

TELECOMPLUSPLC

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21 May 2013

Telecom Plus PLC Final Results for the year ended 31 March 2013

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 2013.

Financial Highlights:

- Revenue up 27.6% to £601.5m (2012: £471.5m)
- Profit before tax up 12.7% to £34.6m (2012: £30.7m)
- Average revenue per customer up 14.5% to £1,363 (2012: £1,190)
- EPS up 14.5% to 38.7p (2012: 33.8p)
- Full year dividend up 14.8% to 31p per share (2012: 27p)

Operating Highlights:

- Strong organic growth
- Record increase in service numbers of 221,037
- Customer base now exceeds 461,000 (2012: 415,000)
- Continuing improvement in customer quality
- Lower churn

Andrew Lindsay, Chief Executive Officer, commented:

"I am very pleased with our strong performance this year, during which we have achieved record growth of more than 220,000 net services, taking the total number we provide to over 1.6 million.

"The quality of our customer base has continued to improve, with over 55% of new members applying for at least 4 core services during the year. This has resulted in lower churn, lower bad debts and higher average revenue per customer.

"We remain focused on delivering significant further organic growth over the coming years, building on the strong levels of distributor activity we have seen since our recent sales conference in March, and the solid foundations already in place. Our current market share of around 1.5% of the UK market clearly illustrates the scale of the opportunity we have."

There will be a meeting for analysts at the offices of N+1 Singer, 1 Bartholomew Lane, London, EC2N 2AX in London at 10.30 am today.

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About Telecom Plus PLC (“Telecom Plus”):

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

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

Telecom Plus also has a wholly owned subsidiary called TML, which supplies predominantly fixed line telephony to small and medium sized business customers through a network of authorised resellers and dealers.

Telecom Plus is listed on the London Stock Exchange (Ticker: TEP LN). For further information please visit: www.utilitywarehouse.co.uk where a full copy of the Annual Report and Accounts will be made available in due course.

Chairman's Statement

I am delighted to report another successful year for the Company, in which we have seen a further improvement in the quality of our customer base combined with strong growth in the number of services we are providing. As a result, revenue and profitability have both reached record levels.

Results

Pre-tax profits increased to £34.6m (2012: £30.7m) on revenue up by 27.6% to £601.5m (2012: £471.5m); earnings per share for the year rose by 14.5% to 38.7p (2012: 33.8p).

The rise in revenue is due to continued strong organic growth in the number of customers using our services, the progressive improvement we are seeing in the quality of our customer base, an industry wide increase in energy prices last autumn, and a significant increase in the amount of energy used by our customers during the year (following the swing from a warm winter last year to an exceptionally cold winter this year).

We remain encouraged by the strong growth in the number of services we are providing, which reached 1,602,060 (2012: 1,381,023) by the year end – a record increase of over 220,000 services during the year and comfortably ahead of the growth achieved during the previous year. This has been driven by a further rise in the proportion of new customers taking at least four of our core services (Gas, Electricity, Home Phone, Mobile and Broadband) to over 55% during the course of the year, and means that the average number of services taken by each residential Club member has now reached 3.80 (2012: 3.63).

The net investment within our Customer Acquisition operating segment increased to £10.1m (2012: £8.9m) reflecting an increase in the proportion of new members taking at least 4 core services combined with the continuing strong levels of organic growth we are achieving.

Cash generation during the year was in line with management expectations, with our net cash position of £0.8m at the year end being broadly unchanged compared with the previous year.

In line with previous guidance, we are proposing a final dividend of 18p (2012: 17p), bringing the total for the year to 31p (2012: 27p); this represents an increase of 14.8% compared with last year. We remain committed to our progressive dividend policy, and accordingly expect that dividends will continue to increase broadly in line with earnings growth.

We were delighted to receive a number of further endorsements from *Which?* magazine during the year recognising the value we offer and the quality of service provided by our UK based customer service team. This is a reflection of the significant effort and resources we have put into delivering the best possible service to our customers, consistent with our new focus on becoming the Nation's most trusted utility supplier. The impact of this investment is demonstrated by recent surveys carried out amongst our customers, in which we have consistently achieved a Net Promoter Score of +40; this is substantially better than the level reported by any other utility provider.

Energy Supply Arrangements

We continue to enjoy a strong working relationship with npower, who provide the wholesale gas and electricity used by our customers.

As previously reported, the wholesale price we pay under these arrangements will become progressively more competitive as we go through a series of pre-agreed thresholds relating to the size of our customer base. We anticipate that part of the additional margin this generates will be used to make our retail prices even more competitive.

Opus

Our share of the profits from Opus Energy Group Ltd ("Opus"), in which we maintain a 20% stake, increased during the year to £3.4m (2012: £2.7m). This excellent result reflects a continuing strong trading performance, and the successful progress they are making 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 32.8% to just over £358m (2012: £270m) and profit before tax increased from £18.0m to £22.4m.

We remain encouraged by the resilience of their business model and the strength and experience of their management team, and expect to receive a dividend of approximately £3m in July 2013. Our shareholding in Opus is valued on our balance sheet at £7.2m in line with standard accounting policy, notwithstanding the likelihood that its market value is substantially in excess of this figure; it remains our intention to maintain our stake in this rapidly growing, profitable and highly cash generative business for the foreseeable future.

Working Capital

Our year end balance sheet shows a net cash position broadly unchanged at £0.8m, notwithstanding an increase of £7.5m in our working capital during the year; this is consistent with the growth in our revenues compared with last year, and was largely unaffected by any impact of the exceptionally cold winter weather on budget plan debtors due to our unique wholesale supply arrangements with npower.

