Markets

We supply a wide range of essential services under the Utility Warehouse brand (gas, electricity, landline, broadband and mobile) to both domestic and small business Members throughout the UK; 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 offering highly competitive introductory deals promoted through price comparison sites.

Business model

We have a fundamentally different business model to any other utility provider in the UK in three key respects:

- we operate our business as a Discount Club; each of our customers becomes a Member, receiving a level of service commensurate with that status;
- we are the only fully integrated provider of both energy and communications services in the country. This enables us to enjoy unparalleled levels of operating efficiency as we are able to spread a single set of overheads across the multiple revenue streams that we derive from each of our Members; and
- we have a unique route to market, with an 'army' of over 45,000 part-time self-employed Partners; rather than seeking to attract new Members through expensive advertising or price comparison sites, we instead benefit from personal recommendations by both our Partners and our 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, we reward our existing Members with shopping vouchers when they introduce a new Member to the Club.

We continue to follow a different strategy to that of our competitors in both the energy and communications markets, focussing on delivering an integrated multi-utility proposition that includes three key benefits: **Savings** (compared with the prices they were previously paying), **Simplicity** (just one convenient monthly bill making it easier to manage a significant part of their monthly household budget), and **Service** (delivered by our award-winning UK-based support teams).

These benefits are supported by our commitment to treating our Members fairly, avoiding the typical marketing strategy adopted by our competitors of combining cheap introductory deals for new customers with much higher tariffs charged to their legacy customer bases. We believe their approach is not only fundamentally unfair on loyal customers, but less likely to create a sustainable long term business, as customers who have chosen to switch once based solely on the headline price on a comparison site will have a higher propensity to do so again when their introductory deal expires.

Our alternative approach is to focus on treating all our Members in a fair manner, and to give everyone consistently good value on all their services, rewarding loyalty and commitment with additional discounts and benefits available to our most valuable and long-standing Members.

The delivery of these core values is critical to our route to market, giving our Partners the confidence to promote our services to their friends and family – as well as generating recommendations from existing Members who in many cases also become advocates for our brand. The Net Promoter Scores ('NPS') of around +45-50 that we consistently achieve reflect our relentless focus on this goal, and are in stark contrast to the negative NPS scores prevalent within the utility and telecoms markets.

Against a backdrop where most of our competitors seem focussed almost solely on price, we believe that genuinely earning the **Trust** of our Members is the key point of differentiation that will enable us to achieve our medium term growth objectives and help us maximise long term shareholder value. By treating our Members fairly, as we would like to be treated ourselves, we aim to earn both their loyalty (which delivers long term, sustainable revenues) and their enthusiasm for our business model (which creates growth through referrals).

We have taken a number of steps in this direction over the past few years, culminating in our decision last year to stop offering introductory short-term discounts to new Members as an incentive to switch; this reflects our view that it is unfair for existing loyal Members not to be able to benefit from the same prices and tariffs as those offered to new ones.

Simultaneously we are progressively segmenting our customer base, based on their expected lifetime value as a Member, by increasing the value we provide to those who will deliver the highest returns. This means for example, that owner-occupiers who have switched all their utilities to us can now choose from a range of extra benefits, in addition to taking advantage of our free LED replacement light bulb service.

We continue to invest 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 membership support 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. We are embarking on a programme to enhance and update these systems over the course of the next three to five years, and look forward to the greater business efficiency this will deliver in due course.

We are extremely pleased with the further progress we have made this year in taking advantage of our multiple key points of differentiation, and towards securing our position as the Nation's most trusted utility provider.

Strategy

Our strategy is to build on the consistent strong organic growth we have historically delivered in order to progressively increase our share of the markets in which we operate, and to build a robust, sustainable and profitable business.

We will achieve this by maintaining our focus on delivering best-in-class service and support to our Members, treating them fairly, investing in our systems and staff. We will seek to simplify and, where possible, improve 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 build upon our existing strong relationship with our Members by offering them improved service and better value on services they currently obtain from other suppliers, whilst also delivering a satisfactory return for our shareholders. Later this year we hope to introduce our first insurance product; in the medium term we look forward to supplying water; and in the longer term, other potential new services might include television and home

emergency cover (including boiler cover), and combining the national rollout of smart meters with other 'connected home' products and services to leverage our position as the only fully integrated multi-utility supplier in the country.

Operational performance and non-financial KPIs

Despite a challenging competitive environment, 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 88,257 (2015: 208,753)
- materially higher proportion of Members taking our 'Double Gold' bundle
- improved delinquency levels
- positive reviews and recognition from *Which?* for both energy and telephony services
- Best Gas and Electricity Provider for both Value for money and Service – Moneywise
- Most Recommended bundle Provider for Broadband, Landline and Mobile - Moneywise
- The UK 2016 Customer Satisfaction Index: second place (behind Amazon) in a national cross-industry customer satisfaction survey conducted by the UK Institute of Customer Service
- 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 remain extremely attractive to both Members and Partners respectively.

