

# TELECOM *plus* PLC

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25 May 2010

## Telecom *plus* PLC Final Results for the year ended 31 March 2010

Telecom *plus* PLC, the UK's leading low-cost multi-utility supplier (gas, electricity, telephony and broadband), announces final results for the year ended 31 March 2010.

### Financial Highlights:

- Revenue up 33% to £369.1m (2009: £278.3m)
- Profit before tax down 19% to £18.2m (2009: £22.5m)
- Year-end net cash balance of £2.5m (2009: £25.4m)
- EPS down 19% to 19.7p (2009: 24.2p)
- Final dividend of 14p per share (2009: 12.5p) making a total for the year of 22p per share (2009: 17.5p); this represents an increase in the total payment of 25% compared with last year

### Operating Highlights:

- Continued strong organic growth
- Enhanced focus on higher quality customers from August 2009
- Customer base now exceeds 345,000 (2009: 290,826)
- 24% increase to 1,044,516 in number of services being supplied
- Business customer numbers up by 30% to 33,593 (2009: 25,814)
- 34,992 distributors at year end (2009: 27,051)
- Strong growth in CashBack card uptake and usage
- Successful relocation into new office headquarters
- Consistent recognition by *Which?* magazine for high levels of customer satisfaction

### Outlook following April 2010 Sales Conference:

- Applications from new customers are up by more than 20% compared with immediately prior to the sales conference
- Substantial increase in the proportion of new customers applying for our mobile services
- Decline in the percentage of customers applying for us to supply them only with energy

### Extract from the Chairman's Statement:

"We are still 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 single clear and concise bill each month. Our distribution channel has demonstrated its ability to gather high quality new customers, cost-effectively and in substantial volumes; this gives us a considerable competitive advantage in the residential market."

"We are particularly encouraged by the strong growth in the number of services we are providing, which reached 1,044,516 (2009: 839,641) by the year end – an increase of more than 200,000 services during the year. The average number of services taken by residential Club members has increased to 3.28 (2009: 3.12) and average spend per customer has grown to £1,152 per annum (2009: £1,057)."

"The nature of our business model continues to give us considerable visibility over future revenues, supported by secure underlying margins on the various services we provide; we are therefore confident that the increase in the number of new customers and services supplied over the last 12 months will have a substantial positive impact on our profits for the coming year."

There will be a meeting for analysts at the offices of Brewin Dolphin, 12 Smithfield Street, London, EC1A 9LA in London at 09.00 am today.

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About Telecom *plus* PLC:

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.telecomplus.co.uk](http://www.telecomplus.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 organic growth in revenue, customers, distributors and the number of services provided. Whilst profitability and earnings per share are ahead of market expectations, they are below the exceptional levels reported last year, in line with the guidance we provided at that time.

### Results

Pre-tax profits fell to £18.2m (2009: £22.5m) on revenue up by 33% to £369.1m (2009: £278.3m); earnings per share for the year were 19.7p (2009: 24.2p).

The strong rise in revenue has been driven by the rapid growth in the number of customers using our services combined with an improvement in the quality of our customer base.

The lower pre-tax profits and earnings per share resulted from the reduction in our gross margin during the year; this fell from 19.6% to 15.1%, in line with management expectations, primarily reflecting a normalisation in the margins from supplying gas and electricity compared with the exceptionally favourable wholesale pricing environment which existed for much of the preceding financial year. Margins from providing telephony and broadband services have continued to improve during the year.

Reflecting our confidence that profits for the current year will be significantly ahead of the numbers reported today, we are proposing a final dividend of 14p (2009: 12.5p) making a total for the year of 22p (2009: 17.5p). This represents an increase of 25% in our total payment compared with last year.

The rate at which new customers have been joining the Utility Warehouse Discount Club remains encouraging, albeit at lower levels than we were experiencing earlier in the year. This is a direct result of our decision during August 2009 to change the distributor compensation plan making it less financially attractive for them to sign up customers who are not homeowners. The significant improvement in the average quality of the customers now being gathered as a result of these changes is expected to have a positive impact on future profitability.

Residential Club membership increased by 21% during the year to 269,893 (2009: 222,705) and our Business Club membership grew by 33% to 21,523 (2009: 16,163); together, these Clubs (trading under the Utility Warehouse brand) now account for 84.2% (2009: 82.1%) of our total customer base.

We are particularly encouraged by the strong growth in the number of services we are providing, which reached 1,044,516 (2009: 839,641) by the year end – an increase of more than 200,000 services during the year. The average number of services taken by residential Club members has increased to 3.28 (2009: 3.12) and average spend per customer has grown to £1,152 (2009: £1,057).

Notwithstanding the regular endorsements we received from *Which?* magazine in relation to the value we offer and the quality of service provided by our UK-based team, we continue to invest significant resources in improving the quality of the customer service we provide. The recent introduction of a computer telephone interface has already led to reduced queuing times and an improved overall customer experience.

Overall churn within our residential Club has remained broadly steady over the year at around 2% per month. We expect to see a steady downward trend in the rate of churn in future, in line with the anticipated improvement in the quality of the customer base as we attract an increasing proportion of homeowners.

## **Opus**

Our share of the profits from Oxford Power Holdings ("Opus"), in which we maintain a 20% stake, more than doubled during the year to £1.9m (2009: £0.89m). Whilst this outstanding performance was flattered by a one-off reduction in Opus' tax-charge, its underlying trading performance was extremely strong with revenue increasing by around 18% to over £150m and profit before tax increasing from £6.1m to £9.4m. We remain encouraged by the resilience of its business model and the strength and experience of its management team. The call option held by International Power Holdings PLC which owns a 30% stake in Opus (the remaining 50% is held by management), lapsed during the year, and its management now intends to focus on driving growth and value within this business over the medium term.