Going forward, the strong growth we are seeing in the number of mobile services we supply, particularly amongst customers requesting a 'free' smartphone on a 24 month contract, is expected to absorb increasing amounts of working capital over the next two years.

Dividend

The final dividend of 18p per share (2012: 17p) will be paid on 2 August 2013 to shareholders on the register at the close of business on 19 July 2013 and is subject to approval by shareholders at the Company's Annual General Meeting which will be held on 17 July 2013. This makes a total dividend payable for the year of 31p (2012: 27p).

We anticipate that further growth in earnings from the current level will be reflected in a corresponding rise in the level of distributions to shareholders, subject to any requirement to fund an increase in the working capital as the business continues to grow.

In line with this policy, we expect our total dividend for the current year will rise broadly in line with earnings growth.

Business Development

Over the last few years we have successfully taken a series of steps to improve the quality of our customer base, as a result of which we have seen the overall proportion of 'Gold Status' residential Club members taking at least four of our core services (Gas, Electricity, Mobile,

Home Phone and Broadband) rise progressively over the year to 39.5% (2012: 33.8%). As the penetration of Gold Status amongst new residential members has been running consistently above 55% since the range of benefits offered to them was strengthened in March 2012, we anticipate that this encouraging upward trend will continue.

This improving quality has led to a continuation of the downward trend in the level of churn within our residential Club over the last few years, which fell to an average of 1.2% per month during the final quarter. This clearly demonstrates the benefit we are deriving from the significant resources we have invested to attract and retain multi-service Gold Status members. We have also seen an encouraging reduction in our bad debt charge to £9.0m for the year representing 1.5% of revenue (2012: 2.0%).

To build on this progress, we have recently announced a new focus on building trust in every aspect of our business, with a view to establishing ourselves unequivocally as the Nation's most trusted utility supplier; to ensure we deliver what our members both want and expect from us; to provide customer service that is genuinely best in class; to improve the clarity and transparency of the benefits we offer; and to consistently exceed our customers' expectations.

This is an exciting opportunity for us, as utility providers in the UK have generally not historically enjoyed the trust and confidence of their customers. We believe that if we can successfully create a new type of relationship with them, it will generate material long term benefits for all stakeholders.

We are not helped in this mission by the specific requirement to give each new customer a 'personal projection' for how much their energy will cost in the first year after they switch to us, notwithstanding that the information needed to provide this accurately (such as their historical energy consumption, future energy prices, and whether the coming year will be warmer or colder than usual) is in most cases simply not available. We continue to lobby both Ofgem and DECC to remove this obligation, and in the meantime need to explain to customers the significant shortcomings with the figures they are being given.

Distribution Channel

The number of new distributors joining the business between April and December last year averaged around 900 per month. Since then, we have seen a significant increase to around 1,300 per month, taking the total number of registered distributors at the year end to a record high of almost 39,000 (2012: 37,263).

We believe the high level of interest in joining our business is being driven by the combination of increasing pressure on household budgets, growing awareness of our business, and the attractiveness of the secure part-time additional income opportunity we offer. We continue to enhance our compensation plan and training programme to help new distributors get started more quickly, and to promote our services more effectively.

Confidence and morale within the distribution channel remains extremely high, as reflected by the increase in both customer gathering and distributor recruitment activity we have achieved since the New Year. Our annual sales conference in March was attended by a record number of distributors, and we are delighted with the further boost this has given to the strong momentum we were already seeing.

Premises and Systems

We anticipate starting work this coming autumn on refurbishing the new headquarters office building which we purchased in February 2012. Once this 18-month project has been completed, it will provide sufficient office accommodation 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 numbers, without the need for any material further investment.

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

We held our annual sales conference over the weekend of 16 and 17 March, shortly before the year end, with over 6,000 distributors joining us. At this event we announced a number of incremental changes to our range of communications services, making them simpler, more competitive and easier to sell; these received a strong positive reaction from those present. In particular, we have seen an encouraging increase in the number of new customers ordering our mobile service, and in the proportion that are choosing a 'free' smartphone on a 24 month contract.

Our intention is to continue to build upon the momentum which the business has developed over the last few years, to further increase both the quality and quantity of new customers being gathered. We are maintaining our target to grow service numbers within our residential Club at 20% per annum for the next few years, despite falling slightly short of achieving this level of growth last year.

Achievement of this target will require us to continue simplifying our service proposition to make it easier for our distributors to sign up new members (thus improving the average productivity of new distributors), combined with effective direct marketing to both existing and former members.

The steadily improving quality of our customer base gives us good visibility over future revenues and margins on the various services we provide. Notwithstanding the additional investment in customer acquisition costs required to fund this continued rapid growth, we anticipate that earnings growth for the current year should be broadly in line with the growth we have reported in the number of services being taken by our customers for last year.

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.

Ofgem is currently considering responses from interested parties to the latest proposed changes under their Retail Market Review ("RMR"). Whilst it is impossible to be certain exactly how these will impact our business model, it would be reasonable to expect their stated objectives of simplifying tariffs, improving transparency and creating a more competitive framework to be broadly positive for us as the only independent residential energy supplier thus far to have successfully achieved significant scale.

We continue to engage constructively with Ofgem on the detailed changes being proposed, to ensure consumers can continue receiving an appropriate range of benefits from us commensurate with our fully integrated multi-utility business model. We also look forward to taking advantage of the opportunities this review should provide to take our unique customer-focussed proposition of consistent value, the convenience of receiving a simple and clear integrated bill each month, and exceptional customer service, to a new and significantly wider consumer audience over the years ahead.