Our continuing organic growth is underpinned by high levels of confidence amongst our Partners in our brand and financial strength, the good value we provide through our fair pricing policies, and our commitment to delivering best-in-class service and support to our Members.

Members

	<u>2016</u>	<u>2015</u>
Residential Club	568,986	551,322
Business Club	29,627	30,191
Total Club	598,613	581,513

Whilst we continue to regard our Business Club as an exciting long-term opportunity, the dynamics of this market make it extremely difficult to grow in the current energy wholesale pricing environment. Our focus will therefore remain on the domestic market, until market conditions become more favourable.

Within the residential Club, there is a significant difference in average expected customer lifetimes between Members (and therefore in the revenues and profits they will generate), depending on whether they are an owner-occupier, and on the number of services we are providing to them.

The most attractive category, with a calculated expected average lifetime of around 25 years, are owner-occupiers taking our 'Double Gold' bundle. Our focus on attracting this type of Member has been reflected in an increasing proportion of new Members switching all their services to us (landline, broadband, mobile, electricity and/or gas) to us over the last two years, as can be seen from the figures below:

**Percentage of new
Members taking
'Double Gold' bundle**

Q1 FY15	21.1%
Q2 FY15	24.6%
Q3 FY15	23.6%
Q4 FY15	27.7%
Q1 FY16	35.3%
Q2 FY16	35.3%
Q3 FY16	46.3%
Q4 FY16	47.7%

In March 2015 we made it more attractive for owner-occupiers to take this bundle from us by introducing a range of additional benefits and a new two-year fixed energy tariff. The subsequent step change in the second half of FY16 reflects the national launch of Project Daffodil, our free LED replacement light bulb service.

In March 2016 we announced a further improvement in our retail proposition, by making Project Daffodil available to certain 'Double Gold' tenants. As a result, we are very pleased to have seen a further increase to around 55% in the proportion of new Members gathered by our Partners who are now taking our 'Double Gold' bundle.

Within our membership base churn has increased slightly compared with last year. This is best illustrated by the level of individual energy supply point churn, which has risen to an average of around 1.1% per month, driven by higher levels of switching throughout the energy market, and reflecting the record gap between the introductory fixed price deals available from other suppliers and the range of tariffs we offer. Whilst never pleasing to see churn levels rising, the proportion of energy customers leaving us remains below the industry average:

**Energy
supply point churn**

FY11	16.3%
FY12	13.3%
FY13	11.2%
FY14	10.4%
FY15	11.2%
FY16	13.1%

Average revenue per Member has fallen slightly for a third consecutive year, as the combined impact of falling average energy consumption and lower retail energy tariffs outweighed the benefit from the higher penetration of communications services (particularly mobile) that we are now seeing:

**Average Revenue per
Member**

1999	£190
2000	£286
2001	£316
2002	£329
2003	£459
2004	£482
2005	£505
2006	£634

2007	£801
2008	£819
2009	£1,064
2010	£1,149
2011	£1,137
2012	£1,186
2013	£1,359
2014	£1,304
2015	£1,279
2016	£1,226

(These revenue figures relate solely to our Customer Management operating segment, the figures for 2008 to 2014 inclusive are restated as detailed in the 2015 Annual Report)

Services

The full range of services we offer includes landline telephony (calls and line rental), broadband, mobile, gas, electricity, and our CashBack card. At the year end, we supplied a total of 2,181,704 services to Club Members (2015: 2,093,447), an increase of 4.2% during the year.

	<u>2016</u>	<u>2015</u>
Electricity	542,430	525,024
Gas	440,872	430,517
Fixed Telephony (calls and NGN)	306,087	301,594
Fixed Telephony (line rental)	286,763	278,903
Broadband	256,777	245,625
Mobile	169,136	144,350
CashBack card	179,639	167,434
Total	2,181,704	2,093,447
Residential Club	2,096,730	2,008,241
Business Club	84,974	85,206
Total	2,181,704	2,093,447

All the core services we provide (landline, broadband, mobile, gas and electricity) grew during the year, with the highlight being a 17% rise in the number of mobile services. This increase means that penetration of mobile within our residential Club has now reached almost 30%, a substantial increase from less than 13% just six years earlier, and the direct result of a strategic decision to place mobile at the heart of our retail proposition.

We improved the competitiveness of our mobile service by launching a new range of price plans in January 2016, and anticipate making 4G available to our Members this autumn which should provide a further boost to the number of mobile services we provide.