## **Working Capital**

The year end net cash balance fell significantly to £2.5m (2009: £25.4m). This reduction reflects the further significant growth in our energy business and the impact of another extremely cold winter (which led to an increase of £6.5m in our Budget Plan debtors to £29.7m), combined with a significant reduction in our trade payables of £8.4m compared with the last year. Other factors behind the reduction in cash are the costs we incurred in refurbishing our new freehold headquarters office building of around £2m and the increase in our trade debtors of £7.4m reflecting the increasing number of delinquent energy customers for whom we are in the process of installing prepayment meters. Subject to the weather next winter being broadly in line with seasonal normal temperatures, and in the absence of unforeseen circumstances, we anticipate a similarly sized net cash balance at the end of the current year to the amount reported today.

The Company has sufficient banking facilities available to meet any reasonably foreseeable increase in our working capital requirements resulting from our anticipated growth, higher energy prices and/or another cold winter.

## **Dividend**

The final dividend referred to above of 14p per share will be paid on 6 August 2010 to shareholders on the register at the close of business on 16 July 2010 and is subject to approval by shareholders at the Company's Annual General Meeting which will be held on 14 July 2010.

Whilst the Company remains committed to a progressive dividend policy over the medium term, our expectation is that this year it is likely that the total payout will be maintained at its current level, reflecting the need to retain a reasonable proportion of our future earnings to fund the increasing working capital requirements of the business as it continues to grow.

## **Business Development**

### **Enhanced focus on higher quality customers**

Customer quality is an important issue - and one which we have perhaps historically taken too much for granted in the knowledge that our revenue sharing model (which aligns our financial interests with that of our distributors) was designed to ensure they would focus their efforts on gathering credit-worthy multi-utility customers.

In general, this is exactly what has happened in practice, however we identified last summer that due to the slowdown in the property market we were attracting a significant number of letting agents as distributors, and as a result an increasing proportion of new customers who were being introduced to us were occupying their property on a short-term tenancy agreement.

These are significantly less attractive customers than homeowners, as they tend to use fewer services (many of them do not take any of our higher margin telephony services), they move house more frequently (creating significantly greater administration costs in managing their account), and bad debt levels are much higher.

We therefore took decisive action to address this issue by changing the distributor compensation plan to reduce the share of the revenue our distributors receive from this type of customer, to reflect the higher costs we incur.

Our distribution channel now clearly understand the importance of attracting customers who meet our ideal target profile, namely homeowners joining our discount Club and using us to supply all their utility services, whilst taking advantage of our key membership benefits such as 'Free Global Calls' and our exclusive CashBack card. With higher monthly spend and exceptionally low churn (less than 1% per month), the lifetime income these customers will generate for both our distributors and the Company is of a completely different order of magnitude compared with a short-term tenant to whom we are only supplying energy services.

Whilst these changes have led to a reduction in the exceptionally high growth rates previously reported, the resultant progressive improvement in the quality of our customer base is expected to generate significantly greater shareholder value over the medium term.

### **Distribution Channel**

Our distributors remain confident in the overall strength of our customer proposition, which combines convenience, value and a consistently high quality of customer service; this has resulted in continuing high levels of activity. We have seen a net increase of around 7,900 distributors over the year (2009: net increase of 7,500), taking the total number of distributors to around 35,000 (2009: 27,100); this represents an increase of over 29% during the year.

### **Systems**

Our IT systems are designed to manage a significantly larger number of customers than are currently using our services, and our new office headquarters (which we occupied during the year) give us significant additional physical space to support our future growth. Delivering the benefits of the substantial economies of scale which are available, combined with a tight

continuing focus on customer quality, is clearly a key business priority 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 save an additional 5% 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 now issued over 40,000 of these cards to our members, and the proportion of new customers applying for one is steadily increasing as our distributors gain a better understanding of this innovative new product and the unique benefits it provides. Many customers are achieving savings of 20%-30% on the cost of the utilities we supply them with each month simply by using their CashBack card on a regular basis.

### **Free evening calls**

All our principal competitors have recently announced that they are changing the basis on which they provide free evening calls, so that in future calls made between 6pm and 7pm will be chargeable at peak call prices; this means a typical 30 minute local/national call in the early evening using their services will now cost almost £2. We have taken the decision to leave our peak hours unchanged, giving both existing and new Club members significant additional savings on calls they make between 6pm and 7pm each evening.

### **Customer satisfaction**

We continue to perform extremely well in customer satisfaction surveys with positive reviews from *Which?* magazine on several occasions during the year for energy, fixed telephony and broadband. We were also shortlisted by them as 'Best Technology Provider' at their annual awards ceremony held earlier this month.

### **Lapse of npower call option**

As part of the arrangements agreed between the Company and Npower Ltd ("npower") for the supply of energy in early 2006, certain directors, senior employees and connected persons granted npower an option to acquire part or all of their shareholdings in the Company representing approximately 29 per cent of the then issued share capital in the Company. The option was exercisable for a period of six months following publication of the Company's results for the year ended 31 March 2009. Further details of these option arrangements were contained in the circular published by the Company in March 2006.

