



### **Details of the Transaction**

The Transaction involves npower assuming the obligation to supply gas and electricity to the customers of the Group.

It comprises the following principal elements:

- sale of the Energy Companies to npower for nominal consideration, which will mean that npower will thereby become responsible for the supply of gas and electricity (as applicable) to the customers of those companies.
- provision of management services by the Company to the energy customers on behalf of npower and the Energy Companies. The Company will remain responsible for managing all aspects of the customer relationship with the energy customers on behalf of npower and the Energy Companies, including billing (as part of its multi-utility proposition), customer service, metering, debt collection and administration, in return for a commission on energy used by the customers.
- grant of the put option by the Company – in the event of a change of majority control of the Company prior to six months after the call options set out below lapsing, the Company can be required to repurchase the Energy Companies or to take an assignment of the contracts with the customers of the Energy Companies. The amount payable to npower in the event that the Put Option is exercised is £50 per energy service supplied together with a commission of 10 per cent. of the revenues generated from such customers over the succeeding five years.

In addition, certain Directors, senior employees and connected persons have granted or intend, prior to Completion, to grant npower an option to acquire part or all of their shareholdings in the Company amounting in aggregate to 19,817,711 Ordinary Shares, representing approximately 29 per cent. of the existing issued share capital of the Company. This option is exercisable in the six months following publication of the Company's results for the year ending 31 March 2009. The price per Ordinary Share payable by npower on exercise of the Call Option is equal to four times EBITDA for the year ending 31 March 2008 plus eight times the EBITDA for the year ending 31 March 2009 (net of cash and debt) divided by the number of Ordinary Shares in issue at the time of exercise of the Call Option, or market value if higher (based on the average closing price for the preceding 20 dealing days).

### **Background to and reasons for the Transaction**

On 23 November 2005, the Company issued a trading statement informing shareholders that the record prices and increasing volatility in the wholesale energy markets were resulting in substantial losses being incurred on its gas business. On 13 December 2005, the Company updated shareholders further when it published interim results for the period to 30 September 2005, which stated that the Directors were actively exploring strategic options with a view to finding ways of controlling these losses. Since that date, the wholesale cost of gas has remained substantially higher than the price the Company has been able to charge its customers in a competitive market. If these losses had been allowed to continue, the future viability of the Group would have been placed at risk.

In practice, the Company had two options:

The first option was the immediate sale or closure of the energy businesses. Although this would have achieved the short term objective of capping these losses, enabling the Company to survive and avoid an insolvent liquidation, the Directors considered such closure would have been extremely damaging to the remaining business in the longer term: it would have destroyed the Company's current unique market position as the UK's only fully integrated multi-utility supplier; it

would have led to an immediate and significant loss of customers; it could have been expected to put pressure on future telephony margins as the Company competed with other alternative telephony suppliers primarily on price; it would have seriously damaged morale within the Distribution Network, many of whom would have lost a substantial proportion of their income. Overall, the Directors' assessment was that by pursuing this option, although the business would have survived the current crisis, the prospects for future growth and profitability would have been seriously impaired.

The second option was to try and identify a partner who would take over responsibility for the physical supply of gas and electricity to the energy customers, whilst leaving responsibility for managing all other aspects of the customer relationship with the Company. Under the proposed transaction, the Company will enter into a management contract with npower under which the Company will continue to promote an integrated multi-utility proposition to the customers. All responsibility for purchasing and hedging energy will reside with npower, whilst the Company will receive an ongoing commission (share of revenue) on energy used by the customers in the future. This preserves the current business model and should boost morale within the Distribution Network as Distributors will continue to receive a share of the revenues generated by the energy customers and be able to continue offering prospective new customers a wide range of competitively priced utility services, including gas and electricity.

In the event that the Resolution is not approved by Shareholders, and in the absence of additional bank facilities which are not currently in place, the Board would have to consider appointing an administrator immediately as the Company would be responsible for paying the full cost incurred by npower since 1 January 2006 in supplying energy (which would amount to an additional cost of approximately £9.8 million) and up to £500,000 of their legal costs. Shareholders should note, however, that the Directors and certain other shareholders have irrevocably undertaken to vote in favour of the Resolution, in respect of 37,570,536 Ordinary Shares, equivalent to approximately 55 per cent of the share capital of the Company.