Our distribution channel continues to demonstrate its ability to gather high quality new customers in increasing numbers, and the consistently high proportion of new members joining with Gold Status is particularly encouraging.

Our current market share of around 1.5% of UK households demonstrates the scale of the organic growth opportunity available to us, and the combination of our route to market and unique customer proposition continues to give us a significant competitive advantage. Our management team remains clearly focussed on delivering further significant organic growth; achievement of this goal would create significant shareholder value due to the substantial operating leverage inherent in our business model.

It only remains for me to thank my boardroom colleagues for their support and all our staff and distributors 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 2013

Business Review

Performance

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 221,037 (2012: 209,887)
- Improving customer quality:
 - lower churn
 - lower delinquency
 - lower bad debts
 - growing proportion of Gold Status members
 - increase in the average number of services being supplied
 - higher average revenue per customer
- A significant increase in the number of new distributors

Against the background of a broadly flat economy, and with household incomes remaining under pressure, our value-based customer proposition and part-time earning opportunity are extremely attractive to both new members and new distributors respectively.

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

Margins

Our overall gross margin during the year was in line with previous guidance at 13.9% (2012: 16.2%). The principal factors behind this reduced margin were the absence of the one-off marketing support payment of £3m received from npower during the previous year, combined with the impact of an exceptionally cold winter which increased energy sales (which are lower margin) as a proportion of our total revenues.

We maintain our previous guidance on gross profit margins, and expect them to stay within a range of 13% to 15% for the foreseeable future.

Our administration expenses fell during the year to 5.9% of revenue (2012: 6.9%), reflecting the impact of the significant increase in average revenue per customer and greater economies of scale, combined with a reduction in bad debts as a percentage of revenue from 2.0% to 1.5% over the year.

Distribution costs increased to £17.8m (2012: £16.0m) broadly in line with the growth in customer numbers during the year. This represents a reduction from 3.4% to 3.0% of revenue, reflecting the impact of the changes we implemented in January 2012 to reduce seasonal fluctuations in group commissions against a background of higher energy prices and record energy consumption during an exceptionally cold winter.

Staff numbers grew in line with service number growth, but below the growth in revenues. We successfully maintained our strong reputation for delivering an exceptionally high standard of customer service during the year, and continue to look for efficiency savings throughout the business to maximise economies of scale as we continue to grow.

Market

Our focus is on supplying a wide range of essential utility services to both domestic and small business customers; these are substantial markets and represent a considerable opportunity for further organic growth.

We remain a small operator in a market dominated by former monopoly suppliers and a handful of other new entrants. However, our unique position as the only integrated multi-utility supplier gives us a considerable competitive advantage. We combine a highly efficient cost base, good customer service and competitive pricing with the unique benefit of a single monthly bill for each customer and an attractive range of other membership benefits.

Customers

	<u>2013</u>	<u>2012</u>
Residential Club	373,056	333,497
Business Club	28,313	26,649
Total Club	401,369	360,146
Non Club	52,062	45,005
Total Telecom Plus	453,431	405,151
TML	7,601	10,338
Total Group	461,032	415,489

Our customer base can be split into four 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 (81.0% of our customers). On average these customers each take 3.80 services;
- (ii) Small businesses who are members of the Utility Warehouse Discount Club for Business (6.1% of our customers). On average these customers each take 2.57 services;
- (iii) Residential customers who are not members of our Discount Club (11.3% of our customers). These are typically either households who have moved into a property where we are the incumbent energy supplier and have not yet applied to join the Club, or where we are only providing energy services on a prepayment basis. On average, these customers each take 1.66 services; and
- (iv) Small businesses signed up through our wholly-owned TML subsidiary (1.6% of our customers), taking on average 3.23 services; despite remaining profitable this group is expected to continue falling steadily in size going forward, and is no longer considered a core part of the business.

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) both between customers who are homeowners and those who are tenants, and also depending on the numbers of services we are providing to them. We are therefore pleased that the proportion of homeowners has remained broadly steady at just under 75%, and the proportion of new members taking at least 4 services (Gold Status members) increased significantly compared with the previous year as can be seen from the graph below:

Percentage of
new residential
Club members
with Gold Status

Q1 FY12	33.08%
Q2 FY12	41.29%
Q3 FY12	40.97%
Q4 FY12	47.59%
Q1 FY13	56.10%
Q2 FY13	56.73%
Q3 FY13	55.16%
Q4 FY13	56.94%

Although on average it is more expensive to sign up a customer with Gold Status, these members benefit from our most competitive prices, generate higher commission for distributors, and have the greatest lifetime value to the Company.

Overall monthly churn in our residential Club continued to fall during the year, declining to an average of just 1.2% during the final quarter. This improvement illustrates the impact of the steadily improving quality of our customer base:

Residential Club
Churn

Q1 FY10	1.84%
Q2 FY10	1.96%
Q3 FY10	1.82%
Q4 FY10	1.72%
Q1 FY11	1.77%
Q2 FY11	1.81%
Q3 FY11	1.59%
Q4 FY11	1.46%
Q1 FY12	1.52%
Q2 FY12	1.51%
Q3 FY12	1.29%
Q4 FY12	1.32%
Q1 FY13	1.40%
Q2 FY13	1.45%
Q3 FY13	1.33%
Q4 FY13	1.20%

These churn figures include members who move out of a property we are supplying (either because it is sold or they have come to the end of their tenancy), notwithstanding that a proportion of the new occupiers moving into such properties subsequently choose us as their new supplier; this means that if we reported our churn on the basis of the number of services we cease to supply, then our reported churn would be lower than the figures shown above.