On 28 November 2009 the Company announced that the option had lapsed. This does not affect the arrangements under which npower continues to supply all the energy used by our customers under an exclusive supply agreement that is subject to two years rolling notice on either side.

The Company enjoys a strong and positive working relationship with npower from which both parties are deriving considerable commercial benefits, and we anticipate this will continue for the foreseeable future.

## **Board Changes**

This will be my last report and statement to shareholders as Chairman as I have decided the time has come for me to retire as a director and Chairman before my 75<sup>th</sup> birthday in October this year. I will therefore be stepping down from the Board immediately following conclusion of the Annual General Meeting on 14 July 2010.

At the same time Mr Keith Stella and Mr Richard Michell will also retire from the board. Mr Stella joined the board as an independent non-executive director when the Company was listed in 2001; having now completed 9 years as a non-executive director, he considers it appropriate that, in accordance with current corporate governance guidelines and best practice, he should step aside. Mr Michell served as Finance Director of the Company from its formation until April 2005, when he relinquished his position but remained on the board in a non-executive (albeit not independent) capacity; he has decided to focus on his full-time responsibilities as Chief Financial Officer of Minera IRL Limited, whose operations are based in South America, which has at times made it difficult for him to attend all Company board meetings.

The company has benefited from the wise advice, sound counsel and strong support of both Keith Stella and Richard Michell and I would wish to place on record our appreciation and gratitude to them for the significant contribution they have made to the smooth running of the Board and the success of the company. They will be much missed.

Charles Wigoder, our current Chief Executive Officer, who has been the driving force behind the growth and success of the business since he became a major shareholder in 1998 will succeed me as Executive Chairman. His future focus will predominantly be on the strategic direction of the Company and the growth opportunities available to it.

In November 2008 we announced that Mr Andrew Lindsay was appointed Chief Operating Officer. Mr Lindsay has made a successful transition to the role taking on much of the day-to-day operational responsibility; with effect from the forthcoming AGM, we are delighted to announce his promotion to Chief Executive Officer.

In order to strengthen the independence of the Board, I am delighted to announce the appointment of Mr Julian Schild, who joins as an independent non-executive director and as Deputy Chairman. Mr Schild will also serve on each of the Audit Committee and the Nomination Committee, and will become Chairman of the Remuneration Committee with effect from the forthcoming AGM.

Mr Schild, MA ACA, was previously Chairman of Huntleigh Technology PLC, one of the largest UK-based quoted medical equipment manufacturers with a revenue in 2006 of £225m up to and including its acquisition by Getinge AB in February 2007, a Swedish Group quoted on the Stockholm Stock Exchange.

When these changes have taken effect, the Board will consist of three executive directors (including the Chairman) and three independent non-executive directors (including the Deputy Chairman). I believe these changes will leave a well balanced board, appropriate to the size of the business and well positioned for future growth.

## **Outlook**

Shortly after the year end we held our annual sales conference, with a record attendance of over 5,000 distributors, at which we announced a number of enhancements to our services including a competitive new range of mobile tariffs. We also introduced significant improvements to the benefits available to our members, including a new online shopping service which gives them the opportunity to find the cheapest supplier of the items they are looking for, whilst earning additional cashback on their monthly utility bill (funded by the

retailers). We also announced significant enhancements to our distributor training programme.

These changes received a positive reaction from those present, and while it is still too soon to assess the impact these changes will have on our future growth rate, the initial signs are encouraging. Applications received from new customers are up by more than 20% compared with immediately prior to the sales conference, we have seen a substantial increase in the proportion of new customers applying for one of our mobile services, and a further decline in the percentage of customers applying for us to supply them only with energy.

Although the absolute amount of energy our customers will use this year remains subject to considerable uncertainty due to the seasonal nature of domestic energy consumption in the UK (where approaching 40% of annual consumption occurs in the final quarter of our financial year, and the actual amount used can fluctuate considerably depending on the weather), the Company remains protected against any volatility in the wholesale energy markets under our long-term supply arrangements with npower. Under these arrangements, they are responsible for providing all the energy used by our customers in accordance with a price formula designed to ensure we earn a positive margin whilst maintaining competitive retail prices. The forward price curves for gas and electricity indicate a strong likelihood that retail prices will rise this winter from their current levels.

We are still 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 single clear and concise bill each month. Our distribution channel has demonstrated its ability to gather high quality new customers, cost-effectively and in substantial volumes; this gives us a considerable competitive advantage in the residential market.

The nature of our business model continues to give us considerable visibility over future revenues, supported by secure underlying margins on the various services we provide; we are therefore confident that the increase in the number of new customers and services supplied over the last 12 months will have a substantial positive impact on our profits for the coming year. In the absence of unforeseen circumstances, we anticipate that our overall gross margin will remain within a range of 15%-17% during the next few years and that our profitability will be significantly ahead of the numbers just reported.

I will be sorry to leave the board as it has not only been a privilege but also an enjoyable 13 years during which I have seen the company grow from an idea to the substantial and successful business it is today. I know I leave the Company in good hands with an excellent management team under the continuing leadership of Charles Wigoder. 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.

Peter Nutting  
Chairman  
24 May 2010

# Business Review

## Performance

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

- strong organic growth with revenue up by 32.6% to £369m;
- focus on quality multi-service homeowners;
- significant increase in distributor numbers;
- 24.4% rise in the number of services provided to 1,044,516;
- higher take-up of CashBack card; and
- improved operating efficiency.

