

TELECOMPLUSPLC

Embargoed until 07.00

25 May 2011

Telecom Plus PLC Final Results for the year ended 31 March 2011

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 2011.

Financial Highlights:

- Revenue up 13% to £418.8m (2010: £369.1m)
- Profit before tax up 51% to £27.5m (2010: £18.2m)
- EPS up 53% to 30.1p (2010: 19.7p)
- Final dividend of 14p per share (2010: 14p) making a total for the year of 22p per share (2010: 22p)

Operating Highlights:

- Continuing strong organic growth
 - customer base now exceeds 370,000 (2010: 345,762)
 - number of services supplied up 12% to 1,171,136
- CashBack card take up now approaching 50% of new members
- Strong levels of new distributor recruitment
- Faster growth in new customers
- Significant increase in the proportion of new members applying for at least 4 major services
- Lower churn

New npower supply agreement

We have reached agreement with npower to vary the terms of our existing long-term supply arrangements with them, under which they are (and will remain) responsible for providing all the gas and electricity used by our customers. These new arrangements are expected to substantially benefit both parties over the medium term.

- Working capital requirements reduced
- Opportunity to progressively improve our current low net energy margins over the medium term, subject to the achievement of agreed growth targets
- Extension to current notice period (to three years on either side)
- £3m marketing support from npower during the current financial year

Extract from the 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 both revenue and profitability.

We are particularly encouraged by the continuing strong growth of 12% in the number of services we are providing, which reached 1,171,136 (2010: 1,044,516) by the year end – an increase of over 125,000 services during the year. The average number of services taken by each residential Club member has increased to 3.43 (2010: 3.28).

The new commercial arrangements with npower referred to above will significantly reduce our future working capital requirements. As a result, we anticipate that we will report a positive cash balance at the end of the current financial year.

The Company remains committed to a progressive dividend policy over the medium term, and we anticipate that further growth in earnings from their current level will, subject to any retentions required to fund an increase in the working capital requirements of the business as it continues to grow, be reflected in a corresponding rise in the level of distributions to shareholders.

We retain considerable visibility over future revenues and margins on the various services we provide. This gives us confidence that our financial performance for the current year will be comfortably ahead of the figures we have just reported, and in line with current market expectations."

There will be a meeting for analysts at the offices of Brewin Dolphin, 12 Smithfield Street, London, EC1A 9LA in London at 08.30 am today.

For more information please contact:

Telecom Plus PLC

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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.

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 both revenue and profitability.

Results

Pre-tax profits increased by over 51% to £27.5m (2010: £18.2m) on revenue up by 13.5% to £418.8m (2010: £369.1m); earnings per share for the year were 30.1p (2010: 19.7p).

The rise in revenue has been driven by the combination of continuing steady organic growth in the number of customers using our services, an improvement in the quality of our customer base, an increase in energy prices over the last few months of the year, and record demand for gas from domestic customers during an exceptionally cold winter. This was partially offset by the impact of the lower retail energy prices which prevailed during the first eight months of the financial year.

The significant rise in pre-tax profits and earnings per share resulted from the increase in our gross margin during the year from 15.1% to 15.9%, combined with a significant increase in the number of services being provided. We benefited from continuing strong margins from providing fixed telephony and broadband services, and improved margins from supplying gas and electricity during an extremely cold winter.

In line with the guidance we have previously given, we are proposing an unchanged final dividend of 14p (2010: 14p), making a total for the year of 22p (2010: 22p). This reflects the need for us to retain an appropriate proportion of our earnings to fund the working capital requirements of the business as we continue to grow, and to start rebuilding our reserves following our decision last year to pay an uncovered dividend in line with guidance we had provided previously.

Residential Club membership increased by 8.7% during the year to 293,292 (2010: 269,893) and Business Club membership grew by 13.9% to 24,506 (2010: 21,523). These clubs, trading under the Utility Warehouse brand, now account for 85.6% (2010: 84.2%) of our total customer base.

We are particularly encouraged by the continuing strong growth of 12% in the number of services we are providing, which reached 1,171,136 (2010: 1,044,516) by the year end – an increase of over 125,000 services during the year. The average number of services taken by each residential Club member has increased to 3.43 (2010: 3.28).

We received a number of further endorsements from *Which?* magazine during the year in relation to the value we offer and the quality of service provided by our UK-based customer service team. Our ability to maintain the current strong focus we place on service should be assisted by the consolidation of substantially all of our staff into our newly refurbished head office building in north-west London over the next few months.

