

TELECOMPLUSPLC

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23 May 2012

Telecom Plus PLC Final Results for the year ended 31 March 2012

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 2012.

Financial Highlights:

- Revenue up 12.6% to £471.5m (2011: £418.8m)
- Profit before tax up 11.8% to £30.7m (2011: £27.5m)
- EPS up 12.3% to 33.8p (2011: 30.1p)
- Full year dividend up 23% to 27p per share (2011: 22p)
- Strong cash generation, with a net inflow of £14.1m (2011: £15.6m outflow)
- Positive year end net cash balance of £0.9m (2011: net debt of £13.1m) after £6.6m purchase of freehold property in period

Operating Highlights:

- Further accelerating organic growth
- Number of services supplied up by 18% (2011: 12%) to 1,381,023
- Customer base now exceeds 415,000 (2011: 371,000)
- Continuing improvement in customer quality
- Doubling in proportion of new customers taking 4 + services
- Lower churn

Charles Wigoder, Executive Chairman, commented:

"I am delighted to report a further year of significant achievement for the Company with revenue and profitability both climbing to record levels.

"We have seen strong growth in the number of services we are providing and an improvement in the quality of our customer base, which gives us good visibility over future revenues and margins, and confidence that our earnings for the current year will be comfortably ahead of the level we have just reported, notwithstanding the increasing investment we are making in growing the business.

"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, and we anticipate service numbers this year will grow by around 20%."

There will be a meeting for analysts at the offices of N+1 Brewin, 12 Smithfield Street, London, EC1A 9LA in London at 09.30 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.

Chairman's Statement

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

Results

Pre-tax profits increased by almost 12% to £30.7m (2011: £27.5m) on revenue up by 12.6% to £471.5m (2011: £418.8m); earnings per share for the year were 33.8p (2011: 30.1p).

The rise in revenue is due to strong organic growth in the number of customers using our services, the progressive improvement we are seeing in the quality of our customer base and a modest increase in energy prices at the start of the autumn, partially off-set by industry-wide reductions to gas prices at the end of February and a significant fall in the average amount of energy used by our customers during the year (caused by the swing from an exceptionally cold winter last year to a particularly warm winter this year).

We are particularly encouraged by the 18% growth in the number of services we are providing, which reached 1,381,023 (2011: 1,171,136) by the year end – an increase of almost 210,000 services during the year. This has been driven by a doubling in the proportion of new Gold Status customers taking at least four of our core services (Gas, Electricity, Home Phone, Mobile and Broadband) to almost 50% during the course of the year, and means that the average number of services taken by each residential Club member has increased to 3.63 (2011: 3.43).

Residential Club membership increased by almost 14% during the year to 333,497 (2011: 293,292) and business Club membership grew by 9% to 26,649 (2011: 24,506). These two Clubs (which trade under the Utility Warehouse brand) now account for 86.7% (2011: 85.6%) of our total customer base.

The net investment within our Customer Acquisition operating segment increased to £8.9m (2011: £5.1m) reflecting the faster rate at which we are signing up new customers and services; the impact of this on our profits for the year was tempered by the £3m marketing support payment we received from npower.

Strong cash generation during the year and the impact of our new supply agreement with npower enabled us to move from a net debt position of £13.1m to a net cash position of £0.9m at the year end. This has been achieved despite the purchase of a new headquarters office building, which we anticipate being able to occupy in around two years time following an extensive planned refurbishment programme.

In line with previous guidance, we are proposing a final dividend of 17p (2011: 14p), bringing the total for the year to 27p (2011: 22p); this represents an increase of 23% compared with last year. We anticipate further increases in dividends in future as our earnings continue to grow.

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 our continuing focus on delivering the best possible service, which has been assisted by the consolidation of all customer-facing

staff into Network HQ, our head office building in north-west London, at the start of the year and the impact of our new Customer Service Director who joined us last April.

Energy supply arrangements

The new energy supply arrangements with npower which we announced 12 months ago have been successfully implemented. As a result, we have seen a substantial reduction in our peak working capital requirements and a corresponding improvement in our year end net cash position.