CashBack

Our exclusive CashBack card has proven 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 an

automatic credit on their next monthly bill from us. Since launching the programme, the total value of CashBack credited to Members now exceeds £28m.

We have seen a 7% increase during the year in the number of cards in issue to 179,639 (2015: 167,434), with around 50% of new residential Club Members gathered directly by our Partners applying for a card. We believe this continuing strong demand demonstrates the attractiveness of this unique membership benefit, and would be even higher were it not for the difficulties faced by some new Members in funding the switch from paying in arrears on their credit card, to paying for their purchases in advance with our prepayment card.

CashBack earned by our Members using our online shopping portal has increased further, with retail spend now running at over £1m each month. We continue to develop ways to make it easier for our Members to earn CashBack: we introduced a 'wizard' that automatically notifies Members that CashBack is available when they visit one of our online retail partners, and our new mobile app helps them locate all the nearby retail outlets where they can earn CashBack with their CashBack card.

The CashBack that we pay to our Members each month is funded entirely by the retailers in the programme, and many Members achieve a reduction of 20% to 30% on the amount they pay for their utilities simply by using their CashBack card (instead of an alternative payment card) for most of their regular household shopping, and/or our online shopping portal.

Member Service and Support

We pride ourselves on delivering first-class service to our Members through a single support 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 ratings we receive in *Which?* magazine for the quality of the service and support provided to our Members, and the overwhelmingly positive feedback we receive from Members in our own surveys.

We were particularly proud to be placed second (behind Amazon) for customer satisfaction in a recent major national cross-industry survey published by the UK Institute of Customer Service. This provides yet another independent third party validation of the strong NPS scores we measure internally, in addition to the continuing awards and recognition we receive from *Which?* and *Moneywise*.

Partners

Our Partners are one of the key strengths of our business. In contrast to the routes to market adopted by other suppliers of similar 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 Members 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 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 offer a hire purchase scheme which gives Partners access to a Tablet so they can present the benefits of our unique Discount Club more effectively.

Our Car Plan, which provides eligible Partners with a subsidised Utility Warehouse branded BMW Mini, remains extremely popular with around 800 vehicles now delivered (2015: c.700). Owners inform us that they find these helpful in raising their local profile, resulting in enquiries from both potential new Members and Partners.

IT Systems

We are taking advantage of the current slower organic growth to review and improve some of the systems and processes which have evolved over the course of the last 18 years, and to prepare for the introduction of new services (eg: 4G mobile, insurance and water). Despite our operating costs already being lower than those of any of our peers on a like-for-like basis, we have identified scope for significant further improvement. Whilst the additional costs required to enhance our current IT systems to obtain these operating efficiencies and introduce these new services are meaningful, we are confident that this investment will pay dividends over the medium term both through efficiency gains and from the revenues generated by the new services being supported.

Andrew Lindsay MBE

Chief Executive Officer

13 June 2016

Financial Review

Overview of Results

	Adjusted ¹			Statutory		
	2016	2015	Change	2016	2015	Change
Revenue	£744.7m	£729.2m	2.1%	£744.7m	£729.2m	2.1%
Profit before tax	£54.4m	£52.2m	4.2%	£40.7m	£42.1m	(3.3)%
Basic EPS	56.7p	53.0p	7.0%	39.8p	40.6p	(2.0)%
Dividend per share	46.0p	40.0p	15.0%	46.0p	40.0p	15.0%

¹ 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 energy supply arrangements with Npower in December 2013.

Summary

The increase in revenue during the year has been driven by continuing organic growth in the number of services we provide, partially offset by lower energy prices and lower average household energy usage compared with the previous year.

The improvement in adjusted pre-tax profits of 4.2% reflects the underlying increase in the average number of services being supplied during the year, improving gross margins from our telephony services, offset by lower energy prices, and higher payroll and occupancy costs following our move into larger offices last spring.

Within our Customer Acquisition operating segment, the combination of lower growth and a reduction in promotional activity, partially offset by additional costs relating to Project Daffodil (the provision of free LED light-bulbs to multi-service Members) resulted in reduced losses of £14.6m (2015: £15.5m).

Distribution expenses reduced slightly to £21.4m (2015: £21.9m), reflecting lower promotional costs associated with gathering new Members offset by an increase in commissions paid to Partners.

Administrative expenses increased during the year by £5.8m to £52.4m (2015: £46.5m) mainly as a result of higher staff costs and higher occupancy costs associated with moving into larger offices.

Adjusted earnings per share increased by 7.0% to 56.7p (2015: 53.0p). In accordance with previous guidance and our strong cash position, the Board is proposing to pay a final dividend of 24p (2015: 21p) per share, making a total dividend of 46p (2015: 40p) per share for the year.