New energy supply arrangements

We are pleased to announce that we have today reached agreement with npower to vary the terms of our existing long-term supply arrangements with them, under which they are (and will remain) responsible for providing all the gas and electricity used by our customers. These changes provide the Company with the opportunity to enhance the value we can provide to our

energy customers, whilst giving us the opportunity to improve our net energy margin over the medium term subject to the achievement of certain agreed growth targets.

Under these revised arrangements, Telecom Plus will no longer be required to provide a Letter of Credit to npower as security against the cost of the energy it is supplying. The new arrangements also provide protection for Telecom Plus from the seasonal swings in working capital associated with providing gas and/or electricity to those customers who have chosen to pay for their energy using a Budget Plan. Together, these changes will enable us to build a substantially larger energy business with our current balance sheet structure than would otherwise have been possible, and will eliminate the costs we have historically incurred in arranging bank facilities to meet these requirements.

In addition, npower has agreed to provide £3m of marketing support to the Company during the current financial year, which we intend to spend by offering certain new multi-service customers an additional discount on the cost of the energy they have used during their first year as a member and on sales incentives for our Distributors; it is anticipated that these incentives will help to increase the rate of growth and lead to a further improvement in the quality of our customer base.

The parties have also agreed to extend the notice period relating to these supply arrangements to three years rolling notice on either side, and also to change the frequency at which the price we pay npower for the energy being provided to our customers is calculated, so that this happens in future on a fixed date each quarter (currently at a variable frequency of up to six months).

Npower has also requested the opportunity to acquire an equity stake in the Company and, subject to shareholder approval, we intend to issue them with shares in Telecom Plus at nominal value; at the closing price on 24 May 2011, the number of shares issued would have been 622,730. On the date of issue, the number of shares will be calculated based on the average price over the 20 working days prior to the date on which they are issued. Further details of these arrangements will be included with notice of the forthcoming AGM which will be sent to shareholders shortly.

These new arrangements are expected to substantially benefit both parties over the medium term. They reflect the strong and mutually beneficial relationship we have developed with npower over the last six years, and the extent to which our rapidly growing customer base is supporting their status as one of the UK's leading energy suppliers.

Opus

Our share of the profits from Opus Energy Group Ltd ("Opus"), in which we maintain a 20% stake, increased during the year to £2.4m (2010: £1.9m) notwithstanding a normalised tax charge this year of 28% (2010: 5%). This excellent result reflects a continuing strong trading performance, and the successful start they have made to supplying gas alongside electricity into the small business and corporate sector. Their revenues increased by around 30% to just under £200m (2010: £151.2m) and profit before tax increased from £10.0m to £16.7m. 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 2011. Our shareholding in Opus is valued on our balance sheet at £5.3m in line with standard accounting policy, notwithstanding our belief that its market value is substantially in excess of this figure; in the absence of unforeseen circumstances, it remains our intention to maintain our stake in this exciting business for the foreseeable future.

Working Capital

In line with management expectations and previous guidance, our balance sheet at the year end shows net debt of £13.1m compared with net cash of £2.5m at the end of the previous year. This primarily reflects the impact of another extremely cold winter, with December being the coldest for more than 100 years, and our decision to pay an uncovered final dividend last summer.

The new commercial arrangements with npower referred to above will significantly reduce our future working capital requirements. As a result, we anticipate that we will report a positive cash balance at the end of the current financial year.

In the absence of unforeseen circumstances, we currently consider it is unlikely we will need to issue new equity (other than to npower as part of the new energy supply arrangements referred to above, or to satisfy share options) in order to deliver significant further organic growth over the medium term.

Dividend

The final dividend of 14p per share will be paid on 5 August 2011 to shareholders on the register at the close of business on 15 July 2011 and is subject to approval by shareholders at the Company's Annual General Meeting which will be held on 13 July 2011.

The Company remains committed to a progressive dividend policy over the medium term, and we anticipate that further growth in earnings from their current level will, subject to any retentions required to fund an increase in the working capital requirements of the business as it continues to grow, be reflected in a corresponding rise in the level of distributions to shareholders.

Business Development

Ongoing focus on higher quality customers

Customer quality remains an important issue for the business. I am therefore delighted that the steps we have taken are beginning to deliver solid and measurable results.