We intend to take full advantage of the commercial opportunity offered by these new supply arrangements to improve our competitive position over the medium term, notwithstanding that profit growth in the short term will be adversely affected by the high level of customer acquisition costs associated with this strategy.

Opus

Our share of the profits from Opus Energy Group Ltd ("Opus"), in which we maintain a 20% stake, increased during the year to £2.7m (2011: £2.4m). 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. Their revenues increased by around 37% to just over £270m (2011: £197m) and profit before tax increased from £16.7m to £18.0m. 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 £2.2m in July 2012. Our shareholding in Opus is valued on our balance sheet at £6.2m in line with standard accounting policy, notwithstanding our belief 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 balance sheet at the year end shows a net cash position of £0.9m; this is a significant improvement on our net debt position of £13.1m at the end of last year, and has been achieved notwithstanding the purchase of a new headquarters office building shortly before the year end for £6.6m. Our strong cash generation during the year primarily reflects the assumption by npower of responsibility for funding the working capital requirements associated with providing energy to budget plan customers, pursuant to the terms of the new supply agreement which we entered into with them last May.

Dividend

The final dividend of 17p per share (2011: 14p) will be paid on 3 August 2012 to shareholders on the register at the close of business on 20 July 2012 and is subject to approval by shareholders at the Company's Annual General Meeting which will be held on 18 July 2012. This makes a total dividend payable for the year of 27p (2011: 22p).

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

Business Development

Ongoing focus on higher quality customers

Customer quality remains a core focus for the business, and I am therefore delighted that the steps we have taken are delivering solid and measurable results.

The proportion of new residential Club members taking at least four of our core services (Gas, Electricity, Mobile, Home Phone and Broadband) rose progressively from 22% in March 2011 to almost 50% in March 2012 as we identified and removed various barriers to sale. This proportion has increased still further since the year end following the introduction of Gold Status, which provides an exclusive package of additional benefits to our most valuable customers.

Churn within our residential Club fell during the year to around 1.4% per month (2011: 1.7%), reflecting the higher proportion of homeowners, an increase in the average number of services being taken, and increasing penetration of our CashBack card; we expect to see a modest further reduction in our churn over the course of the current year as the overall quality of our customer base continues to improve.

We continue to invest significant resources installing prepayment meters at properties where the occupiers are unwilling to pay for the energy they are using by any other means, and installed 6,842 of them during the year (2011: 5,690). This took our base of prepayment meters to 22,477 (2011: 15,741) representing approximately 3.5% of the energy services we supply, and is expected to lead to a reduction in bad debts in due course as this ongoing programme leads to a lower proportion of delinquent energy customers next winter.

Distribution Channel

The number of new distributors joining the business remained constant throughout the year at around 1,000 per month, taking the total number of registered distributors at the year end to slightly over 37,000 (2011: 31,459).

We launched a number of changes during the year to help new distributors get started more quickly, including making attendance at one of our College of Excellence training courses a mandatory requirement, and the introduction of a new mentoring scheme. In January 2012 we adjusted the compensation plan in a number of key areas with the intention of securing its long term sustainability, increasing the level of personal commission, removing seasonal fluctuations in group commission, and capping the commission payable at each level of our leadership structure.

Our new website was introduced in November and has received a warm welcome from distributors. It incorporates an online application form which significantly speeds up the application process, reduces errors, and enables us to make seamless enhancements to our tariffs and/or services in future; we are delighted that around two-thirds of all new applications for residential Club membership have been received through our website in recent weeks.

Confidence and morale within the distribution channel has never been so high, as reflected by the consistently high level of activity we have been seeing since the New Year, when we announced a new opportunity for them to earn share options in the Company.

Premises & Systems

We anticipate outgrowing our existing offices in approximately two years' time, and have therefore recently purchased a new headquarters office building. Although in need of extensive refurbishment, this will in due course provide us with sufficient space in which to achieve our medium term ambition to build a substantially larger business. 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.

Outlook

We held our annual sales conference over the weekend of 24th and 25th March, shortly before the year end, with a record attendance of over 6,000 distributors. At this event we announced a number of important initiatives which received a positive reaction from those present. Whilst it is still too soon to assess their full impact, recent activity levels have been extremely encouraging.