The rise in the average number of services being taken under our Utility Warehouse brand to 3.71 (2012: 3.55) combined with higher energy prices and an exceptionally cold winter has led to a significant increase in average revenue per customer during the 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

(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 regular customer surveys we are sending out each month to members who have needed to contact 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 have reported a score of -17 and the average in a 2013 Satmetrix industry report on internet service providers was +9).

Our exclusive CashBack card continues to generate significant monthly savings for our members, although average spend has fallen as the recession has increasingly started to bite over the last 12 months. The total value of the CashBack we have credited to customers bills since we launched this programme now exceeds £13m. In addition, we continue to see a positive trend in the number of customers 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, CashBack card, and Non-Geographic Numbers. At the year end, we supplied a total of 1,602,060 services (2012: 1,381,023), representing a net increase of 221,037 during the year.

	<u>2013</u>	<u>2012</u>
Electricity	403,922	348,629
Gas	334,565	290,057
Fixed Telephony (calls)	250,643	232,890

Fixed Telephony (line rental)	221,692	191,667
Broadband	175,337	140,771
Mobile	89,017	63,724
CashBack card	117,025	101,351
Non-Geographic Numbers	9,859	11,934
Total	1,602,060	1,381,023
Residential Club	1,418,078	1,211,122
Business Club	72,676	65,683
Total Club	1,490,754	1,276,805
Non Club	86,724	73,638
Total Telecom Plus	1,577,478	1,350,443
TML	24,582	30,580
Total Group	1,602,060	1,381,023

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 39.7% rise in the number of mobile services provided. This increase means penetration of Mobile within our residential Club has risen from 9.7% to 17.0% over the last two years as a result of our continuing investment in making this service more attractive to members. With over 30% of new members now taking this service, significant scope remains for further improvement in this level of penetration over the next few years.

CashBack card

Our exclusive CashBack card, which we launched in October 2008, is an important customer 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 15% increase during the year in the number of cards in issue to 117,025 (2012: 101,351), with the proportion of new residential Club members applying for a card currently running at around 30%. We believe this slightly lower level of take-up principally reflects the current challenging economic climate, where many new customers are finding it difficult to fund the switch from paying in arrears on their credit card, to paying for their purchases in advance with a prepaid card.

We paid over £4.4m (2012: £4.4m) in CashBack to our members during the year (funded entirely by the retailers in the programme), with many customers 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 customer service through a single call centre based in the UK. We try to ensure where possible that the first person a customer speaks to is able to resolve any issues with their multi-utility account.

We continue to invest in improving the customer service experience we deliver, and have introduced a range of qualitative and quantitative performance measurement tools into our call

centre to enable us to monitor and improve the overall quality of our members' customer service 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 customers in our own surveys.

Employees

We rely on the combined efforts of around 650 employees to manage relationships with both our customers and distributors, and deliver a consistently high quality of service at all times. We pay considerable attention to recruiting, developing and retaining people with appropriate skills.

We have introduced our own Assessment Centre to give the Company greater control over the recruitment process and to ensure we select the very best candidates for our positions. Once they have joined, new starters go through a structured training programme to ensure that they are fully equipped to resolve any customer queries.

The combination of valuing and developing our staff, our service-oriented culture and the day-to-day reinforcement of our core values are key competitive advantages in enabling us to attract and retain a motivated, talented and diverse workforce. Opportunities for employment, training, career progression and promotion are determined on the basis of each individual's ability, attitude and track record, irrespective of their gender, ethnic origin, nationality, age, religion, sexual orientation or disability.

We continue to invest in our people, and have comprehensive manager and supervisor development programmes, which are accompanied by executive coaching. We offer three Advanced Apprenticeship Programmes in Customer Service, Business Administration and Management. We promote from within where possible into both specialist and managerial roles.

Our monthly Employee Recognition Awards enable the Company to celebrate and reward employees who have performed exceptionally.

We keep employees informed on a regular basis of the financial performance of the business and other matters of potential concern to them, through the Company intranet, ad-hoc emails, focus groups, the monthly Company newsletter and quarterly breakfast forums with the CEO.

We operate an 'open-door' policy throughout the business, and provide staff with various mechanisms for providing feedback and making suggestions, including an annual staff survey. This year, for the first time, we entered the Best Companies to Work for Survey and were pleased to receive a 'One to Watch' accreditation rating.

We have an active staff social committee which organises a wide range of events, supported by the Company, including the annual Summer and Christmas parties. We also have a 'Fun Fund' set aside for departmental social events.

We promote staff wellbeing, through an Employee Assistance Helpline, subsidised on-site fitness classes, periodic at-desk massages, healthy meal options in the staff restaurant and a cycle to work scheme.

We continue to invest in our premises as necessary, to ensure the working environment is as attractive as possible, consistent with the practical needs of running the business.

With the exception of our warehouse team, all our employees now work together in Network HQ, our Head Office building in London. We operate a heavily subsidised staff restaurant, and provide a Recreation Room in both our Head Office and warehouse premises. We provide a wide range of other staff benefits including a significant discount on the services we provide, employee loans at preferential interest rates, a generous Christmas Bonus scheme and recognition for five and 10 years' service.