Margins

Our overall gross margin for the year was 16.6% (2015: 15.9%) reflecting an improving gross margin on our telephony services where higher fixed monthly charges have more than offset the continuing downward trend in landline call spend, higher mobile penetration, and a change in revenue mix where energy (which has a lower margin than telephony) represented a smaller share of overall revenues. Over the medium term, we expect our gross profit margins to remain within the previously stated range of 15% to 17%, subject to the impact from any new services which may be introduced and energy price movements.

Customer Management

We have continued to achieve steady growth in the number of services we are supplying, with an increase of over 88,000 services during the course of the year. This takes the total number of services provided within our Discount Club to almost 2.2 million – an increase of 4.2% compared with the previous year.

We continue to focus on making it easier for Partners to gather new Members by simplifying our processes, improving membership benefits, making our prices more competitive, and improving the quality of service and support we provide to our membership base. As a result, all our core services have continued to see organic growth in a challenging competitive environment.

Revenues increased overall, notwithstanding both lower average energy consumption and lower retail gas prices compared with the previous year:

£m	2016	2015
Electricity	313.7	304.7
Gas	273.9	278.4
Landline and Broadband	102.1	93.7
Mobile	24.4	20.3
Other	13.8	15.5
	727.9	712.6

Customer Acquisition

Our Customer Acquisition operating segment loss reduced during the year to £14.6m (2015: £15.5m), mainly reflecting a reduction in the number of new Members signing up during the year as a result of the lower level of promotional activity; this was partially offset by additional costs relating to Project Daffodil, our free LED replacement light bulb service.

Following a successful regional trial, Daffodil was rolled out on a nationwide basis during the second half of the year, with installations gathering pace from January 2016 onwards. The full costs associated with providing this service to each Member are being expensed in the month in which the light bulbs are fitted, notwithstanding that this benefit is only available to multi-service Members who have the longest expected customer lifetimes. The overall cost of providing this service is expected to increase during the current financial year, as it will include a full 12 months of installation activity, compared with just three months for last year.

Distribution and Administrative Expenses

Distribution expenses include both the share of our revenues that we pay as commission to Partners, and other direct costs associated with gathering new Members included as part of the Customer Acquisition Segment result for the year. These reduced slightly to £21.4 m (2015: £21.9m), as the increase in residual commission we pay to Partners was more than offset by reduced promotional costs associated with gathering new Members.

Within administrative expenses, the bad debt charge for the year fell to 1.2% of revenues (2015: 1.5%), falling in absolute terms to £8.4m (2015: £10.7m).

The number of prepayment meters we installed during the year, many of which were provided at the Member's own request, fell to 6,775 (2015: 8,642), reflecting our slower rate of growth. This reflects our efforts over the last few years to attract and retain high quality multi-service owner-occupiers. At the end of the year we had an installed base of 71,026 (2015: 68,066)

prepayment meters, representing approximately 7.2% of the energy services we supply; this remains significantly below the average level of prepayment meters within the industry of around 16% (source: CMA).

Delinquent Members

FY12	1.46%
FY13	1.23%
FY14	1.15%
FY15	1.10%
FY16	1.09%

Delinquency (the proportion of Members who have at least two energy bills outstanding) has been on a steady downward trajectory over the last few years, and we are pleased that this trend has continued over the last 12 months, albeit at a lower rate.

The average number of employees increased from 787 to 908. This reflects our commitment to continue delivering the best possible experience to our Members (increasing numbers of which are taking multiple services from us), the additional services we are now supporting (such as Daffodil and smart meters) and a significant ongoing investment in strengthening our management team. Personnel expenses (excluding the non-cash accounting cost of share incentive schemes) increased by 15.4% during the year to £30.8m (2015: £26.7m).

Overall, administrative expenses increased during the year by £5.8m to £52.4m (2015: £46.5m) mainly as a result of higher staff costs, higher occupancy costs associated with moving into our new offices, costs associated with the launch of Project Daffodil, industry and internal costs related to the introduction of smart meters, partly offset by a lower bad debt charge.

Opus

Our share of the profits from Opus Energy Group Limited ('Opus'), in which we maintain a 20% stake, fell during the year to £5.6m (2015: £6.0m) in line with expectations, following the impact of the removal of the exemption from Climate Change Levy ('CCL') for business customers supplied with European power last summer. Opus continues to grow its market share in the supply of gas alongside electricity into the small business and corporate sector, building on its profitable and highly cash generative business model.

We received a dividend of approximately £5.5m from Opus in April 2016.

Our shareholding in Opus is valued on our balance sheet at £11.6m in line with standard accounting policy, notwithstanding the likelihood that its market value is substantially in excess of this figure.

Cash, Capital Expenditure and Working Capital

Our cash balances at the year-end increased to £35.3m (2015: £16.5m) following a strongly cash generative year.