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, and we anticipate service numbers this year within our residential Club will grow by around 20%.

The additional investment in customer acquisition costs required to fund this continued rapid growth, and the absence of the £3m one-off marketing support contribution we received from npower last year, is likely to restrict any profit increase for the current year to around 10%; this is below the level which would otherwise have been expected given our service level growth this year. However, the benefits of this enhanced rate of high quality growth will start to come through from next year, when pre-tax profits are expected to increase by not less than the service level growth achieved this 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. Notwithstanding the small reduction in retail energy prices we saw during the latter part of this winter, we expect the cost of these initiatives, combined with rising wholesale energy commodity costs (where the forward gas price for the coming winter is 15% higher than last year), will lead to a progressive increase in retail energy prices over the coming years.

We remain the UK's only fully integrated multi-utility provider, offering customers consistent value across a wide range of services with the added convenience of receiving a clear and concise integrated bill each month. Our distribution channel continues to demonstrate its ability to gather high quality new customers in increasing numbers, and the recent rise in the proportion of new members 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 gives us a significant competitive advantage. Our management team remain clearly focussed on reaching our medium term target of one million customers in due course, and to delivering the significant shareholder value which achievement of this goal would create.

The steadily improving quality of our customer base gives us good visibility over future revenues and margins on the various services we provide. This gives us confidence that our earnings for the current year will still be comfortably ahead of the level we have just reported, notwithstanding the increasing investment we are making in growing the business.

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
22 May 2012

Business Review

Performance

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

- faster organic growth with service numbers up by 18.0% (2011: 12.1%)
- significant improvement in customer quality
 - lower churn
 - lower delinquency
 - increase in number of services taken
- strong cash generation

Our improvement in organic growth has been driven by continuing 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 consistently first class customer service experience.

We are also benefiting from the continuing difficult economic climate, which makes both our value-based customer proposition and part-time earning opportunity look increasingly attractive against the background of a broader economy where working hours are being cut, wages are being frozen, part-time jobs are less readily available and disposable incomes are under pressure.

Margins

Our overall gross margin improved during the year to 16.2% (2011: 15.9%). The principal factors behind this were the favourable timing of the higher retail energy tariffs at the start of the autumn, combined with the benefit of the one-off £3m marketing support contribution which we received from npower during the year.

Although we anticipate a modest improvement in the gross margin we earn on each of the individual services we provide, the rising trend in energy retail prices (which has a high annual cost but a relatively low gross margin) is likely to account for an increasing proportion of household spend over time compared with telephony services (which have a much lower annual cost but a much higher gross margin). Notwithstanding the rising penetration of telephony services within our customer base this progressive change in the mix of our revenues means we are reducing our gross margin guidance, which is now expected to be within a range of 13% to 15% (slightly below the 14% to 16% range we had previously indicated) for the foreseeable future. However, the impact of this percentage reduction at the operating margin level should be more than offset by the improving quality of our customer base and increasing economies of scale as we continue to grow.

We maintain a strong focus on controlling our cost base, and are pleased that our administration expenses (which include bad debts) remained broadly steady at 6.9% of revenue despite worsening conditions in the wider economy, and a significant increase in headcount to support our investment in rapid organic growth. Bad debts remained stable as a percentage of sales at £9.3m (2011: £8.2m).

Distribution costs increased from 3.2% to 3.4% of turnover, primarily reflecting a substantial increase in customer acquisition costs during the year. This is a direct result of our decision to focus on acquiring higher quality customers, and willingness to incur the associated higher unit costs which will be more than offset by their significantly higher lifetime value. The total

commission paid to distributors increased to £16.0m (2011: £13.3m) reflecting the growth in turnover and increase in growth related payments.

The increase in staff numbers reflects the growth in our customer base, as we focus on maintaining our strong reputation for delivering an exceptionally high standard of customer service. We continue to look for efficiency savings throughout the business, with a view to taking full advantage of the economies of scale we believe are achievable 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 increasingly attractive range of other membership benefits.