We are pleased to report that levels of staff absence this year remained at the encouragingly low level we achieved during the preceding year.

The Company operates an HM Revenue and Customs approved employee share option plan, under which employees are granted options to purchase shares in the Company which are exercisable between three and ten years from the date of grant. The exercise price is the market price at the time of granting the option. Our policy is to issue options to all employees after the satisfactory completion of their probationary period, and additional options when 10 years' service has been completed and in other appropriate circumstances (e.g. promotion). As at 31 March 2013 there were outstanding options over 2,243,787 shares which had been granted to staff, representing approximately 3.2% of the issued share capital of the Company.

Employees returning from maternity leave with children less than 12 months old are able to benefit from a company contribution towards the cost of an external childcare service provider of their choice. We also provide facilities for staff to purchase childcare vouchers in a tax-efficient manner using a salary sacrifice scheme, in accordance with HM Revenue and Customs guidelines.

We encourage all employees to participate in a stakeholder pension scheme operated by Aviva. Participants can choose their own contribution level, which is matched by the Company within certain limits, depending on length of service.

Distributors

Our Distributors are one of the key strengths of our business. In contrast to other utility suppliers, the alignment of financial interest provided by our revenue-sharing model, the structure of our compensation plan, and the substantial number of distributors 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 make available a variety of training courses both online and classroom based, designed to provide both the skills and knowledge they need to gather customers and recruit other distributors effectively and successfully; all of these courses are free to attend.

Our Car Plan, which provides eligible distributors with a subsidised Utility Warehouse branded Mini, remains extremely popular and around 500 vehicles are now in circulation (2012: 370).

Owners inform us that they find these helpful in raising their local profile, resulting in enquiries from both potential new customers and distributors.

Environment

We are conscious of the role we have to play in minimising the environmental impact of our activities.

We operate an energy efficiency helpline to provide advice to customers on how they can reduce their energy usage; we enable qualifying customers to access free home insulation; we actively promote Feed-In Tariffs; and we encourage customers to monitor their energy usage by providing regular meter readings.

Our 'online membership' offers customers additional savings in return for not receiving a paper bill each month. This category is attracting around one third of all new members, which has a beneficial impact on the amount of paper we use.

We launched an online application process for distributors in November 2011. This has since been improved, and now accounts for over 80% of customer applications; as a result, the quantity of paper application forms we need to print has reduced significantly.

We participate in the 'Shred-it' recycling programme, with a certificated saving of 297 trees during the year; we also recycle all of our cardboard, and use only fsc-certified paper; our office lighting is low-energy, and controlled by motion sensors, which automatically turn off lights in unused areas of the building; our air-conditioning is constantly monitored, and is zonal to small areas, allowing close management of heating and cooling.

We recycle both mobile phones and toner cartridges, within the scope of our annual Charity Partnership.

In the summer of 2012, we started a working group within Head Office looking to minimise our environmental impact and promote energy efficiency; this is chaired by the Energy Director and involves a cross section of 12 employees.

To date this group has:

- set up recycling points within each department for waste;
- introduced a car pooling scheme for employees;
- arranged timer switches on many electronic devices to minimise usage;
- actively promoted our Cycle to Work scheme; and
- rolled out 'print less' campaigns and competitions within the office environment.

Both monetary and carbon savings are being tracked and monitored with savings being passed at the end of each year to our charity partner.

Social Engagement

We launched our first annual Charity Partnership in support of the Make-A-Wish foundation in January 2012. With the enthusiastic support of our staff and distributors, we were delighted to raise a total of £200,000 which was presented to them at our annual sales conference in March.

For the current year, we have chosen Breast Cancer Campaign and Prostate Cancer UK as our joint Charity Partners. We look forward to raising a similar sum to help these extremely worthwhile causes over the coming year.

Principal Risks

Background

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

As described in the Corporate Governance Statement in the full annual report and accounts, 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, 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 its services to customer. This means that while the Company is heavily reliant on third party providers, it is insulated from all the direct risks associated with owning and/or operating such capital intensive infrastructure itself.

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

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

Reputational risk

The Group's reputation amongst its customers, suppliers and independent distributors is fundamental to the future success of the Group. Failure to meet expectations in terms of the services we provide, the way that we do business or in our financial performance could have a material negative impact on the Group's performance.

In relation to customer service, reputational risk is principally mitigated through a focus on closely monitoring staff performance and through the provision of rigorous staff training.

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

Information technology risk

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

All significant changes which are made to the billing and customer management software are extensively tested 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, ensuring 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 majority of the Group's services are supplied into highly regulated markets, and this could restrict the operational flexibility of the 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). We engage with officials from both these organisations on a periodic basis to ensure they are aware of our views when they are consulting on proposed regulatory changes, or if there are competition issues we need to raise with them; in particular, we have had a number of meetings with Ofgem over the course of the last year to discuss their proposed Retail Market Review, which seems likely to have a significant impact on the way energy has historically been sold. The Group is also exposed to European regulatory intervention, but there is little (if anything) we can do at a practical level to influence any such events.

However, it should be noted that the regulatory environment for the various markets in which we operate is generally focussed on promoting competition. As one of the new entrants, it seems reasonable to expect that most such changes will broadly be for the benefit the Group, given our relatively small size compared to the former monopoly incumbents with whom we compete.