Churn within our residential Club fell during the year to around 1.7% per month (2010: 2%), reflecting the higher proportion of homeowners, an increase in the average number of services being taken, and increasing penetration of our CashBack card. Within these figures, the churn amongst members of our residential Club who have taken our CashBack Card (almost 25% compared to 14.6% a year ago), is running significantly below these levels. This indicates that we can expect to see a progressive further reduction in our churn over the course of the current year as the proportion of members using our CashBack card continues to increase.

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 successfully installed 5,690 of them during the year; this took our installed base of prepayment meters to 15,741 representing approximately 3% of the energy customers we supply. This is expected to lead to a reduction in bad debts going forward 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 at around 600 per month throughout the year, but increased significantly during the final quarter following our decision in mid-February to reduce the joining fee by 50% to £100. We saw an immediate impact from this change, with the number of new distributors joining during Q4 more than doubling to almost 4,000.

We are consequently experiencing record demand for places on the training courses we run throughout the UK, with around 2,000 distributors attending during April, and a similar number expected to attend during May. As these new distributors gain confidence and experience, we expect to see a progressive increase in the number of new customer applications we receive over the coming months.

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 provides 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, remains a key business objective.

Outlook

We held our annual sales conference over the weekend of 2nd and 3rd April, shortly after the year end, with more than 5,000 distributors attending. At this event, we announced a number of wide ranging initiatives aimed at further improving both the quality and quantity of new customers being gathered. These changes received a positive reaction from those present and, while it is still too soon to assess the full impact they will have on our future rate of growth, we believe that the initial signs are encouraging.

We have already seen a 50% increase in the proportion of new customers applying for at least four services, an increase in the average number of services being taken, increased take-up of our CashBack card, and a continuing high rate of new distributor recruitment, which continues to run at more than twice the level we were seeing during the first 10 months of last year, with over 1,300 signing-up during April alone. The marketing support being provided by npower gives us significant flexibility to extend the current initiatives and /or to introduce further sales incentives over the remainder of the current financial year.

Within the energy sector as a whole, significant investment is needed over the next decade in renewing and extending the distribution network, replacing nuclear and coal-fired generating plant that is approaching the end of its useful life, rolling out smart meters, and encouraging the take up of energy efficiency and renewable energy programmes. It is therefore reasonable to expect that the cost of these initiatives, combined with rising wholesale energy commodity costs, will lead to a progressive increase in retail energy prices over this period.

In the mobile market, the underlying trend is in the opposite direction with intense competition leading to lower retail pricing. However, broadband margins have remained stable, and landline margins have improved (although the benefit of this has been partially offset by a reduction in average call spend due to the tendency of customers to use their mobiles to make an ever increasing proportion of their calls).

Taken together, these trends mean that energy revenues are likely to represent a steadily increasing proportion of our turnover in future and, notwithstanding the anticipated rise in penetration of mobile services into our customer base, our gross margins are now expected to be within a range of 14% to 16% (slightly below the 15% to 17% range we had previously indicated) for the foreseeable future.

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 has demonstrated its ability to gather high quality new customers, both cost-effectively and in substantial volumes, which gives us a continuing competitive advantage.

Our current market share of slightly over 1% of UK households demonstrates the scale of the organic growth opportunity available to us, and the operating leverage of the business means that significant shareholder value would be created if we were able to harness just a small proportion of it. For example, our financial modelling shows that in the absence of any unforeseen circumstances and based on current trends, if we could double the size of our customer base, this could deliver a threefold increase in our pre-tax profits. This represents an exciting medium term goal for our senior management team to focus on.

In the meantime, we retain considerable visibility over future revenues and margins on the various services we provide. This gives us confidence that our financial performance for the current year will be comfortably ahead of the figures we have just reported, and in line with current market expectations.

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
24 May 2011

Business Review

Performance

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

- consistent organic growth with revenue up by 13.5% to £418.8m;
- continuing focus on quality multi-service homeowners;
- recent increase in new distributor numbers;
- improvement in gross margin;
- 12.1% rise in the number of services provided to 1,171,136; and
- higher take-up of CashBack card.

Our organic growth has been driven by continuing high levels of confidence 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.

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 15.9% (2010: 15.1%).

The principal factors behind this were a small increase in energy margins (mainly resulting from the timing of last winter's retail price rises), continuing strong margins from supplying landline telephony services (reflecting rising retail prices across the industry), a broadly stable margin from providing broadband services. As expected, our mobile margin reduced, reflecting the decision we took during the year to price these services more aggressively in order to grow our share of this key market segment.