Customers

	<u>2012</u>	<u>2011</u>
Residential Club	333,497	293,292
Business Club	26,649	24,506
Total Club	360,146	317,798
Non Club	45,005	43,156
Total Telecom Plus	405,151	360,954
TML	10,338	10,396
Total Group	415,489	371,350

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 (80.3% of our customers). On average these customers each take 3.63 services;
- (ii) Small businesses who are members of the Utility Warehouse Discount Club for Business (6.4% of our customers). On average these customers each take 2.46 services;
- (iii) Residential customers who are not members of our Discount Club (10.8% of our customers). These are typically either households who became telephony customers before the Club concept was launched, or 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 1.64 services;
- (iv) Small businesses signed up through our wholly-owned TML subsidiary (2.5% of our customers). On average these customers each take 2.96 services.

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 have therefore been extremely pleased to see an improvement in the proportion of homeowners to 74.9% during the course of the year. More recently, we have achieved considerable success in focussing our distributors on gathering Gold Status members (customers taking at least 4 services) as can be seen from the table below:

	Percentage of new residential Club members with Gold Status
Mar-11	23.14%
Apr-11	32.29%
May-11	34.15%
Jun-11	32.79%
Jul-11	43.41%
Aug-11	40.30%
Sep-11	40.16%
Oct-11	39.88%
Nov-11	41.55%
Dec-11	41.48%
Jan-12	47.30%
Feb-12	47.71%
Mar-12	47.77%
Apr-12	56.11%

Members with Gold Status benefit from our most competitive prices, generate higher commission for distributors, and have the greatest lifetime value.

Overall monthly churn in our residential Club fell during the year to an average of around 1.4% (2011: 1.7%). This improvement illustrates the impact of the steadily improving quality of our customer base following the steps we have taken since 2009 to reduce the proportion of tenants, and reflecting the increasing average number of services being supplied:

	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%

These churn figures include any member who moves 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 who move into such properties subsequently choose us as their new supplier; this means that if we reported our churn on the basis of services we cease to supply, then our reported churn would be even lower.

The rise in the average number of services being taken under our Utility Warehouse brand to 3.55 (2011: 3.36) and continued growth in our Business Club has led to a further increase in average revenue per customer during the year, partially offset by the adverse impact of the warm weather last winter:

	<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

(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, the extensive customer survey we conducted last autumn (in which over 96% of respondents said they would recommend us to a friend), the relatively low churn we experience, and the growing confidence of our distribution channel.

Our exclusive CashBack card continues to generate significant monthly savings for our members, although we have seen a reduction in average spend as the recession has started to bite over the last 12 months. However, we have seen a positive trend in the number of customers who are 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), Mobile, Non-Geographic Numbers, CashBack card, Gas, Electricity and Broadband. At the year end we supplied a total of 1,381,023 services (2011: 1,171,136), representing a net overall increase of 17.9% during the course of the year.

	<u>2012</u>	<u>2011</u>
Electricity	348,629	296,412
Gas	290,057	249,482
Fixed Telephony (calls)	232,890	215,059
Fixed Telephony (line rental)	191,667	166,194
Broadband	140,771	113,411
Mobile	63,724	42,151
CashBack card	101,351	72,611
Non-Geographic Numbers	11,934	15,816
Total	1,381,023	1,171,136
Residential Club	1,211,122	1,007,185
Business Club	65,683	59,781
Total Club	1,276,805	1,066,966
Non Club	73,638	70,240
Total Telecom Plus	1,350,443	1,137,206
TML	30,580	33,930
Total Group	1,381,023	1,171,136

We saw strong quarterly growth in all the core services we provide (Gas, Electricity, Mobile, Home Phone and Broadband). Of particular note, the proportion of fixed telephony customers taking line rental as well as using us for their calls increased from 77% to 82% during the year, and the number of mobile services being provided increased by 51%.

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 40% increase in the number of cards in issue to 101,351 (2011: 72,611), with the proportion of new residential Club members applying for a card now stable at around 35%. We believe this level of take-up reflects the difficulty faced by many new customers in funding the switch from paying in arrears on their current credit card, to paying for their purchases in advance with a prepaid card.

We paid over £4.4m (2011: £3.5m) in CashBack to our members during the year (funded entirely by the retailers in the programme), with many 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 account, irrespective of how many different services we are providing to them.