Our continuing strong rate of organic growth has been driven by ongoing high confidence levels amongst our distributors in our financial strength, the good value provided by our services, and our commitment to delivering a consistently first class customer service experience.

Unlike many other businesses, we are benefiting from the continuing difficult economic climate, which makes both our customer and part-time earning propositions look increasingly attractive against the background of a broader labour market where working hours are being cut, overtime is being reduced, wages are being frozen, part-time jobs are less readily available and unemployment is rising.

## Margins

Gross margins from supplying telephony services improved during the year reflecting the continuing competitive pressure on the owners of network infrastructure to attract and retain call traffic from the dwindling number of substantial independent resellers like ourselves; we also slightly increased our retail prices for certain chargeable calls, whilst continuing to provide significant savings compared with our main competitors.

Broadband margins were stable during most of the year, but improved during the final quarter as we successfully migrated a large block of broadband customers from BT's IP-Stream and Data-Stream networks onto the lower cost LLU infrastructure operated by one of our main partners.

Energy margins were lower, mainly due to the absence of favourable timing differences in wholesale pricing from which we had benefited in previous years, although a small part of this reduction resulted from the slightly lower retail prices which took effect during the year.

The combination of these factors, together with the further increase in the proportion of our revenue which derives from supplying energy to 78.5% (2009: 75.1%) (which has a relatively low gross margin compared with telephony and broadband), resulted in a lower overall gross margin of 15.1% (2009: 19.6%).

The impact of this reduction on our reported earnings was partially offset by increasing economies of scale and tight control of operating costs, which resulted in administration expenses (which include bad debts) falling to 7.3% of revenue (2009: 8.3%).

We also reduced the rate of commission payable under the compensation plan on tenants, to reflect the higher costs we incur in managing this category of customer; this resulted in a slight reduction in distribution expenses to 3.5% of revenue (2009: 4.2%), although the total commission paid increased to £13.0m (2009: £11.7m).

Staff numbers remained broadly constant notwithstanding the substantial increase in revenue, as we progressively identified efficiency savings throughout the business during the course of the year. This process remains ongoing.

## The 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 the 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.

## Our Customers

	2010	2009
Residential Club	269,893	222,705
Business Club	21,523	16,163
<b>Total Club</b>	<b>291,416</b>	<b>238,868</b>
Non Club	42,276	42,307
<b>Total Telecom Plus</b>	<b>333,692</b>	<b>281,175</b>
TML	12,070	9,651
<b>Total Group</b>	<b>345,762</b>	<b>290,826</b>

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 (around 78% of our customers). On average these customers each take 3.28 services;
- (ii) Small businesses who are members of the Utility Warehouse Discount Club for Business (around 6% of our customers). On average these customers each take 2.46 services;
- (iii) Residential customers who are not members of our Discount Club (around 12% of our customers). These are typically either households who became telephony customers before the Club concept was launched in October 2003, or who have moved into a property where we are the incumbent energy supplier since that date, and have not yet applied to join. On average, these customers each take 1.65 services;
- (iv) Small businesses signed up through our wholly-owned TML subsidiary (around 4% of our customers). On average these customers each take 3.13 services.

Within the residential Discount Club (representing almost 80% of the total), there is a further important difference in quality (and therefore in the revenues and profits they will generate over the time they remain a Club member) between customers who are homeowners and those who are tenants, which is clearly illustrated below:

	<u>Owners</u>	<u>Tenants</u>
Split of residential Club	67.9%	32.1%
1 Service	10.4%	19.7%
2 Services	33.2%	34.3%
3 Services	13.6%	13.7%
4 Services	13.2%	11.6%
5 Services	22.5%	16.1%
6 Services	5.6%	3.6%
7 Services	1.1%	0.8%
8 Services	0.4%	0.3%
Proportion with 4+ services	42.5%	32.1%
Proportion with direct debit	97.4%	91.3%
Monthly churn	1.5%	2.7%

*The services included above are Fixed Telephony (Calls), Fixed Telephony (Line rental), Mobile, Broadband, Non-geographic numbers, CashBack card, Gas and Electricity. Multiples of the same type of service taken by any household are excluded. Internet Phone is treated as Fixed Telephony (Calls). Only those properties where we have validated the identity of our customer with the Land Registry Office (or its Scottish equivalent where applicable) are included within the 'owner' category above.*

At the end of July, we took significant steps to focus the customer gathering activities of our distributors towards homeowners, as on average they take more services, generate lower bad debts, are less expensive to manage, and remain a customer for longer; they therefore have a significantly higher expected lifetime value to us. These changes led to an immediate reduction in the number of tenants being introduced to us each month, which should lead to a progressive improvement in all our key operating metrics (including the average revenue per customer) over the course of the next few years.

Monthly churn in our residential Discount Club for our core target market (homeowners) is currently running at around 1.5% per month, compared with around 2.7% for tenants. This substantial difference provides a graphic illustration of the rationale behind the decision we took last July to focus our distribution channel on this higher quality category, albeit at the expense of slightly slower top-line growth.

The rise in the average number of services being taken under our Utility Warehouse brand to 3.21 (2009: 3.08) and continued growth in our Business Club customer base has led to a further 9% increase in average revenue per customer, notwithstanding lower retail energy prices over the last 12 months:

	<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	£872
2009	£1,057
2010	£1,152

*These numbers exclude customers (and revenue) within our TML subsidiary.*

We enjoy high levels of overall customer satisfaction, as evidenced by the positive reviews we have received from *Which?* magazine on a regular basis, the relatively low churn we experience and a survey carried out amongst our members where over 94% stated that they would recommend us to their friends.