Our overall working capital position benefitted from a year on year cash inflow of £7.5m, largely due to lower average energy consumption and payment timing differences related to our energy purchasing arrangements, which are expected to reverse in due course.

Under the terms of our energy supply arrangements, Npower remains responsible for funding the working capital requirements associated with providing energy to Members who have chosen to pay on a Budget Plan.

In December we took advantage of the favourable banking environment for corporate borrowers with strong credit profiles, to re-finance and extend our existing facilities. We now have a fully revolving five year credit facility of £150m on improved terms. With a Net Debt/EBITDA ratio of only c. 1.0x we now have significant flexibility to take advantage of future opportunities for enhancing shareholder value and increasing our current rate of growth.

Borrowings

Our balance sheet at the year-end shows a net debt position of £56.3m (2015: £74.0m) including the deferred consideration of £21.5m payable to Npower in December 2016; this means we have significant headroom within our new borrowing facilities.

Dividend

The final dividend of 24p per share (2015: 21p) will be paid on 29 July 2016 to shareholders on the register at the close of business on 8 July 2016 and is subject to approval by shareholders at the Company's Annual General Meeting which will be held on 22 July 2016. This makes a total dividend payable for the year of 46p (2015: 40p), an increase of 15% compared with the previous year.

We believe our strong underlying cash flow, rising adjusted earnings and strong credit profile will enable us to refinance our remaining borrowings as they fall due, whilst maintaining a progressive dividend policy. We remain comfortable with previous guidance that further growth in adjusted earnings from the level we achieved 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 £2.5m (2015: credits of £1.0m). These relate to an accounting charge under IFRS 2 Share Based Payments ('IFRS 2') and arose principally as a result of the increase in the Company's share price over the year.

As a result of the relative size of share incentive scheme charges/credits 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) so that the underlying performance of the business can be clearly identified. Our current adjusted earnings per share have also 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 £8.9m (2015: £9.8m).

The effective tax rate for the year was 21.9% (2015: 23.2%).

Nick Schoenfeld

Chief Financial Officer
13 June 2016

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. No new principal risks have been identified during the year, and save as set out below, nor has the magnitude of any risks previously identified significantly changed during the year.

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) under the Utility Warehouse and TML brands. As a reseller, the Group does not own any of the network infrastructure required to deliver these services to its membership base. 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 Members.

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 Members, 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 the service provided to its membership base, reputational risk is principally mitigated through the Group's recruitment processes, a focus on closely monitoring staff performance, including the use of direct feedback surveys from Members (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 membership 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, generally long-standing, motivated and experienced individuals. The Group relies on this software and any failure in its operation could negatively impact service to Members and potentially be damaging to the Group's brand. During the year the Group recruited a new highly experienced Chief Technology Officer in order to strengthen the existing IT team.

All significant changes which are made to the billing and membership management software are tested as extensively as reasonably practicable before launch and are ultimately approved by the Chief Technology Officer and Billing departments in consultation with the Chief Executive as appropriate.

Back-ups of both the software and underlying billing and membership data are made on a regular basis and securely stored off-site. The Group also maintains a disaster recovery facility in a warm standby state in the event of a failure of the main system, designed to ensure that a near-seamless service to Members can be maintained.

The Group has full strategic control over the source code behind its billing and membership management system, thereby removing any risk of future software development not being able to meet the precise requirements of the Group.

Data security risk

The Group processes sensitive personal and commercial data during the course of its business. The Group looks to protect customer and corporate information and data and to keep its infrastructure secure. A significant breach of cyber security could result in the Group facing prosecution and fines, loss of commercially sensitive information, financial losses from fraud and theft, lost productivity from not being able to process orders and invoices, and unplanned costs to restore and improve the Group's security. This could damage the Group's brand which might take an extended period of time to rebuild. Ultimately, individuals' welfare could be put at risk in the event that the Group was not able to provide services or personal data was misappropriated. The Group uses high specification firewalling, network segmentation, and multifaceted network and endpoint anti-viral mitigation systems; external consultants are also used to conduct penetration testing of the Group's internal and external IT infrastructure.

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 and any failure to comply may result in the Group being fined and lead to reputational damage which could impact the Group's brand. 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 licenced gas and electricity supplier, and therefore has a direct regulatory relationship with Ofgem. If the Group fails to comply with its licence obligations, it could be subject to fines or to the removal of its respective licences.

Proposed 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 such additional costs are not expected to affect the net margins earned by energy suppliers in the longer term (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 seeks to maintain appropriate relations with both Ofgem and Ofcom (the UK regulators for the energy and communications markets respectively), the Department for Energy and Climate Change ('DECC'), and the Financial Conduct Authority ('FCA'). 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.