We anticipate that our gross energy margin will rise over the next few years as we progressively achieve the growth targets we have agreed with npower, while the margins on all our communications services are expected to remain broadly stable at recent levels. We expect to see increased take-up by customers of our higher margin telephony services consistent with the higher number of services being taken (on average) by each new customer, although counter-intuitively, our reported overall gross margin is expected to fall slightly. This is due to the increasing proportion of turnover which we anticipate will relate to supplying energy, the only one of our business activities where prices are expected to continue rising faster than RPI.

We maintain a strong focus on controlling our cost base, and are therefore pleased to report that administration expenses (which include bad debts) saw a further reduction this year to 6.8% of revenue (2010: 7.3%).

Distribution costs fell from 3.5% to 3.2% of turnover due to the inclusion of a full year's impact from reducing the rate of commission payable under the compensation plan on customers living in tenanted properties, although the total commission paid increased to £13.3m (2010: £13.0m) reflecting the growth in turnover. The amount of commission we pay is expected to increase significantly during the current year, tracking the improving quality of our customer

base, rising energy prices and increased activity by distributors following the new incentives we announced at our sales conference.

Staff numbers grew reflecting the rise in customer numbers, as we focus on maintaining our excellent reputation for delivering the highest possible standards 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 that should be available as we continue to grow.

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

	<u>2011</u>	<u>2010</u>
Residential Club	293,292	269,893
Business Club	24,506	21,523
Total Club	317,798	291,416
Non Club	43,156	42,276
Total Telecom Plus	360,954	333,692
TML	10,396	12,070
Total Group	371,350	345,762

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 (79% of our customers). On average these customers each take 3.43 services;
- (ii) Small businesses who are members of the Utility Warehouse Discount Club for Business (6.6% of our customers). On average these customers each take 2.44 services;
- (iii) Residential customers who are not members of our Discount Club (11.6% 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 and have not yet applied to join the Club. On average, these customers each take 1.63 services;
- (iv) Small businesses signed up through our wholly-owned TML subsidiary (2.8% of our customers). On average these customers each take 3.26 services.

Within the residential Club, 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. We have therefore been extremely pleased to see the proportion of homeowners improve from 67.9% to 73.9% during the course of the year, reflecting the emphasis we have placed on attracting this type of customer since July 2009.

Monthly churn in our residential Club for our core target market (homeowners) has recently fallen to around 1.3% per month, which represents a substantial reduction compared with the 1.5% we reported for the same time last year. This improvement illustrates the impact of the increasing penetration of our CashBack card amongst this segment of our customer base.

The rise in the average number of services being taken under our Utility Warehouse brand to 3.36 (2010: 3.21) and continued growth in our Business Club has led to a further small increase in average revenue per customer during the year, notwithstanding lower retail energy prices during the first eight months and the impact of our new mobile tariffs:

	<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

(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 relatively low churn we experience, and the growing confidence of our distribution channel.

We continue to look for ways to strengthen the benefits of Club membership, including the imminent launch of several exciting new Smart Phone applications. Our exclusive CashBack card generates ever increasing savings for our members, who are also making increasing use of our online shopping portal and new 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 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 1,171,136 services (2010: 1,044,516), representing a net overall increase of 12.1% during the course of the year.

	2011	2010
Electricity	296,412	267,186
Gas	249,482	224,256
Fixed Telephony (calls)	215,059	211,565
Fixed Telephony (line rental)	166,194	153,074
Broadband	113,411	98,595
Mobile	42,151	34,067
CashBack card	72,611	39,433
Non-Geographic Numbers	15,816	16,340
Total	1,171,136	1,044,516
Residential Club	1,007,185	883,904
Business Club	59,781	52,949
Total Club	1,066,966	936,853
Non Club	70,240	69,855
Total Telecom Plus	1,137,206	1,006,708
TML	33,930	37,808
Total Group	1,171,136	1,044,516

We saw double digit percentage growth in the number of customers to whom we supply Gas, Electricity, Broadband and Mobile services, with a near doubling in the number of CashBack cards. Within Fixed Telephony, the proportion of customers taking our line rental as well as using us for their calls increased from 72% to 77% during the year. However, we saw a small reduction in the number of Non-Geographic Numbers we supply.