We continue to invest in improving the customer service experience we deliver, with specialist teams focussed on managing delinquent customers and resolving issues which have arisen from the inefficiencies in the standard industry processes for switching energy customers between suppliers. We have introduced a range of qualitative and quantitative performance measurement tools into our call centre, which enable us to monitor and improve the overall quality of our members' customer service experience, and have been delighted at the consistently high customer service rating we receive in the regular surveys in *Which?* magazine.

Employees

We rely on the combined efforts of nearly 600 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.

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 introduced a Management Development Programme and apprenticeship schemes. We promote from within where possible, and, to enhance career progression within the Company, have introduced a new role of Senior Advisor within our call centre and administration teams. 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, 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.

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 well being, through our 'Fit Pig' health awareness week, subsidised on-site fitness classes, periodic at-desk massages, healthy meal options in the staff canteen 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. 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 we have seen reduced levels of staff absence this 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 10 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 (eg. promotion). As at 31 March 2012 there were outstanding options over 1,411,720 shares which had been granted to staff, representing approximately 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 Legal & General. Participants can choose their own contribution level, which is matched by the Company within certain limits, depending on length of service.

Distributors

Distributors remain 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, incentivises 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; virtually 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. We supplied 61 new cars during the year, taking the total number in use to 370 (2011: 309). Users 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 improved website for our distributors in November 2011, including an online application process. This is accounting for an average of between 60% and 70% of customer applications, which is expected to greatly reduce the quantity of paper application forms we need to print in future.

We participate in the 'Shred-it' recycling programme, with a certificated saving of 374 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 Charity of the Year partnership.

Social Engagement

We were very pleased to launch our first Charity of the Year partnership, starting in January 2012, in support of the Make-A-Wish foundation, which grants 'magical wishes' to children and young people fighting life-threatening conditions.

The choice of charity partner was made following a vote by both employees and distributors, who selected Make-A-Wish from a shortlist consisting of the five charities which had received the most nominations from our employees. The Company has agreed to match all monies raised for Make-A-Wish in 2012 by staff, distributors and customers, subject to a maximum of £100,000.

On a more local level, we have piloted a scheme to offer positions to unemployed young people living near our Head Office.

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 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, fixed line telephony, mobile telephony and broadband internet) under the Utility Warehouse and TML brands. As a reseller, the Group does not own any of the network infrastructure required to deliver its services to customer. This means that while the 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. During the year a new Customer Services Director was appointed to take direct responsibility for resolving any key issues which may arise.

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 Company 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. 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 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 creditworthy, 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 Company has sophisticated call traffic monitoring systems to identify material occurrences of fraud. The Company 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 credit card fraud, where customers use stolen cards to obtain credit (eg. on their CashBack card) or goods (eg. Smart Phones) 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 in last year's annual report, 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 Company 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
22 May 2012

Financial Review

Overview

Revenues of £471.5m (2011: £418.8m) were 12.6% higher than in the previous financial year to 31 March 2011; the pre-tax profit was £30.7m (2011: £27.5m).

The increase in revenue was achieved against a background of a particularly warm winter, and was primarily due to the increase in the number of services we provided compared with the previous year.

The improvement in pre-tax profitability of 11.8% was broadly in line with our increase in turnover, and reflects the costs associated with the sharp increase in our rate of organic growth over the course of the year.

Our balance sheet at the year end shows a net cash position of £0.9m. The significant improvement since last year when we reported £13.1m of net borrowings was achieved despite the £6.6m cash purchase of Merit House in February 2012, and reflects the successful implementation of our new supply agreement with npower.

The increase in both the quantity and quality of new customers caused a rise of almost £4m 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 £2.7m reflecting higher bonuses and incentive payments to distributors resulting from the faster organic growth we experienced during the year, combined with higher residual income payments in line with our increased turnover.

Earnings per share increased by over 12% to a record level of 33.8p (2011: 30.1p) and, in line with previous guidance and our strong cash generation, the Company is proposing to pay a final dividend of 17p (2011: 14p) per share, making a total dividend of 27p (2011: 22p) per share for the year.