It should be noted that the regulatory environment for the various markets in which the Group operates is generally focussed on promoting competition; it therefore seems reasonable to expect that most potential 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, will always remain uncertain.

Political and consumer concern over 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 and telecoms markets within which the Group operates may have a material adverse effect on the Group's business, results of operations and overall financial condition.

Financing risk

The Group has 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 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 Members who are not considered creditworthy, the Group is obliged to supply domestic energy to everyone who submits a properly completed application form. Where Members subsequently fail to pay for the energy they have used ('Delinquent Members'), 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 Members from increasing their indebtedness are not always fully recovered.

Fraud and bad debt within the telephony industry may arise from Members using the services, or being provided with a mobile handset, 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 usage fraud. The Group is able to immediately eliminate any further usage 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 Members 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 Members' 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 Members, the significant quantities of each service they consume in aggregate, and our clearly differentiated route to market has historically proven attractive to infrastructure owners, who compete aggressively to secure a share of the Group's growing business.

The supply of energy has different risks associated with it. The wholesale price can be extremely volatile, and Member 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 Members, and where the price paid by the Group is set by reference to the average of the standard variable tariffs charged by the 'Big 6' to their domestic customers less an agreed discount; this may not be competitive against the wholesale prices paid by new and/or other independent suppliers. However, 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 and the costs of balancing.

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. New service innovations are monitored closely by senior management and the Group is generally able to respond within an acceptable timeframe by offering any new services using the infrastructure of its existing suppliers. The Group offers a unique multi-utility proposition. The increasing proportion of Members 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 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. In the event that smaller independent energy suppliers were to experience financial difficulties as a result of increasing wholesale prices for instance, it is possible that customers could also have a loss of confidence in the Group, given that it is also an independent energy supplier. 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 available to the Group. 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 membership 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 also 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 Members is reliant on the efficient operation of third party physical infrastructure. There is a risk of disruption to the supply of services to Members 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 Members could in due course be sourced from another provider.

Energy industry estimation risk

A significant degree of judgement and estimation is required in order to determine the actual level of energy used by Members and hence that should be recognised by the Group as sales. There is an inherent risk that the estimation routines used by the Group do not in all instances fully reflect the actual usage of Members. However, this risk is mitigated by the relatively high proportion of Members who provide meter readings on a periodic basis, and the rapid anticipated growth in the installed base of smart meters over the next four years.

Gas Leakage within the national gas distribution network

The operational management of the national gas distribution network is outside the control of the Group. There is a risk that the level of leakage in future could be higher than those historically experienced, and above the level currently expected.

Key man risk

The Group is dependent on its key management for the successful development and operation of its business. In the event that any or all of the members of the key management team were to leave the business, it could have a material adverse effect on the Group's operations.

Single site risk

The Group operates from one principal site and, in the event of significant damage to that site through fire or other issues, the operations of the Group could be adversely affected.

Acquisition Risk

The Group may invest in other businesses, taking a minority, majority or 100% equity shareholding, or through a joint venture partnership. Such investments may not deliver the anticipated returns, and may require additional funding in future.

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2016

	<i>Note</i>	2016 £'000	2015 £'000
Revenue	1	744,732	729,178
Cost of sales		<u>(620,858)</u>	<u>(612,969)</u>
Gross profit		123,874	116,209
Distribution expenses		(21,424)	(21,876)
Share incentive scheme charges		(36)	(151)
Total distribution expenses		(21,460)	(22,027)
Administrative expenses		(52,355)	(46,544)
Share incentive scheme (charges) / credits		(2,479)	1,173
Amortisation of intangible assets		(11,228)	(11,186)
Total administrative expenses		(66,062)	(56,557)
Other income		397	361
Operating profit	1	<u>36,749</u>	<u>37,986</u>
Financial income		126	133
Financial expenses		<u>(1,801)</u>	<u>(2,066)</u>
Net financial expense		(1,675)	(1,933)
Share of profit of associates		5,609	6,006
Profit before taxation		<u>40,683</u>	<u>42,059</u>
Taxation		<u>(8,909)</u>	<u>(9,758)</u>
Profit and other comprehensive income for the year attributable to owners of the parent		<u>31,774</u>	<u>32,301</u>
Basic earnings per share	2	<u>39.8p</u>	<u>40.6p</u>
Diluted earnings per share	2	<u>39.6p</u>	<u>40.2p</u>