We continue to look for ways to strengthen the benefits of Club membership. Our CashBack card (which gives members the opportunity to save an extra 5% on all their shopping at a wide range of leading UK retailers) has seen a significant increase in customer take-up and utilisation over the course of the year.

Since the year-end, we have introduced additional ways for our customers to earn even more CashBack, with an online shopping portal and a new price comparison service ([www.utilitywarehouse.co.uk/clubhouse](http://www.utilitywarehouse.co.uk/clubhouse)) to help them find the cheapest online supplier for a wide range of everyday household goods.

## Services

Our range of utility services includes 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 1,044,516 services (2009: 839,641), representing an increase of over 24% during the course of the year.

	2010	2009
Electricity	267,186	209,262
Gas	224,256	177,452
Fixed Telephony (calls)	211,565	188,426
Fixed Telephony (line rental)	153,074	124,762
Broadband	98,595	77,049
Mobile	34,067	36,127
CashBack Card	39,433	11,146
Non-Geographic Numbers	16,340	15,417
<b>Total</b>	<b>1,044,516</b>	<b>839,641</b>
Residential Club	883,904	695,542
Business Club	52,949	39,585
<b>Total Club</b>	<b>936,853</b>	<b>735,127</b>
Non Club	69,855	70,137
<b>Total Telecom Plus</b>	<b>1,006,708</b>	<b>805,264</b>
TML	37,808	34,377
<b>Total Group</b>	<b>1,044,516</b>	<b>839,641</b>

We saw strong growth in the number of customers to whom we supply Gas, Electricity, Broadband, Fixed Telephony (calls and line rental) and CashBack cards, although there was a small reduction in the number of Mobile services reflecting the limited number of sub-sectors addressed competitively by the tariffs we were offering during the period.

Included within the above figures are 33,593 (2009: 25,814) business customers (within our Business Club and in TML), who are taking 90,757 (2009: 73,962) services and contributing £46.3m (2009: £34.4m) to Group revenue. We are extremely encouraged by this strong performance, and the opportunity for further significant organic growth which exists within this highly fragmented market segment.

## Customer Service

We pride ourselves on delivering first-class customer service through a single call centre, based in the UK. Our policy is to ensure 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 recently linked our automated telephone system to our main customer database, which has enabled us to improve the experience of customers when they call us by making the options presented to them more relevant to their likely needs, thus improving call centre productivity.

We continue to invest in improving our customer service resources, 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 are also developing a range of qualitative and quantitative performance measurement tools for our Call Centre, so that we can further improve the overall quality of our members' customer service experience.

## **Principal Risks**

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

### *Reputation risk*

Telecom *plus's* reputation amongst our business partners, suppliers, shareholders and customers 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 effect on the Group. These risks are mitigated through our focus on quality customer service, the training of our staff and our systems of internal control and risk management.

### *Wholesale prices*

The Company does not currently own or operate any network infrastructure itself, choosing instead to purchase the capacity needed from third parties. The advantage of this approach is that the Company is not exposed to either technological risk, capacity risk or the risk of obsolescence, as it can purchase each month the exact amount of each service required to meet its customers' needs.

Whilst there is a theoretical risk that in some of the areas in which the Company 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). 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 aggressively in order to secure a share of our business.

The supply of energy, which has been accounting for an increasing proportion of our 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. In March 2006, the Company entered into a relationship with npower under which they assumed the substantive risks and rewards of hedging and buying energy for our customers; this has enabled the Company to earn a positive contribution from providing energy since that date.

### *Bad debt risk on energy customers*

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 recoverable.

*Bad debt risk on telephony customers*

There is regular fraud within the telephony industry which arises from customers using the services without intending to pay their supplier. Although the amounts involved are generally small, larger-scale fraud is sometimes attempted involving calls to premium rate and/or international destinations. The Company has sophisticated systems to prevent material losses arising as a result of such fraud by processing all call traffic on an hourly or daily basis, and promptly disconnecting any number whose usage profile appears to be suspicious, although short delays are sometimes experienced in receiving information from our network partners.

*Information technology risk*

The Company is dependent on its proprietary billing and customer management software for the successful implementation of its business strategy. This software is developed and maintained in accordance with the changing needs of the business by a small team of highly skilled, motivated and experienced individuals. Back-ups of both the software and data are made on a regular basis and securely stored off-site.

*Competitive risk*

The Group operates in highly competitive markets and significant product innovations or increased price competition could affect our margins. In order to maintain our competitive position, we constantly focus on ways of improving our operating efficiency and keeping our cost base as low as possible.

*Legislation and regulatory risk*

The Group is subject to varying laws and regulations, including possible adverse effects from European regulatory intervention.

*Risk management*

The business 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 and prioritised, and systems of control are in place to manage such risks.

Charles Wigoder  
Chief Executive Officer  
24 May 2010

# Financial Review

## Overview

Revenues of £369.1m (2009: £278.3m) were almost 33% higher than in the previous financial year to 31 March 2009. The pre-tax profit was £18.2m (2009: £22.5m) and we saw a net cash outflow from operating activities of £7.1m. Overall, our year-end net cash position reduced significantly to £2.5m. The fall in pre-tax profit and our lower cash balance were in line with management expectations, and were due to a number of factors which are explained in detail below.

The increase in revenue to £369.1m was achieved despite the adverse impact of lower retail energy prices, and was due to the increase in the average number of services we provided compared with the previous year combined with the 9% increase in average revenue per customer.