Included within the above figures are 34,902 (2010: 33,593) business customers (within our Business Club and in TML), who are taking 93,711 (2010: 90,757) services and contributing revenues of £50.3m (2010: £46.3m). We are pleased with the steady progress we are making in building our market share within this highly fragmented segment.

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 significant increase in customer take-up during the year, and now have over 72,600 cardholders; the proportion of new residential Club members applying for a card is now approaching 50% as our distributors gain a better understanding of this innovative product and the unique benefits it provides, and as further retailers join the programme.

We paid over £3.5m (2010: £1.6m) 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 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 have also developed a range of qualitative and quantitative performance measurement tools which we have introduced into our call centre, so that we can further improve the overall quality of our members' customer service experience, and will shortly be giving customers the ability to provide feedback on their customer service experience immediately after each call by completing a short survey.

Our People

We rely on the combined efforts of over 500 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 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.

Employees are kept informed on a regular basis of the financial performance of the business and other matters of potential concern to them through internal communication channels including email, the Company Newsletter and the Company's intranet.

We also have an active staff social committee which organise a wide range of events supported by the Company and a Fun Fund set aside for departmental social events.

We continue to invest in our premises as necessary, to ensure the working environment is as attractive as possible, and is consistent with the practical needs of running the business. We will shortly be bringing virtually all of our staff together into our new Network HQ office building, and will be opening a heavily subsidised staff restaurant and Recreation Room; this is intended to strengthen the community culture, enhance morale and reduce staff turnover. We provide a wide range of other staff benefits including a significant discount on the services we provide, employee loans at preferential interest rates and a generous Christmas Bonus scheme. We introduced a Cycle to Work Scheme during the course of last year.

The Company operates an HM Revenue and Customs approved employee share option plan, under which employees are granted an option to purchase shares in the Company which is exercisable between three and ten years from the date of grant. The exercise price is the market price at the time of granting the option. Our policy is to issue options to all employees after the satisfactory completion of their probationary period. As at 31 March 2011 there were outstanding options over 1,379,315 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.

Our Distributors

Our distributors remain one of our key strengths. In contrast to other utility suppliers, the alignment of financial interest provided by our revenue-sharing model and the structure of our compensation plan incentivises our distributors to focus their activities on finding credit-worthy 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. We anticipate that our investment in this area will increase significantly over the course of the current year reflecting the recent increase in the number of new distributors joining each month and the initiatives we announced at the start of April.

We have put significant resources into developing a new web-based application process, which is expected to be launched shortly. To enable distributors to take advantage of this and sign up their new customers online instead of using paper application forms, we have recently given them the opportunity to obtain a laptop from us on preferential terms.

Our Car Plan, which provides eligible distributors with a subsidised Utility Warehouse branded Mini, remains extremely popular. We supplied 56 new cars during the year, taking the total number in use to over 300 (2010: 253). Users inform us that they find these helpful in raising their local profile, resulting in enquiries from both potential new customers and distributors.

The Environment

The environment is becoming an increasingly important concern and we participate in programmes to help reduce the environmental impact of our activities.

We operate an energy efficiency helpline to provide advice on how customers can reduce their energy usage, and we also participate actively in the "Shred-it" recycling programme, with a certificated saving of 476 trees during the year. We also participate in a mobile phone recycling scheme which sends old handsets to less developed parts of the world for re-use, rather than disposing of them in landfill sites.

Our 'online membership' which we launched around 12 months ago, 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 will have a progressive beneficial impact on the amount of paper we use.

Principal Risks

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

Reputation risk

The Company'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.

Andrew Lindsay
Chief Executive Officer
24 May 2011

Financial Review

Overview

Revenues of £418.8m (2010: £369.1m) were 13.5% higher than in the previous financial year to 31 March 2010. The pre-tax profit was £27.5m (2010: £18.2m) and our balance sheet at the year-end shows we had short-term borrowings of £13.1m. This net debt position was in line with management expectations, and was due to a number of factors which are explained in detail below.

The increase in revenue was achieved against a background of lower retail energy prices during the first eight months of the year, and was primarily due to the increase in the average number of services we provided compared with the previous year, combined with higher energy prices and record gas consumption by customers in December.

The significant improvement in pre-tax profitability resulted mainly from an increase in the overall gross profit margin to 15.9% for the year (2010: 15.1%), together with continued organic growth in the number of services we supply.