Customer Management Business

The rate at which our customer management business is growing gathered pace over the course of the year, a continuation of the trend that started to develop during the preceding year:

	<u>Net growth in services</u>
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

This trend reflects the successful transformation of distributor activity towards gathering multi-utility home-owners, rather than the energy-only tenants who had started to become the dominant element amongst new customers by the summer of 2009. All our core services are now seeing consistently 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 already resulted in a reduction in churn and can be expected to improve our bad debt experience in due course.

Revenues increased across all our services during the year, notwithstanding the impact of an exceptionally warm winter which reduced energy sales by approximately £30m compared with the level we would have expected to supply at seasonally normal temperatures.

Revenue by Service (£m)	2012	2011
Electricity	195.7	169.1
Gas	178.6	161.9
Fixed Communications (Telephony / Broadband)	65.7	64.5
Mobile	10.6	7.3
Other	13.9	10.7
	464.5	413.3

Customer Acquisition

Our net investment in acquiring new customers increased during the year to £8.9m (2011: £5.1m), reflecting the significant improvement in both the quantity and quality of our new customers.

Although the initial cost of acquiring a customer who takes at least four of our 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 £2.7m to £16.0m (2011: £13.3m); this reflects an increase in the amount of residual income we paid (broadly in line with the higher turnover we achieved), combined with higher bonus and incentive payments resulting from the significant increase in our organic growth compared with the previous year.

Bad debts of £9.3m (2011: £8.2m) remained broadly stable as a percentage of sales, mainly due to the long tail in resolving the historic problems which became apparent in 2009 when we started to attract a disproportionate number of 'energy only' tenants. In the context of the weak economic environment and our high organic growth, we believe this represents a satisfactory outcome for the year. Going forward, we anticipate that our bad debt will start to fall progressively as a percentage of future turnover, in line with the improving overall quality of our customer base.

	<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%

Other administration costs also remained broadly stable, as we grew headcount aggressively in order to ensure we were appropriately resourced to manage the increasing number of customers joining us each month.

The average number of employees increased from 479 to 541, most of which took place in the second-half of the year; this increase in headcount of 12.9% is below the increase we saw during the year in the number of services we are providing, as we continue to enhance our systems to manage our growing customer base more effectively. Costs associated with strengthening our senior management team led to an increase of 16% in personnel expenses for the year to £17.4m (2011: £15.0m).

We have successfully sub-let about 40% of the office space we vacated when we consolidated our operations in Network HQ around 12 months ago; the remainder of this space is being retained as a disaster recovery site pending the expiry of the leases in around 24 months' time. We have also re-let the car showroom premises which occupy the ground floor of our multi-storey car park, but this is subject to a rent-free period that will last until the start of our next financial year.

Share Option Costs

The operating profit is stated after share option expenses of £641,000 (2011: £436,000). 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. The amount of corporation tax payable is £7.3m (2011: £6.8m).

The effective tax rate for the year was 23.7% (2011: 24.6%).

Cash Flow and Balance Sheet

There was a net cash inflow of £14.1m during the year, which was in line with management expectations. The main factor behind this was the impact of the new energy supply arrangements with npower, and this is reflected on our balance sheet by the large increase in accrued expenses and deferred income. The increase in non-current receivables of £2.6m mainly relates to our ongoing prepayment meter installation programme, and the consequent increase in prepayment meter debts which are not due to be recovered until after 12 months' time.

Our year end cash balance would have been significantly higher had the Board not made the decision to purchase Merit House in February. The costs of refurbishing this building will be met from a combination of cash flow and our agreed banking facilities.

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
22 May 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2012

	<i>Note</i>	2012 £'000	2011 £'000
Revenue	1	471,458	418,845
Cost of sales		(395,085)	(352,273)
Gross profit		<u>76,373</u>	<u>66,572</u>
Distribution expenses		(16,017)	(13,252)
Administrative expenses		(32,563)	(28,301)
Other income		370	82
Operating profit	1	<u>28,163</u>	<u>25,101</u>
Financial income		49	74
Financial expenses		(132)	(69)
Net financial (expense)/income		<u>(83)</u>	<u>5</u>
Share of profit of associates		2,663	2,400
Profit before taxation		<u>30,743</u>	<u>27,506</u>
Taxation		(7,290)	(6,781)
Profit and comprehensive income for the year attributable to owners of the parent		<u>23,453</u>	<u>20,725</u>
Basic earnings per share	2	<u>33.8p</u>	<u>30.1p</u>
Diluted earnings per share	2	<u>33.4p</u>	<u>29.9p</u>