The reduction in pre-tax profitability mainly resulted from a fall in the overall gross profit margin to 15.1% for the year (2009: 19.6%), reflecting the normalisation of the margins we make from these services compared with the more favourable pricing environment which had existed over the preceding three years and the increasing proportion of our revenue which now derives from supplying energy. This flowed through to the operating profit level, partially offset by improving economies of scale and the changes we made to the distributor compensation plan which reduced the commission payable on tenants in line with the higher costs associated with managing this category of customer. There was also a significant fall in our financial income for the year to £135,000 (2009: £1,647,000) due to lower interest rates combined with a reduction in our average cash balances following the £10m invested in our new freehold office headquarters.

Earnings per share fell by 19% to 19.7p (2009: 24.2p). However, in line with guidance previously given, the Company is proposing a final dividend of 14p (2009: 12.5p) per share, making a total dividend of 22p (2009: 17.5p) per share for the year; a 25% increase.

## Customer Management Business

Our customer management business experienced significant growth during the year:

	<u>Net growth in number of services provided</u>
Quarter to 30/06/09	69,241
Quarter to 30/09/09	61,206
Quarter to 31/12/09	41,957
Quarter to 31/03/10	32,471

As can be seen from the above table, the rate of growth slowed during the year reflecting the decision taken by the Company to focus its distributors on finding higher quality customers who own their properties, and to discourage them from engaging in any type of customer gathering activity which would be likely to attract predominantly tenants.

We saw particularly strong growth in the number of gas and electricity services we supply, while our revenues from fixed communications grew by 17.8% as a result of continued strong demand for our award winning BroadCall service (which combines Fixed Line Calls, Line Rental and Broadband). These factors were responsible for the increase of almost 33% in our revenues for the year.

<b>Revenue by Service (£m)</b>	<b>2009</b>	<b>2010</b>
Electricity	101.6	146.5
Gas	107.6	143.2
Fixed Communications (Telephony/Broadband)	51.7	60.9
Mobile	9.5	8.1
Other	3.6	6.2
<b>Total</b>	<b>274.0</b>	<b>364.9</b>

### **Customer Acquisition**

The net cost in respect of our Customer Acquisition business increased during the year to £5.5m (2009: £5.0m). This is mainly due to the costs associated with the continuing strong growth in the number of new customers gathered during the year, such as third-party connection charges, distributor bonuses and the provision of hardware (e.g. mobile handsets and broadband routers), combined with the increased cost of the enhanced training facilities available to our distributors.

### **Distribution and Administrative Expenses**

Distribution costs, which primarily represent the share of our revenues that we pay as commission to distributors, increased by £1.3m to £13.0m (2009: £11.7m); this reflects the substantial growth in revenue during the year partially offset by the changes made to the compensation plan in August 2009.

Administrative expenses fell to 7.3% of revenue (2009: 8.3%) reflecting increasing economies of scale and an improvement in the expected collectability of debts outstanding from customers at the year end resulting from a programme we introduced to manage delinquent customers more effectively. Notwithstanding that the number of employees remained broadly constant throughout the year, as we enhanced our systems to manage our growing customer base more effectively, personnel expenses increased to £14.2m (2009: £11.6m) as the average number employed was significantly lower during the previous year. We also bore a full year of property costs relating to the freehold office premises and leasehold warehouse premises which we acquired in September and November 2008 respectively.

### **Share Option Costs**

The operating profit is stated after share option expenses of £459,000 (2009: £454,000). These expenses relate to an accounting charge under IFRS 2 'Share based payments'.

## **Taxation**

The amount of corporation tax payable is £4.8m (2009: £6.3m).

The effective tax rate for the year was 26.1% (2009: 28.0%).

## **Treasury Shares**

At the start of the year, the Company held 793,775 shares in treasury.

During the year 242,250 of these were used to satisfy exercises under the Company's two share option plans, and we acquired 100,000 shares at 270p in June 2009, leaving a balance in treasury of 651,525 at 31 March 2010.

## **Cash Flow and Balance Sheet**

There was a net cash outflow from operating activities of £7.1m (2009: inflow £9.1m). The main factors behind this were the impact of another extremely cold winter (which led to an increase of £6.5m in our Budget Plan debtors), a significant reduction in our trade creditors of £8.4m (due to extended credit from one of our suppliers which we took with their agreement at the end of the previous financial year), and an increase in trade debtors of £7.4m (mainly reflecting the increasing number of delinquent energy customers for whom we are in the process of installing prepayment meters). We also incurred costs of around £2m in refurbishing our new freehold office building.

Budget plan customers spread the cost of their expected annual energy consumption into 12 equal monthly instalments. As a high proportion of each customer's annual energy consumption is used during the winter period, this means that our energy debtors reach a peak at the end of each winter before falling as we move through the spring and summer months. Winter this year was the coldest for more than 30 years, which has led to an increase in the gross energy budget plan debtor balance to £29.7m (included within prepayments and accrued income) compared with the position at the end of what was still a relatively cold winter last year. This adverse movement would have been even greater had it not been for the lower retail energy prices which applied this winter, compared with the corresponding period the previous year.

The Board believes that most of the above factors are unlikely to be repeated during the current year. In addition, the Company has substantial committed banking facilities available to meet any reasonably foreseeable working capital requirements.