Distribution costs remained broadly stable as the impact of increasing revenues was largely offset by the changes we made to the distributor compensation plan in the second half of the previous year, which reduced the commission payable on tenants in line with the higher costs associated with managing this category of customer.

Earnings per share increased by 53% to a record level of 30.1p (2010: 19.7p) and, in line with previous guidance, the Company is proposing to pay a final dividend of 14p (2010: 14p) per share, making a total dividend of 22p (2010: 22p) per share for the year.

Customer Management Business

Our customer management business experienced significant growth during the year:

	<u>Net growth in number of services provided</u>
Quarter to 30/06/10	30,847
Quarter to 30/09/10	31,854
Quarter to 31/12/10	27,608
Quarter to 31/03/11	36,311

As can be seen from the above table, the rate of growth increased during the final quarter of the year (primarily reflecting the success of our new range of mobile tariffs). This is extremely encouraging, as they do not yet include any material contribution from the considerably higher numbers of new distributors who have been joining the business each week since the middle of February.

Lower energy prices during the first 8 months were offset by higher prices during the remainder of the year and record gas demand during December, which was the coldest for more than 100 years. Mobile revenues were lower despite the increase in the number of mobile customers, following the decision to cut our prices significantly in December. Revenues from landline telephony and broadband increased slightly with higher customer numbers being partially offset by a reduction in average call spend. Taken together, these factors account for an overall increase in revenues of 13.5%.

Revenue by Service (£m)	2011	2010
Electricity	169.1	146.5
Gas	161.9	143.2
Fixed Communications (Landline/Internet)	64.5	60.9
Mobile	7.3	8.1
Other	10.7	6.2
Total	413.5	364.9

Customer Acquisition

The net cost in respect of our Customer Acquisition business fell slightly during the year to £5.1m (2010: £5.5m). This is mainly due to a slighter lower volume of new customers gathered during the year, a reduction in the cost of providing third party hardware (e.g. mobile handsets and broadband routers), and lower training costs reflecting the introduction of our online training programme and more effective utilisation of our training venues.

Distribution and Administrative Expenses

Distribution costs, which primarily represent the share of our revenues that we pay as commission to distributors, increased by £0.3m to £13.3m (2010: £13.0m); this reflects a combination of lower energy prices during the first eight months of the year, a full year contribution from the changes made to the compensation plan in August 2009 when we focussed the channel on gathering multi-utility homeowners rather than tenants, and the strong organic growth we have seen over the course of the year.

Despite the increase in our bad debt for the year to £8.2m (2010: £7.4m) resulting from the exceptionally cold winter weather, administrative expenses fell to 6.8% of revenue (2010: 7.3%). This reflects the significant operational leverage that we have achieved within the business during the year, and the progress we have made in reducing the proportion of delinquent energy customers by installing prepayment meters.

The average number of employees increased from 451 to 479, most of which took place in the second-half of the year; this increase in headcount of 6.2% is significantly 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. Reflecting these factors, personnel expenses increased by 5.7% to £15.0m (2010: £14.2m) during the year.

We are currently carrying surplus property costs amounting to a few hundred thousand pounds a year, resulting from the consolidation of our administration and customer service staff into our new headquarters office building, which we intend to resolve as soon as possible.

Share Option Costs

The operating profit is stated after share option expenses of £436,000 (2010: £459,000). 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 £6.8m (2010: £4.8m).

The effective tax rate for the year was 24.6% (2010: 26.1%).

Treasury Shares

At the start of the year, the Company held 651,525 shares in treasury.

During the year all of these were used to satisfy exercises under the Company's two share option plans. There were therefore no shares remaining in treasury as at 31 March 2011.

Cash Flow and Balance Sheet

There was a net cash outflow of £15.6m during the year, which was in line with management expectations. The main factors behind this were the impact of another extremely cold winter (which led to an increase of £10.4m in our unbilled energy debtors), a reduction in our trade and other payables of £4.9m, an increase in trade and other receivables of £4.9m (mainly reflecting the increasing number of delinquent energy customers for whom we have installed, or are in the process of installing, prepayment meters), an increase in non-current receivables of £2.8m mainly relating to pre-payment meter debts which are not due to be recovered until after 12 months time, and the payment of a dividend for the previous year which was not covered by earnings.

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 again exceptionally cold, which has led to an increase in unbilled energy debtors to £43.2m (included within prepayments and accrued income) compared with £32.8m at the end of last year.