Consolidated Balance Sheet

As at 31 March 2016

	2016	2015
	£'000	£'000
Assets		
Non-current assets		
Property, plant and equipment	33,063	41,800
Investment property	9,211	-
Intangible assets	198,364	209,592
Goodwill	3,742	3,742
Investments in associates	11,604	10,843
Other non-current receivables	13,800	13,929
Total non-current assets	<u>269,784</u>	<u>279,906</u>
Current assets		
Inventories	2,762	893
Trade and other receivables	27,749	28,128
Prepayments and accrued income	97,233	104,931
Cash	35,343	16,536
Total current assets	<u>163,087</u>	<u>150,488</u>
Total assets	<u>432,871</u>	<u>430,394</u>
Current liabilities		
Short term borrowings	-	(4,934)
Deferred consideration	(21,500)	-
Trade and other payables	(26,580)	(24,885)
Current tax payable	(936)	(1,086)
Deferred tax	(839)	(551)
Accrued expenses and deferred income	(114,583)	(115,472)
Total current liabilities	<u>(164,438)</u>	<u>(146,928)</u>
Non-current liabilities		
Long term borrowings	(70,152)	(64,139)
Deferred consideration	-	(21,500)
JSOP creditor	-	(1,507)
Total non-current liabilities	<u>(70,152)</u>	<u>(87,146)</u>
Total assets less total liabilities	<u>198,281</u>	<u>196,320</u>
Equity		
Share capital	4,016	4,011
Share premium	137,729	137,238
Treasury shares	(760)	(760)
JSOP reserve	(1,150)	(2,275)
Retained earnings	58,446	58,106
Total equity	<u>198,281</u>	<u>196,320</u>

Consolidated Cash Flow Statement

For the year ended 31 March 2016

	2016 £'000	2015 £'000
Operating activities		
Profit before taxation	40,683	42,059
Adjustments for:		
Share of profit/distributions from associates	(5,609)	(6,006)
Net financial expense	1,675	1,933
Depreciation of property, plant and equipment	3,596	1,834
Profit on disposal of fixed assets	(12)	-
Amortisation of intangible assets	11,228	11,186
Amortisation of debt arrangement fees	985	367
(Increase)/decrease in inventories	(1,869)	878
Decrease in trade and other receivables	8,202	14,914
Increase/(decrease) in trade and other payables	1,206	(7,427)
Share incentive scheme charges/(credits)	2,515	(1,022)
Corporation tax paid	(8,755)	(9,058)
Net cash flow from operating activities	<u>53,845</u>	<u>49,658</u>
Investing activities		
Purchase of property, plant and equipment	(4,080)	(20,306)
Disposal of property, plant and equipment	22	47
Distribution from associated company	5,474	4,148
Purchase of shares in associated company	(626)	(171)
Interest received	115	130
Cash flow from investing activities	<u>905</u>	<u>(16,152)</u>
Financing activities		
Dividends paid	(34,331)	(30,230)
Interest paid	(2,202)	(1,652)
Drawdown of long term borrowing facilities	71,241	-
Repayment of borrowing facilities	(70,000)	(30,000)
Fees associated with long term borrowing facilities	(1,147)	(315)
Issue of new ordinary shares	496	598
Purchase of own shares	-	(760)
Cash flow from financing activities	<u>(35,943)</u>	<u>(62,359)</u>
Increase/(decrease) in cash and cash equivalents	18,807	(28,853)
Net cash and cash equivalents at the beginning of the year	16,536	45,389
Net cash and cash equivalents at the year end	<u>35,343</u>	<u>16,536</u>

Consolidated Statement of Changes in Equity

For the year ended 31 March 2016

Consolidated	Share capital £'000	Share premium £'000	Treasury shares £'000	JSOP reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 April 2014	4,001	136,651	-	(2,275)	56,344	194,721
Profit and total comprehensive income	-	-	-	-	32,301	32,301
Deferred tax on share options	-	-	-	-	(1,861)	(1,861)
Dividends	-	-	-	-	(30,230)	(30,230)
Purchase of treasury shares	-	-	(760)	-	-	(760)
Credit arising on share options	-	-	-	-	1,552	1,552
Issue of new ordinary shares	10	587	-	-	-	597
Balance at 31 March 2015	4,011	137,238	(760)	(2,275)	58,106	196,320
Profit and total comprehensive income	-	-	-	-	31,774	31,774
Dividends	-	-	-	-	(34,331)	(34,331)
Credit arising on share options	-	-	-	-	1,224	1,224
Credit arising on exercise of JSOP	-	-	-	1,125	1,673	2,798
Issue of new ordinary shares	5	491	-	-	-	496
Balance at 31 March 2016	4,016	137,729	(760)	(1,150)	58,446	198,281