Consolidated Balance sheet

As at 31 March 2012

	Group	
	2012	2011
	£'000	£'000
Assets		
Non-current assets		
Property, plant and equipment	19,256	12,468
Intangible assets	2,969	-
Goodwill	3,742	3,742
Investments in associates	6,159	5,313
Deferred tax	1,321	1,118
Non-current receivables	7,711	5,095
Total non-current assets	<u>41,158</u>	<u>27,736</u>
Current assets		
Inventories	452	347
Trade and other receivables	15,563	15,772
Prepayments and accrued income	79,148	79,307
Cash	3,846	2,419
Total current assets	<u>99,009</u>	<u>97,845</u>
Total assets	<u>140,167</u>	<u>125,581</u>
Current liabilities		
Short term borrowings	(2,900)	(15,525)
Trade and other payables	(5,317)	(3,937)
Current tax payable	(2,981)	(2,565)
Accrued expenses and deferred income	(66,158)	(51,852)
Total current liabilities	<u>(77,356)</u>	<u>(73,879)</u>
Total assets less total liabilities	<u>62,811</u>	<u>51,702</u>
Equity		
Share capital	3,510	3,477
Share premium	7,716	4,298
JSOP reserve	(2,275)	(2,275)
Retained earnings	53,860	46,202
Total equity	<u>62,811</u>	<u>51,702</u>

Consolidated Cash Flow Statement

For the year ended 31 March 2012

	Group	
	2012	2011
	£'000	£'000
Operating activities		
Operating profit	28,163	25,101
Depreciation of property, plant and equipment	1,286	1,076
Distribution from associated company	1,817	1,090
Increase in inventories	(105)	(113)
Increase in trade and other receivables	(2,248)	(21,144)
Increase/(decrease) in trade and other payables	15,686	(724)
Costs attributed to the issue of share options	641	436
Corporation tax paid	(6,656)	(5,745)
Net cash flow from operating activities	<u>38,584</u>	<u>(23)</u>
Investing activities		
Purchase of property, plant and equipment	(8,074)	(1,447)
Cash flow from investing activities	<u>(8,074)</u>	<u>(1,447)</u>
Financing activities		
Dividends paid	(16,636)	(15,118)
Interest received	49	74
Interest paid	(132)	(69)
Issue of new ordinary shares	483	12
Purchase of own shares	(444)	-
Sale of treasury shares	222	992
Cash flow from financing activities	<u>(16,458)</u>	<u>(14,109)</u>
Increase/(decrease) in cash and cash equivalents	14,052	(15,579)
Net cash and cash equivalents at the beginning of the year	(13,106)	2,473
Net cash and cash equivalents at the end of the year	<u>946</u>	<u>(13,106)</u>
Cash	3,846	2,419
Short term borrowings	(2,900)	(15,525)
Net cash and cash equivalents at the end of the year	<u>946</u>	<u>(13,106)</u>

Consolidated Statement of Changes in Equity

For the year ended 31 March 2012

Consolidated	Share capital £'000	Share premium £'000	JSOP reserve £'000	Treasury shares £'000	Retained earnings £'000	Total £'000
Balance at 1 April 2010	3,452	2,000	-	(1,278)	40,314	44,488
Profit and total comprehensive income for the year					20,725	20,725
Deferred tax on share options					167	167
Dividends					(15,118)	(15,118)
Sale of treasury shares		36		1,278	(322)	992
Credit arising on share options					436	436
Issue of new shares to JSOP	25	2,250	(2,275)		-	-
Issue of new shares	-	12			-	12
Balance at 31 March 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 shares	33	3,418			-	3,451
Balance at 31 March 2012	3,510	7,716	(2,275)	-	53,860	62,811