The Board believes that most of the above factors are unlikely to be repeated during the current year. But more importantly, the new supply arrangements agreed with npower mean that the working capital required to fund customer budget plans will in future be provided by npower. As a result, we expect to report a healthy positive cash balance at the end of the financial year to 31 March 2012.

The Group does not have a policy with respect to interest rate management, as it has no long-term debt funding requirements or any obligation after 1 September of this year to provide a letter of credit to npower. 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 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2011

	<i>Note</i>	2011 £'000	2010 £'000
Revenue	1	418,845	369,069
Cost of sales		<u>352,273</u>	<u>313,386</u>
Gross profit		66,572	55,683
Distribution expenses		13,252	12,989
Administrative expenses		28,301	26,853
Other income		<u>82</u>	<u>339</u>
Operating profit	1	<u>25,101</u>	<u>16,180</u>
Financial income		74	135
Financial expenses		<u>69</u>	<u>2</u>
Net financial income		<u>5</u>	<u>133</u>
Share of profit of associates		2,400	1,885
Profit before taxation		<u>27,506</u>	<u>18,198</u>
Taxation		<u>(6,781)</u>	<u>(4,756)</u>
Profit for the year attributable to owners of the parent		<u>20,725</u>	<u>13,442</u>
Other comprehensive income:			
Deferred tax on share options		167	(114)
Comprehensive income for the year attributable to owners of the parent		<u>20,892</u>	<u>13,328</u>
Basic earnings per share	2	<u>30.1p</u>	<u>19.7p</u>
Diluted earnings per share	2	<u>29.9p</u>	<u>19.5p</u>

Consolidated Balance sheets

As at 31 March 2011

	Group	
	2011	2010
	£'000	£'000
Assets		
Non-current assets		
Property, plant and equipment	12,468	12,098
Goodwill and intangible assets	3,742	3,742
Investments in associates	5,313	4,003
Deferred tax	1,118	1,409
Non-current receivables	5,095	2,335
Total non-current assets	<u>27,736</u>	<u>23,587</u>
Current assets		
Inventories	347	234
Trade and other receivables	15,772	10,857
Prepayments and accrued income	79,307	65,838
Cash and cash equivalents	2,419	2,473
Total current assets	<u>97,845</u>	<u>79,402</u>
Total assets	<u>125,581</u>	<u>102,989</u>
Current liabilities		
Short term borrowings	15,525	-
Trade and other payables	3,937	8,812
Current tax payable	2,565	1,988
Accrued expenses and deferred income	51,852	47,701
Total current liabilities	<u>73,879</u>	<u>58,501</u>
Total assets less total liabilities	<u>51,702</u>	<u>44,488</u>
Equity		
Share capital	3,477	3,452
Share premium	4,298	2,000
Treasury shares	-	(1,278)
JSOP reserve	(2,275)	-
Retained earnings	46,202	40,314
Total equity	<u>51,702</u>	<u>44,488</u>

Consolidated Cash Flow Statements

For the year ended 31 March 2011

	Group	
	2011	2010
	£'000	£'000
Operating activities		
Operating profit	25,101	16,180
Depreciation of property, plant and equipment	1,076	917
Amortisation of intangible assets	-	1
Distribution from associated company	1,090	1,017
(Increase)/decrease in inventories	(113)	123
(Increase) in trade and other receivables	(21,144)	(21,142)
(Decrease)/increase in trade and other payables	(724)	1,495
Costs attributed to the issue of share options	436	459
Corporation tax paid	(5,745)	(6,199)
Net cash flow from operating activities	<u>(23)</u>	<u>(7,149)</u>
Investing activities		
Purchase of property, plant and equipment	(1,447)	(1,545)
Purchase of shares in associated company	-	(432)
Cash flow from investing activities	<u>(1,447)</u>	<u>(1,977)</u>
Financing activities		
Dividends paid	(15,118)	(13,989)
Interest received	74	135
Interest paid	(69)	(2)
Issue of new ordinary shares	12	-
Purchase of own shares	-	(272)
Sale of treasury shares	992	370
Cash flow from financing activities	<u>(14,109)</u>	<u>(13,758)</u>
Decrease in cash and cash equivalents	(15,579)	(22,884)
Cash and cash equivalents at the beginning of the year	2,473	25,357
Net cash and cash equivalents at the end of the year	<u>(13,106)</u>	<u>2,473</u>
Cash and cash equivalents	2,419	2,473
Short term borrowings	(15,525)	-
Net cash and cash equivalents at the end of the year	<u>(13,106)</u>	<u>2,473</u>