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 2016			Year ended 31 March 2015		
	Customer Management	Customer Acquisition	Total	Customer Management	Customer Acquisition	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	727,936	16,796	744,732	712,652	16,526	729,178
Segment result	51,305	(14,556)	36,749	53,451	(15,465)	37,986
Operating profit			36,749			37,986
Net financing expense			(1,675)			(1,933)
Share of profit of associates			5,609			6,006
Profit before taxation			40,683			42,059
Taxation			(8,909)			(9,758)
Profit for the year			31,774			32,301
Segment assets	411,292	9,975	421,267	410,842	8,709	419,551
Investment in associates	11,604	-	11,604	10,843	-	10,843
Total assets	422,896	9,975	432,871	421,685	8,709	430,394
Segment liabilities	(231,553)	(3,037)	(234,590)	(231,048)	(3,026)	(234,074)
Net assets			198,281			196,320
Capital expenditure	(3,988)	(92)	(4,080)	(19,845)	(461)	(20,306)
Depreciation	3,515	81	3,596	1,792	42	1,834
Amortisation	11,228	-	11,228	11,186	-	11,186

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

Revenue by service

	2016	2015
	£'000	£'000
Customer Management		
- Electricity	313,689	304,713
- Gas	273,889	278,367
- Fixed communications	102,085	93,706
- Mobile	24,434	20,334
- Other	13,839	15,532
	<u>727,936</u>	<u>712,652</u>
Customer Acquisition	16,796	16,526
	<u>744,732</u>	<u>729,178</u>

The Group operates solely in the United Kingdom.

2. Earnings per share

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

	2016	2015
	£'000	£'000
Earnings for the purpose of basic and diluted earnings per share	31,774	32,301
Share incentive scheme charges/(credits) (net of tax)	2,278	(1,316)
Amortisation of intangible assets	11,228	11,186
Earnings excluding share incentive scheme charges and amortisation of intangibles for the purpose of adjusted basic and diluted earnings per share	45,280	42,171
	Number	Number
	('000s)	('000s)
Weighted average number of ordinary shares for the purpose of basic earnings per share	79,789	79,581
Effect of dilutive potential ordinary shares (share incentive awards)	363	783
Weighted average number of ordinary shares for the purpose of diluted earnings per share	80,152	80,364
Adjusted basic earnings per share ¹	56.7p	53.0p

¹ 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.

Basic earnings per share	39.8p	40.6p
Adjusted diluted earnings per share ¹	56.5p	52.5p
Diluted earnings per share	39.6p	40.2p

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

3. Dividends

	2016	2015
	£'000	£'000
Prior year final paid 21p (2015: 19p) per share	16,734	15,105
Interim paid 22p (2015: 19p) per share	<u>17,596</u>	<u>15,125</u>

The Directors have proposed a final dividend of 24p per ordinary share totalling approximately £19.2 million, payable on 29 July 2016, to shareholders on the register at the close of business on 8 July 2016. In accordance with the Group's accounting policies the dividend has not been included as a liability as at 31 March 2016. 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 23.5% 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:

	2016	2015
	£'000	£'000
Short term employee benefits	1,377	1,202
Social security costs	184	296
Post employment benefits	80	83
	<u>1,641</u>	<u>1,581</u>
Share incentive scheme (credits)/charges	<u>1,555</u>	<u>(2,402)</u>
	<u>3,196</u>	<u>(821)</u>

During the year, the Company acquired goods and services worth approximately £59,000 (2015: £16,000) from companies in which directors have a beneficial interest. No amounts were owed to these companies by the Company as at 31 March 2016. During the year, the

Company sold goods and services worth approximately £33,000 (2015: £33,000) to companies in which directors have a beneficial interest.

During the year directors purchased goods and services on behalf of the Company worth approximately £161,000 (2015: £375,000). The directors were fully reimbursed for the purchases and no amounts were owing to the directors by the Company as at 31 March 2016.

Other related party transactions

Associates

During the year ended 31 March 2016, the associate supplied goods to the Group which amounted to £1,371,000 (2015: £1,054,000) and at 31 March 2016 the associate was owed £78,000 by the Group which is recognised within trade payables (2015: £78,000). Transactions with the associate are priced on an arm's length basis. Dividends received during the year from the associate amounted to £5,474,000 (2015: £4,148,000) relating to the financial year to 31 March 2015.

Subsidiary companies

During the year ended 31 March 2016, the Company's subsidiaries purchased goods and services from the Company in the amount of £50,519,000 (2015: £49,262,000). At 31 March 2016 the Company owed the subsidiaries £35,466,000 which is recognised within trade payables (2015: £37,787,000 owed by the Company to the subsidiaries).

5. Basis of preparation

The financial information set out above does not constitute the Group's statutory information for the years ended 31 March 2016 or 2015, 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 2015. Statutory accounts for 2015 have been delivered to the Registrar of Companies and those for 2016 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).

6. 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

Nick Schoenfeld – Chief Financial Officer
Melvin Lawson – Non Executive Director
Michael Pavia – Non Executive Director

By order of the Board