Fraud and bad debt risk

The Company has a universal supply obligation in relation to the provision of energy to domestic customers. This means that although the Company is entitled to request a reasonable deposit from potential new customers who are not considered credit-worthy, the Company is obliged to supply domestic energy to everyone who submits a properly completed application form. Where customers subsequently fail to pay for the energy they have used ("Delinquent Customers"), there is likely to be a considerable delay before the Company is able to eliminate its exposure to future bad debt from them by either installing a pre-payment meter or disconnecting their supply, and the costs associated with preventing such Delinquent Customers from increasing their indebtedness are not always 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 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, we are also exposed to payment card fraud, where customers use stolen cards to obtain credit (e.g. on their CashBack card) or goods (e.g. smartphones) from us; we are constantly refining our fraud protection systems to reduce our exposure to such activities.

Wholesale prices

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 not exposed to either technological risk, capacity risk or the risk of obsolescence, as it can purchase the exact amount of each service required to meet its customers' needs each month.

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 our customers, the significant quantities of each service they consume in aggregate, and our clearly differentiated route to market has historically proven attractive to potential partners, who compete increasingly aggressively in order to secure a share of our 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 Company has a long-standing supply relationship with npower under which they assume the substantive risks and rewards of hedging and buying energy for our customers.

As described previously, the main supply agreement with npower was renewed on 24 May 2011 with npower additionally taking on the seasonal working capital obligation associated with supplying customers who use an annual budget plan to pay for their energy.

Competitive risk

The Group operates in highly competitive markets and significant product innovations or increased price competition could impact future profit margins. In order to maintain its competitive position, there is a constant focus on ways of improving operational efficiency and keeping the cost base as low as possible. New product innovations are monitored closely by senior management and the Group is typically able to respond rapidly by offering any new services through the infrastructure of its existing suppliers.

The Group offers a unique multiservice proposition. The increasing proportion of customers who are benefiting from a genuine multiservice proposition, that is unavailable from any other supplier, materially reduces any competitive threat.

Andrew Lindsay
Chief Executive Officer
20 May 2013

Financial Review

Overview

Revenues of £601.5m (2012: £471.5m) were 27.6% higher than in the previous financial year; the pre-tax profit was £34.6m (2012: £30.7m).

The increase in revenue reflects the combination of continuing strong organic growth in the number of services we provide, modest energy price inflation, and the swing from a warm winter last year to an exceptionally cold winter this year.

The improvement in pre-tax profitability of 12.7% reflects the investment we are making in signing up increasing numbers of Gold Status members, the benefits of which will become increasingly apparent over the coming years.

Our balance sheet at the year end shows a net cash position of £0.8m which was broadly in line with last year, notwithstanding a £7.5m increase in working capital during the year associated with our rapid growth.

The increase in both the quantity and quality of new customers caused a rise of around 13.5% in the net investment of our Customer Acquisition operating segment compared with the previous year. We anticipate a further modest increase this year, as we maintain our current strong focus on growth.

Distribution costs increased by £1.8m reflecting higher bonuses and incentive payments to distributors resulting from our continuing strong organic growth, and the progressive implementation of the new compensation plan we announced almost 18 months ago.

Earnings per share increased by 14.5% to a record level of 38.7p (2012: 33.8p). In accordance with previous guidance and our strong cash generation, the Company is proposing to pay a final dividend of 18p (2012: 17p) per share, making a total dividend of 31p (2012: 27p) per share for the year.

Customer Management Business

The rate at which our customer management business is growing remained consistently strong over the year, and we successfully achieved our seventh consecutive quarter in which we delivered net growth of over 50,000 services:

	Net growth in services
Q1 FY11	30,847
Q2 FY11	31,854
Q3 FY11	27,608
Q4 FY11	36,311
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

This trend reflects the significant further progress we have made in focussing distributor activity on gathering multi-utility home-owners. As a result, all our core services are now seeing consistent strong monthly growth.

This 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 reduction in both churn and bad debts.

Revenues increased across all our services during the year, with the exceptionally cold winter increasing gas sales by approximately £27m compared with the level we would have expected to supply at seasonally normal temperatures.

Revenue by Service (£m)	2013	2012
Electricity	235.2	195.7
Gas	256.5	178.6
Fixed Communications (Telephony / Broadband)	71.8	65.7
Mobile	13.7	10.6
Other	15.0	13.9
	592.2	464.5

Customer Acquisition

Our net investment in acquiring new customers increased during the year to £10.1m (2012: £8.9m), reflecting the improvement we have achieved in both the quantity and quality of our new customers.

Although the initial cost of acquiring a customer who takes at least four core services is 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 cost we incur.

Distribution and Administrative Expenses

Distribution costs, which primarily represent the share of our revenues that we pay as commission to distributors, increased by £1.8m to £17.8m (2012: £16.0m); 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.

The bad debt charge for the year fell to £9.0m representing 1.5% of revenues (2012: 2.0%), reflecting the improvement in the quality of our customer base referred to above. To have achieved this fall against the headwinds of continuing strong growth, energy price inflation and a challenging broader economic climate is particularly encouraging.

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 6,584 of them during the year (2012: 6,842), many of them at

the customer's own request, which helped take our base of prepayment meters to 33,563 (2012: 22,477) representing approximately 4.5% of the energy services we supply; this remains significantly below the average level of prepayment meters within the industry of around 15%.

In addition, the further small reduction we have seen in the average number of delinquent customers across the year is, we believe, a useful forward indicator to the level of bad debts we can expect for the current year.

	<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%

The average number of employees increased from 541 to 604, most of which took place in the second half of the year; this increase in headcount of 11.6% is substantially 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 increased by 17.8% during the year to £20.5m (2012: £17.4m), as we continue to strengthen our management team, and other administration costs remained broadly stable.