Consolidated Statement of Changes in Equity

For the year ended 31 March 2011

Consolidated	Share capital £'000	Share premium £'000	JSOP Reserve £'000	Treasury shares £'000	Retained earnings £'000	Total £'000
Balance at 1 April 2009	3,452	1,992	-	(1,457)	40,605	44,592
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>-</u>	<u>(1,278)</u>	<u>40,314</u>	<u>44,488</u>
Profit for the year					20,725	20,725
Deferred tax on share options					167	167
Comprehensive income for the year					<u>20,892</u>	<u>20,892</u>
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 (note 16)	25	2,250	(2,275)		-	-
Issue of new shares	-	12				12
Balance at 31 March 2011	<u>3,477</u>	<u>4,298</u>	<u>(2,275)</u>	<u>-</u>	<u>46,202</u>	<u>51,702</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 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 2011			Year ended 31 March 2010		
	Customer Management	Customer Acquisition	Total	Customer Management	Customer Acquisition	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue:						
External sales	413,490	5,355	418,845	364,890	4,179	369,069
Segment result	30,211	(5,110)	25,101	21,655	(5,475)	16,180
Operating profit			25,101			16,180
Net financing income			5			133
Share of profit of associates			2,400			1,885
Profit before taxation			27,506			18,198
Taxation			(6,781)			(4,756)
Profit for the year			20,725			13,442
Segment assets	117,773	2,495	120,268	96,828	2,158	98,986
Investment in equity method associates	5,313	-	5,313	4,003		4,003
Total assets	123,086	2,495	125,581	100,831	2,158	102,989
Segment liabilities	(73,001)	(878)	(73,879)	(57,864)	(637)	(58,501)
Net assets			51,702			44,488
Capital expenditure	1,429	18	1,447	1,527	18	1,545
Depreciation and amortisation	1,062	14	1,076	908	10	918

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.

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

2. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 March 2011 was based on the profit attributable to owners of the parent of £20,725,000 (2010: £13,442,000) and a weighted average number of ordinary shares outstanding during the year ended 31 March 2011 of 68,739,755 (2010: 68,270,160).

	2011	2010
Basic earnings per share	30.1p	19.7p
Diluted earnings per share	<u>29.9p</u>	<u>19.5p</u>

Diluted earnings per share

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

	2011		2010	
	Profit £'000	Number of shares '000	Profit £'000	Number of shares '000
Basic earnings	20,725	68,740	13,442	68,270
Dilutive effects – Options	-	560	-	551
Diluted earnings	<u>20,725</u>	<u>69,300</u>	<u>13,442</u>	<u>68,821</u>

The share options may be dilutive in future periods.

3. Dividends

	2011	2010
	£'000	£'000
Prior year final paid 14p (2010: 12.5p) per share	9,604	8,526
Interim paid 8p (2010: 8p) per share	<u>5,514</u>	<u>5,463</u>

The Directors have proposed a final dividend of 14p per ordinary share totalling £9.7 million, payable on 5 August 2011, to shareholders on the register at the close of business on 15 July 2011. In accordance with the Group's accounting policies the dividend has not been included as a liability as at 31 March 2011.

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 27.01% of the voting shares of the Company.

During the year, the Company acquired goods and services worth approximately £92,000 (2010: £87,000) from companies in which directors have a beneficial interest.

Other related party transactions

Associates

During the year ended 31 March 2011, the associate supplied goods to the Group which amounted to £604,000 (2010: £559,000) and at 31 March 2011 the associate was owed £42,000 by the Group (2010: £94,000). Dividends received during the year from the associate amounted to £1,090,000 (2010: £1,017,000) relating to the financial year to 31 March 2010.

Subsidiary company

During the year ended 31 March 2011, the subsidiary purchased goods and services from the Company in the amount of £7,535,000 (2010: £7,433,000). At 31 March 2011 the subsidiary was owed £1,778,000 by the Company (2010: £585,000).

5. Basis of preparation

The financial information set out above does not constitute the Group's statutory information for the years ended 31 March 2011 or 2010, 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 2010. Statutory accounts for 2010 have been delivered to the Registrar of Companies and those for 2011 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. 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