The Group does not have a policy with respect to interest rate management as it currently has no 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  
24 May 2010

# Consolidated Statement of Comprehensive Income

For the year ended 31 March 2010

	<i>Note</i>	2010 £'000	2009 £'000
Revenue	1	369,069	278,342
Cost of sales		<u>313,386</u>	<u>223,705</u>
<b>Gross profit</b>		55,683	54,637
Distribution expenses		12,989	11,745
Administrative expenses		26,853	22,983
Other income		<u>339</u>	<u>73</u>
<b>Operating profit</b>	1	<u>16,180</u>	<u>19,982</u>
Financial income		135	1,647
Financial expenses		<u>2</u>	<u>26</u>
<b>Net financial income</b>		<u>133</u>	<u>1,621</u>
Share of profit of associates		1,885	888
<b>Profit before taxation</b>		<u>18,198</u>	<u>22,491</u>
Taxation		<u>(4,756)</u>	<u>(6,307)</u>
<b>Profit for the year attributable to owners of the parent</b>		<u>13,442</u>	<u>16,184</u>
<b>Other comprehensive income:</b>			
Deferred tax on share options		(114)	22
<b>Comprehensive income for the year attributable to owners of the parent</b>		<u>13,328</u>	<u>16,206</u>
Basic earnings per share	2	<u>19.7p</u>	<u>24.2p</u>
Diluted earnings per share	2	<u>19.5p</u>	<u>23.9p</u>

## Consolidated Balance sheets

As at 31 March 2010

	Group	
	2010	2009
	£'000	£'000
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	12,098	11,470
Goodwill and intangible assets	3,742	3,743
Investments in associates	4,003	2,703
Deferred tax	1,409	2,036
Non-current receivables	2,335	1,697
<b>Total non-current assets</b>	<u>23,587</u>	<u>21,649</u>
<b>Current assets</b>		
Inventories	234	357
Trade and other receivables	10,857	3,903
Prepayments and accrued income	65,838	52,288
Cash and cash equivalents	2,473	25,357
<b>Total current assets</b>	<u>79,402</u>	<u>81,905</u>
<b>Total assets</b>	<u>102,989</u>	<u>103,554</u>
<b>Current liabilities</b>		
Trade and other payables	8,812	16,322
Current tax payable	1,988	3,944
Accrued expenses and deferred income	47,701	38,696
<b>Total current liabilities</b>	<u>58,501</u>	<u>58,962</u>
<b>Total assets less total liabilities</b>	<u>44,488</u>	<u>44,592</u>
<b>Equity</b>		
Share capital	3,452	3,452
Share premium	2,000	1,992
Treasury shares	(1,278)	(1,457)
Retained earnings	40,314	40,605
<b>Total equity</b>	<u>44,488</u>	<u>44,592</u>

## Consolidated Cash Flow Statements

For the year ended 31 March 2010

	Group	
	2010	2009
	£'000	£'000
<b>Operating activities</b>		
Operating profit	16,180	19,982
Depreciation of property, plant and equipment	917	579
Amortisation of intangible assets	1	6
Distribution from associated company	1,017	-
Decrease / (Increase) in inventories	123	(182)
(Increase) in trade and other receivables	(21,142)	(26,248)
Increase in trade and other payables	1,495	20,534
Repayment of inter-company receivable	-	-
Costs attributed to the issue of share options	459	454
Corporation tax paid	(6,199)	(6,030)
<b>Net cash flow from operating activities</b>	<u>(7,149)</u>	<u>9,095</u>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(1,545)	(11,183)
Purchase of shares in associated company	(432)	-
Interest received	135	1,647
<b>Cash flow from investing activities</b>	<u>(1,842)</u>	<u>(9,536)</u>
<b>Financing activities</b>		
Dividends paid	(13,989)	(9,988)
Interest paid	(2)	(26)
Purchase of own shares	(272)	-
Sale of treasury shares	370	5,481
<b>Cash flow from financing activities</b>	<u>(13,893)</u>	<u>(4,533)</u>
Decrease in cash and cash equivalents	(22,884)	(4,974)
Cash and cash equivalents at the beginning of the year	25,357	30,331
<b>Cash and cash equivalents at the end of the year</b>	<u>2,473</u>	<u>25,357</u>

## Consolidated Statement of Changes in Equity

For the year ended 31 March 2010

<b>Consolidated</b>	Share capital £'000	Share premium £'000	Treasury shares £'000	Retained earnings £'000	Total £'000
Balance at 1 April 2008	3,452	2	(5,286)	34,266	32,434
Profit for the year				16,184	16,184
Deferred tax on share options				22	22
Comprehensive income for the year				<u>16,206</u>	<u>16,206</u>
Dividends				(9,988)	(9,988)
Sale of treasury shares		1,990	3,829	(333)	5,486
Credit arising on share options				454	454
Balance at 31 March 2009	<u>3,452</u>	<u>1,992</u>	<u>(1,457)</u>	<u>40,605</u>	<u>44,592</u>
Profit for the year				13,442	13,442
Deferred tax on share options				(114)	(114)
Comprehensive income for the year				<u>13,328</u>	<u>13,328</u>
Dividends				(13,989)	(13,989)
Purchase of treasury shares			(272)		(272)
Sale of treasury shares		8	451	(89)	370
Credit arising on share options				459	459
Balance at 31 March 2010	<u>3,452</u>	<u>2,000</u>	<u>(1,278)</u>	<u>40,314</u>	<u>44,488</u>