Share Option Costs

The operating profit is stated after share option expenses of £931,000 (2012: £641,000). These expenses relate to an accounting charge under IFRS 2 Share based payments.

Taxation

A full analysis of the taxation charge for the year is set out in note 4 to the financial statements in the full annual report and accounts. The tax charge for the year is £7.6m (2012: £7.3m).

The effective tax rate for the year was 21.8% (2012: 23.7%).

Cash Flow and Balance Sheet

The largest balance sheet movements in the year reflect the increased size of our customer base, recent energy price increases and the impact of the unseasonably cold winter.

Under our wholesale supply arrangements with npower, we are no longer responsible for funding the working capital requirements associated with our energy budget plan customers; as at the year end, this net funding requirement would have been in excess of £55.0m (2012: £26.9m). Due to the impact of these arrangements, the level of working capital employed by the Group only increased from £31.4m as at 31 March 2012 to £38.9m at the year end, which was broadly in line with the growth in revenue.

There was a small net cash outflow of £0.2m during the year, in line with management expectations.

Capital expenditure is expected to increase significantly over the course of the current year, as we start to pay for the £18.0m refurbishment of Merit House (our new headquarters office building), whilst funding growing demand from customers for a 'free' smartphone. Facilities will be arranged with Barclays Bank PLC to enable us to fund this expected increase, without affecting our progressive dividend policy.

The Group does not have a policy with respect to interest rate management, as it has no long-term debt funding requirements. Cash surpluses are placed on deposit with Barclays Bank PLC at money market rates to maximise returns, after allowing for the Company's working capital requirements.

Chris Houghton
Finance Director
20 May 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2013

	<i>Note</i>	2013 £'000	2012 £'000
Revenue	1	601,505	471,458
Cost of sales		<u>(517,950)</u>	<u>(395,085)</u>
Gross profit		83,555	76,373
Distribution expenses		(17,753)	(16,017)
Administrative expenses		(35,449)	(32,563)
Other income		907	370
Operating profit	1	<u>31,260</u>	<u>28,163</u>
Financial income		49	49
Financial expenses		<u>(82)</u>	<u>(132)</u>
Net financial expense		<u>(33)</u>	<u>(83)</u>
Share of profit of associates		3,404	2,663
Profit before taxation		<u>34,631</u>	<u>30,743</u>
Taxation		<u>(7,565)</u>	<u>(7,290)</u>
Profit and total comprehensive income for the year attributable to owners of the parent		<u>27,066</u>	<u>23,453</u>
Basic earnings per share	2	<u>38.7p</u>	<u>33.8p</u>
Diluted earnings per share	2	<u>38.1p</u>	<u>33.4p</u>

Consolidated Balance sheet

As at 31 March 2013

	Group	
	2013	2012
	£'000	£'000
Assets		
Non-current assets		
Property, plant and equipment	18,950	19,256
Intangible assets	2,969	2,969
Goodwill	3,742	3,742
Investments in associates	7,216	6,159
Deferred tax	1,646	1,321
Non-current receivables	10,300	7,711
Total non-current assets	<u>44,823</u>	<u>41,158</u>
Current assets		
Inventories	491	452
Trade and other receivables	16,541	15,563
Prepayments and accrued income	115,947	79,148
Cash	3,378	3,846
Total current assets	<u>136,357</u>	<u>99,009</u>
Total assets	<u>181,180</u>	<u>140,167</u>
Current liabilities		
Short term borrowings	(2,605)	(2,900)
Trade and other payables	(7,504)	(5,317)
Current tax payable	(2,815)	(2,981)
Accrued expenses and deferred income	(96,829)	(66,158)
Total current liabilities	<u>(109,753)</u>	<u>(77,356)</u>
Non-current liabilities		
JSOP creditor	(685)	-
Total assets less total liabilities	<u>70,742</u>	<u>62,811</u>
Equity		
Share capital	3,530	3,510
Share premium	8,508	7,716
JSOP reserve	(2,275)	(2,275)
Retained earnings	60,979	53,860
Total equity	<u>70,742</u>	<u>62,811</u>

Consolidated Cash Flow Statement

For the year ended 31 March 2013

	Group	
	2013	2012
	£'000	£'000
Operating activities		
Operating profit	31,260	28,163
Depreciation of property, plant and equipment	1,254	1,286
Distribution from associated company	2,365	1,817
Increase in inventories	(39)	(105)
Increase in trade and other receivables	(40,366)	(2,248)
Increase in trade and other payables	32,858	15,686
Costs attributed to the issue of share options	931	641
Corporation tax paid	(7,284)	(6,656)
Net cash flow from operating activities	<u>20,979</u>	<u>38,584</u>
Investing activities		
Purchase of property, plant and equipment	(948)	(8,074)
Purchase of shares in associated company	(18)	-
Cash flow from investing activities	<u>(966)</u>	<u>(8,074)</u>
Financing activities		
Dividends paid	(20,965)	(16,636)
Interest received	49	49
Interest paid	(82)	(132)
Issue of new ordinary shares	812	483
Purchase of own shares	-	(444)
Sale of treasury shares	-	222
Cash flow from financing activities	<u>(20,186)</u>	<u>(16,458)</u>
(Decrease)/increase in cash and cash equivalents	(173)	14,052
Net cash and cash equivalents at the beginning of the year	946	(13,106)
Net cash and cash equivalents at the end of the year	<u>773</u>	<u>946</u>
Cash	3,378	3,846
Short term borrowings	(2,605)	(2,900)
Net cash and cash equivalents at the end of the year	<u>773</u>	<u>946</u>