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 2012			Year ended 31 March 2011		
	Customer Management	Customer Acquisition	Total	Customer Management	Customer Acquisition	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue:						
External sales	464,469	6,989	471,458	413,490	5,355	418,845
Segment result	37,096	(8,933)	28,163	30,211	(5,110)	25,101
Operating profit			28,163			25,101
Net financing (expense)/income			(83)			5
Share of profit of associates			2,663			2,400
Profit before taxation			30,743			27,506
Taxation			(7,290)			(6,781)
Profit for the year			23,453			20,725
Segment assets	131,036	2,972	134,008	117,773	2,495	120,268
Investment in associates	6,159	-	6,159	5,313	-	5,313
Total assets	137,195	2,972	140,167	123,086	2,495	125,581
Segment liabilities	(76,313)	(1,043)	(77,356)	(73,001)	(878)	(73,879)
Net assets			62,811			51,702
Capital expenditure	(7,954)	(120)	(8,074)	(1,429)	(18)	(1,447)
Depreciation	1,267	19	1,286	1,062	14	1,076

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

1. Segment reporting (continued)

Revenue by service	2012	2011
	£'000	£'000
Customer Management		
Electricity	195,730	169,052
Gas	178,615	161,924
Fixed Communications	65,659	64,450
Mobile	10,620	7,340
Other	13,845	10,724
	<u>464,469</u>	<u>413,490</u>
Customer Acquisition	6,989	5,355
	<u>471,458</u>	<u>418,845</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 2012 was based on the profit attributable to owners of the parent of £23,453,000 (2011: £20,725,000) and a weighted average number of ordinary shares outstanding during the year ended 31 March 2012 of 69,365,391 (2011: 68,739,755).

	2012	2011
Basic earnings per share	33.8p	30.1p
Diluted earnings per share	<u>33.4p</u>	<u>29.9p</u>

Diluted earnings per share

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

	2012		2011	
	Profit	Number	Profit	Number
	£'000	of	£'000	of
		shares		shares
		'000		'000
Basic earnings	23,453	69,365	20,725	68,740
Dilutive effects – Options	-	940	-	560
Diluted earnings	<u>23,453</u>	<u>70,305</u>	<u>20,725</u>	<u>69,300</u>

The share options may be dilutive in future periods.

3. Dividends

	2012	2011
	£'000	£'000
Prior year final paid 14p (2011: 14p) per share	9,693	9,604
Interim paid 10p (2011: 8p) per share	<u>6,943</u>	<u>5,514</u>

The Directors have proposed a final dividend of 17p per ordinary share totalling approximately £11.9 million, payable on 3 August 2012, to shareholders on the register at the close of business on 20 July 2012. In accordance with the Group's accounting policies the dividend has not been included as a liability as at 31 March 2012.

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 26.7% 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:

	2012	2011
	£'000	£'000
Short term employee benefits	1,060	939
Post employment benefits	86	73
Termination benefits	-	205
	<u>1,146</u>	<u>1,217</u>
Share based payments	280	124
	<u>1,426</u>	<u>1,341</u>

During the year, the Company acquired goods and services worth approximately £26,000 (2011: £92,000) from companies in which directors have a beneficial interest.

Other related party transactions

Associates

During the year ended 31 March 2012, the associate supplied goods to the Group which amounted to £749,000 (2011: £604,000) and at 31 March 2012 the associate was owed £60,000 by the Group (2011: £42,000). Transactions with the associate are priced on an arm's length basis. Dividends received during the year from the associate amounted to £1,817,000 (2011: £1,090,000) relating to the financial year to 31 March 2011.

Subsidiary company

During the year ended 31 March 2012, the subsidiary purchased goods and services from the Company in the amount of £6,709,000 (2011: £7,535,000). At 31 March 2012 the

subsidiary was owed £2,718,000 by the Company which is recognised in trade payables (2011: £1,778,000).

5. Basis of preparation

The financial information set out above does not constitute the Group's statutory information for the years ended 31 March 2012 or 2011, 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 2011. Statutory accounts for 2011 have been delivered to the Registrar of Companies and those for 2012 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 – Non Executive Deputy Chairman
Andrew Lindsay – Chief Executive Officer
Chris Houghton – Finance Director
Melvin Lawson – Non Executive Director
Michael Pavia – Non Executive Director

By order of the Board