## 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 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 2010			Year ended 31 March 2009		
	Customer Management	Customer Acquisition	Total	Customer Management	Customer Acquisition	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue:						
External sales	364,890	4,179	369,069	274,012	4,330	278,342
Segment result	21,655	(5,475)	16,180	24,957	(4,975)	19,982
Operating profit			16,180			19,982
Net financing income			133			1,621
Share of profit of associates			1,885			888
Profit before taxation			18,198			22,491
Taxation			(4,756)			(6,307)
Profit for the year			13,442			16,184
Segment assets	96,828	2,158	98,986	98,087	2,764	100,851
Investment in equity method associates	4,003		4,003	2,703	-	2,703
Total assets	100,831	2,158	102,989	100,790	2,764	103,554
Segment liabilities	(57,864)	(637)	(58,501)	(58,736)	(226)	(58,962)
Net assets			44,488			44,592
Capital expenditure	1,527	17	1,545	11,009	174	11,183
Depreciation and amortisation	908	10	918	576	9	585

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. Similarly, as the Group operates solely in the United Kingdom, a geographical analysis is not considered appropriate. The share of profit of associates relates to the Customer Management business segment.

## 2. Earnings per share

### Basic earnings per share

The calculation of basic earnings per share at 31 March 2010 was based on the profit attributable to owners of the parent of £13,442,000 (2009: £16,184,000) and a weighted average number of ordinary shares outstanding during the year ended 31 March 2010 of 68,270,160 (2009: 66,757,038).

	2010	2009
Basic earnings per share	19.7p	24.2p
Diluted earnings per share	<u>19.5p</u>	<u>23.9p</u>

### Diluted earnings per share

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

	2010		2009	
	Profit £'000	Number of shares '000	Profit £'000	Number of shares '000
Basic earnings	13,442	68,270	16,184	66,757
Dilutive effects – Options	-	551	-	827
Diluted earnings	<u>13,442</u>	<u>68,821</u>	<u>16,184</u>	<u>67,584</u>

The share options may be dilutive in future periods.

## 3. Dividends

	2010 £'000	2009 £'000
Prior year final paid 12.5p (2009: 10p) per share	8,526	6,656
Interim paid 8p (2009: 5p) per share	<u>5,463</u>	<u>3,332</u>

The Directors have proposed a final dividend of 14p per ordinary share totalling £9.6 million, payable on 6 August 2010, to shareholders on the register at the close of business on 16 July 2010. In accordance with the Group's accounting policies the dividend has not been included as a liability as at 31 March 2010.

## **4. Related parties**

### **Identity of related parties**

The Group 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 28.71% of the voting shares of the Company.

During the year, the Company acquired goods and services worth approximately £87,000 (2009: £92,000) from companies in which directors have a beneficial interest.

In addition, the Company acquired certain telephony dialler platform assets from Optimal Monitoring Limited ("Optimal") on 5 February 2010 for a total cash consideration of £99,999. The acquisition of the dialler assets ensured that the Company was able to continue operating telephony routing boxes to certain of its customers without paying any licence fees to Optimal.

At the time of the transaction Optimal was wholly owned by Charles Wigoder and Melvin Lawson both directors of the Company who, in accordance with section 177 of the Companies Act 2006 and Article 99 of the Company's articles of association, declared their interest in the transaction to the Board in November 2009 and took no part in the decision to complete the acquisition.

In the light of the small size of the transaction, the acquisition did not require immediate announcement, shareholder approval nor FSA notification. The consideration paid of £99,999 fell below the thresholds set out in section 190 of the Companies Act 2006 and therefore did not constitute a substantial property transaction requiring shareholder approval.

### **Other related party transactions**

#### **Associates**

During the year ended 31 March 2010, the associate supplied goods to the Group in the amount of £559,000 (2009: £386,000) and at 31 March 2010 the associate was owed by the Group £94,000 (2009 owed by the group: £80,000). Transactions with the associate are priced on an arm's length basis. Dividends received during the year from the associate amounted to £1,017,000 (2009: £nil) relating to the financial year to 31 March 2009.

#### **Subsidiary company**

During the year ended 31 March 2010, the subsidiary purchased goods and services from the Company in the amount of £7,433,000 (2009: £7,677,000).

## **5. Basis of preparation**

The financial information set out above does not constitute the Group's statutory information for the years ended 31 March 2010 or 2009, 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 2009. Statutory accounts for 2009 have been delivered to the Registrar of Companies and those for 2010 will be delivered following the Company's annual general meeting. The auditors have reported on these

accounts, their reports were unqualified and did not contain statements under the Companies Act 2006, s498(2) or (3).

## **6. Comparatives**

In order to be consistent with the current year's allocation of costs between cost of sales and administrative expenses, certain costs which were disclosed in cost of sales in the prior year have been reclassified to administrative expenses. Similarly, certain unbilled revenue items have been reclassified from Trade and other receivables to Prepayments and accrued income. These changes do not have any impact on the overall reported financial performance of the Group for either period.

## **7. Directors' responsibility statement**

The directors confirm, to the best of their knowledge:

(a) the financial statements, prepared in accordance with International Financial Reporting Statements ("IFRSs") as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and

(b) the 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:

Peter Nutting – Non Executive Chairman  
Charles Wigoder – Chief Executive  
Chris Houghton – Finance Director  
Andrew Lindsay – Chief Operating Officer  
Melvin Lawson – Non Executive Director  
Richard Michell – Non Executive Director  
Michael Pavia – Non Executive Director  
Keith Stella – Non Executive Director

By order of the Board