The Directors believe that investors' perception of the Company has been adversely affected over the last two years by the risks associated with the increasingly volatile wholesale energy markets. This transaction eliminates those risks and should enable the company to earn a small positive contribution from its energy business in future.

#### **Information on the Energy Companies**

The Energy Companies were acquired by the Company during December 2005 from Oxford Power Holdings Limited for an aggregate cash consideration of £575,000. The rationale for the acquisition was to ensure that the contracts with the energy customers were held in separate licensed subsidiaries so that a purchaser of the energy business did not need to transfer the customer contracts to their own licences.

Gas Plus was incorporated on 6 August 2004. It had contracts to supply gas to 83,403 customers as at 1 January 2006. Until then, it was dormant and it had not traded, carried on any business or incurred any liabilities. Accordingly, the financial information available in relation to it is of minor importance only and there is no financial information available which would influence any assessment of the assets and liabilities, financial position, profits and losses and prospects of the Company.

Electricity Plus was incorporated on 6 August 2004. It had contracts to supply electricity to 97,989 customers as at 1 January 2006. Until then, it was dormant and, save for the holding of such contracts, it had not traded, carried on any business or incurred any liabilities. Accordingly, the financial information available in relation to it is of minor importance only and there is no financial information available which would influence any assessment of the assets and liabilities, financial position, profits and losses and prospects of the Company.

Plus Shipping operates as the licensed gas shipper for Gas Plus. All costs incurred by Plus Shipping are passed directly through to Gas Plus (previously to the Company) on a no profit/no loss basis, and consequently the turnover of Plus Shipping is included in the results for Gas Plus (previously the results of the Company) as cost of sales. Financial information in relation to Plus Shipping is set out in the Circular.

### **Financial effects of the Transaction**

The principal financial effect of the Transaction will be to remove the Group's exposure to volatile wholesale energy prices and enable the Company to earn a positive contribution towards its earnings from managing all aspects of the customer relationship in respect of supplying gas and electricity.

### **The Continuing Group**

Notwithstanding the disposal of these subsidiaries, the Company will continue to offer customers a substantially identical marketing proposition for their utilities as currently. Customers will continue to receive a single integrated monthly bill from the Company covering all their services, and the Company will remain responsible for managing all aspects of the customer relationship including billing, administration, account management, customer service and debt collection.

### **Current trading and prospects**

As anticipated in the interim statement, gas prices have remained high and the Company has incurred significant losses so far this winter. In addition, there have been substantial exceptional costs incurred in restructuring the Group in order to enter into the proposed Transaction, and further, in relation to the proposed Transaction itself. The Directors previously stated that profits before tax were expected to be significantly lower than last year and also subject to considerable uncertainty. Overall, it is therefore expected that the outcome for the full year to 31 March 2006 will be a loss before tax of approximately £1.6 million.

- This loss forecast is based upon the following facts and assumptions under the control of the Board:
- there being no material change to the margins within the Group's telephony businesses or the
- Group's overhead structure;
- the effect of the exceptional restructuring costs referred to above; and
- the retail energy tariffs charged by the Company during the period.

In addition, this loss forecast is based on the actual energy costs incurred by the Company prior to 31 December 2005, together with the contractual energy costs which will be payable should the Transaction proceed in respect of energy supplied after that date under the terms of the Transaction.

This loss forecast has been properly compiled on the basis of facts and assumptions stated above and the basis of accounting is consistent with the accounting policies of the Company. It has been prepared from the management accounts of the Company for the 10 months ended 31 January 2006 and the Directors' forecasts for the two months ending 31 March 2006.

The Directors believe that the Transaction will leave the Group strongly positioned as the UK's only integrated multi-utility supplier, clearly focused on marketing and promoting our services, with no exposure to either future volatility in the wholesale energy markets or working capital

issues relating to an energy hedge book which would have needed to expand rapidly in line with rising wholesale energy prices and the steady growth of our customer base.

The Company will not be in a position to pay a dividend for the current financial year. However, the Directors anticipate being in a position to resume dividend payments in respect of the forthcoming financial year, although these will of course be dependant on growth, working capital and the level of profitability achieved.

07 March 2006