Consolidated Statement of Changes in Equity

For the year ended 31 March 2013

Consolidated	Share capital £'000	Share premium £'000	JSOP reserve £'000	Treasury shares £'000	Retained earnings £'000	Total £'000
Balance at 1 April 2011	3,477	4,298	(2,275)	-	46,202	51,702
Profit and total comprehensive income for the year					23,453	23,453
Deferred tax on share options					422	422
Dividends	-	-	-	-	(16,636)	(16,636)
Purchase of treasury shares	-	-	-	(444)	-	(444)
Sale of treasury shares	-	-	-	444	(222)	222
Credit arising on share options	-	-	-	-	641	641
Issue of new ordinary shares	33	3,418	-	-	-	3,451
Balance at 31 March 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

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 2013			Year ended 31 March 2012		
	Customer Management	Customer Acquisition	Total	Customer Management	Customer Acquisition	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue:						
External sales	592,182	9,323	601,505	464,469	6,989	471,458
Segment result	41,403	(10,143)	31,260	37,096	(8,933)	28,163
Operating profit			31,260			28,163
Net financing expense			(33)			(83)
Share of profit of associates			3,404			2,663
Profit before taxation			34,631			30,743
Taxation			(7,565)			(7,290)
Profit for the year			27,066			23,453
Segment assets	170,433	3,531	173,964	131,036	2,972	134,008
Investment in associates	7,216	-	7,216	6,159	-	6,159
Total assets	177,649	3,531	181,180	137,195	2,972	140,167
Segment liabilities	(108,835)	(1,603)	(110,438)	(76,313)	(1,043)	(77,356)
Net assets			70,742			62,811
Capital expenditure	(933)	(15)	(948)	(7,954)	(120)	(8,074)
Depreciation	1,235	19	1,254	1,267	19	1,286

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

1. Segment reporting (continued)

Revenue by service

	2013	2012
	£'000	£'000
Customer Management		
- Electricity	235,222	195,730
- Gas	256,500	178,615
- Fixed communications	71,767	65,659
- Mobile	13,673	10,620
- Other	15,020	13,845
	<u>592,182</u>	<u>464,469</u>
Customer Acquisition	9,323	6,989
	<u>601,505</u>	<u>471,458</u>

As the Group has a large customer base and no undue reliance on any one major customer, no such related revenue is required to be disclosed by IFRS 8 Operating Segments. Similarly, as the Group operates solely in the United Kingdom, a geographical analysis is not considered appropriate.

2. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 March 2013 was based on the profit attributable to owners of the parent of £27,066,000 (2012: £23,453,000) and a weighted average number of ordinary shares outstanding during the year ended 31 March 2013 of 69,886,967 (2012: 69,365,391).

	2013	2012
Basic earnings per share	38.7p	33.8p
Diluted earnings per share	<u>38.1p</u>	<u>33.4p</u>

Diluted earnings per share

Diluted earnings per share assumes dilutive options have been converted into ordinary shares. The calculations are as follows:

	2013		2012	
	Profit	Number	Profit	Number
	£'000	of	£'000	of
		shares		shares
		'000		'000
Basic earnings	27,066	69,887	23,453	69,365
Dilutive effects – Options	-	1,120	-	940
Diluted earnings	<u>27,066</u>	<u>71,007</u>	<u>23,453</u>	<u>70,305</u>

The share options may be dilutive in future periods.

3. Dividends

	2013	2012
	£'000	£'000
Prior year final paid 17p (2012: 14p) per share	11,876	9,693
Interim paid 13p (2012: 10p) per share	9,089	6,943

The Directors have proposed a final dividend of 18p per ordinary share totalling approximately £12.6 million, payable on 2 August 2013, to shareholders on the register at the close of business on 19 July 2013. In accordance with the Group's accounting policies the dividend has not been included as a liability as at 31 March 2013.

4. Related parties

Identity of related parties

The Company has a related party relationship with its subsidiary, associate and with its directors and executive officers.

Transactions with key management personnel

Directors of the Company and their immediate relatives control 26.5% 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:

	2013	2012
	£'000	£'000
Short term employee benefits	1,157	1,060
Post employment benefits	95	86
	1,252	1,146
Share based payments	469	280
	1,721	1,426

During the year, the Company acquired goods and services worth approximately £17,000 (2012: £26,000) from companies in which directors have a beneficial interest. No amounts were owed to these companies by the Group as at 31 March 2013.

Other related party transactions

Associates

During the year ended 31 March 2013, the associate supplied goods to the Group which amounted to £877,000 (2012: £749,000) and at 31 March 2013 the associate was owed £66,000 by the Group which is recognised within trade payables (2012: £60,000). Transactions with the associate are priced on an arm's length basis. Dividends received during the year from the associate amounted to £2,365,000 (2012: £1,817,000) relating to the financial year to 31 March 2012.

Subsidiary company

During the year ended 31 March 2013, the subsidiary purchased goods and services from the Company in the amount of £5,816,000 (2012: £6,709,000). At 31 March 2013 the subsidiary was owed £3,558,000 by the Company which is recognised within trade payables (2012: £2,718,000).

5. Basis of preparation

The financial information set out above does not constitute the Group's statutory information for the years ended 31 March 2013 or 2012, 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 2012. Statutory accounts for 2012 have been delivered to the Registrar of Companies and those for 2013 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 Business Review includes 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