

# TELECOM *plus* PLC

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20 May 2009

## Telecom *plus* PLC Final Results for the year ended 31 March 2009

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 2009.

### Financial Highlights:

- Turnover up 49% to £278.3m (2008: £186.5m)
- Profit before tax up 34% to £22.5m (2008: £16.8m)
- Year-end net cash balance of £25.4m (2008: £30.3m)
- EPS up 37% to 24.2p (2008: 17.7p)
- Final dividend of 12.5p per share (2008: 10p) making a total for the year of 17.5p per share (2008: 14p); this represents an increase in the total payment of 25% compared with last year.

### Operating Highlights:

- Accelerating organic growth
- Customer base now exceeds 281,000 (2008: 217,857)
- 34% increase in the number of services being supplied
- Business Club has grown by 69% to 16,163 members (2008: 9,537)
- Over 27,000 distributors at year end (2008: 19,600)
- Successful launch of new CashBack card
- New office headquarters - first phase refurbishment complete

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

"The confidence we expressed last year in the ability of our business to deliver strong results has been vindicated. I am delighted to report on a further year of significant achievement for the Company in which we have seen strong growth in turnover, profitability and earnings per share. We are recommending a final dividend of 12.5p; this makes a total dividend of 17.5p (2008: 14p) representing an increase of 25% over last year."

"It remains our intention to pay a total dividend of 22p for the current year, in the absence of unforeseen circumstances. This reflects our confidence in a continuation of the current rapid growth we are seeing in both new services and new customers, which can be expected to provide the Company with a platform from which to deliver significantly higher profits in future years."

There will be a meeting for analysts at Smithfield's offices at 09.30 am today.

For more information please contact:

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## 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 turnover, profitability and earnings per share.

### Results

Pre-tax profits increased by 34% to £22.5m (2008: £16.8m) on group turnover up by 49% to £278.3m (2008: £186.5m). This strong financial performance has been driven by the rapid growth in the number of customers using our services during the course of the year. Gross margins during the year fell from 19.3% to 18.6%, in line with management expectations, primarily reflecting the higher proportion of our business now represented by supplying gas and electricity, where the margins are considerably lower than from selling telephony and broadband services.

Earnings per share increased by 37% during the year to 24.2p (2008: 17.7p) and we are recommending a final dividend of 12.5p. This makes a total dividend of 17.5p (2008: 14.0p), representing an increase of 25% over last year.

The rate at which new customers have been signing up to become members of the Utility Warehouse Discount Club has been gathering pace steadily throughout the year. This has been driven by a combination of record numbers of new distributors joining the business (almost 4,000 in the last quarter alone), growing confidence in the value of our services and the quality of customer service we provide, and an economic climate in which potential customers are increasingly looking for credible ways to reduce their costs. Residential Club membership increased by over 40% during the year to 222,705 (2008: 158,972) and our Business Club membership grew by almost 70% during the year to 16,163 (2008: 9,537); together, these clubs (trading under the Utility Warehouse brand) now account for 85% (2008: 77%) of our total customer base.

We are particularly encouraged by the accelerating rate of growth in the number of services we are providing, which reached 794,118 (2008: 591,981) by the year end – an increase of more than 202,000 services during the year. Of this total, 69,692 were added during the last quarter of the year, representing an annualised growth rate of over 38%.

We continue to invest significant resources in improving our UK-based customer service team, the effectiveness of which is clearly demonstrated by the various awards we received from *Which?* magazine over the course of the year. Churn has increased slightly from around 1.8% per month to 2% per month largely due to the faster organic growth we have been experiencing, and average spend per customer has grown to £1,057 (2008: £872).

Oxford Power Holdings ("Opus"), in which we maintain a 20% stake, continues to produce satisfactory results. Our share of their profits was fractionally lower than last year at £0.89m (2008: £0.94m) in what proved to be a very difficult year for other independent resellers of commercial electricity, which saw their two principal competitors (Bizz Energy and E4B) both going into administration. Opus's solid performance demonstrates the resilience of their business model and the strength and experience of their management team. International Power Holdings PLC, which currently own a 30% stake in the business (the remaining 50% is held by management), has a call option under which it can acquire the remaining 70%. This option is exercisable during a 30 day window beginning on the date that Opus completes its audit for the year to 31 March 2009, which is expected to occur shortly. The formula under which this option can be exercised places a value of approximately £15m on our stake in this business.

Year-end net cash balances fell by £4.9m to £25.4m (2008: £30.3m). This reduction reflects the significant growth in our energy business and the impact of an extremely cold winter which, combined with higher retail energy prices, has increased budget plan debtors by £14.1m to £23.2m at the year-end, and the cost of purchasing and refurbishing our new freehold headquarters office building for around £10m. The overall cash outflow was partially offset by issuing 1.5m shares from Treasury in February, which raised £4.7m.

## **Business Development**

Our distributors have become increasingly 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 a substantial increase in activity. We have seen a net increase of around 7,500 distributors over the year (2008: net increase of 3,000), taking the total number of distributors to around 27,100 (2008: 19,600); this represents an increase of over 38% during the year, most of which took place during the second half and provides a strong indication of the level of customer gathering activity that can be expected during the first half of the current year. Our distributor numbers include approximately 1,000 Community Fundraisers, a relatively new business opportunity introduced in October 2007, which enables local organisations (e.g. schools, sports clubs, religious bodies and charities) to raise funds by promoting the benefits of using our services within their communities.

Our IT systems have been designed to manage a significantly larger number of customers than are currently using our services, and the recent purchase of a substantial freehold office building gives us the additional physical space we will need to support our anticipated future growth over the next 5 years. This means we have the potential to benefit from substantial economies of scale as the number of services we provide continues to grow. The achievement of these economies of scale, and maintaining our current growth trajectory, remains our key business priority over the next few years.

Last autumn we introduced full colour billing, enabling us to improve the clarity of the information provided to customers, highlighting the various savings and membership benefits they are receiving, and also giving us the opportunity to incorporate more effective marketing messages each month.

We also launched a pre-payment MasterCard ("CashBack Card") as an important new customer acquisition and retention tool. This 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. This valuable additional membership benefit has been well received, and customers using their new cards are achieving typical savings of 15%-30% on the cost of their utilities each month.

We have also enhanced our customer proposition with the introduction of "Free Global Calls" (where customers with multiple services can benefit from free calls at any time of day to UK Local and National destinations, 0845 and 0870 numbers, and to 10 popular international destinations), whilst reducing our fixed monthly line rental to £8.99, substantially below the price charged by any of our principal competitors.

Recently published customer satisfaction surveys continue to compare us favourably against our competitors, and we were delighted to receive our first "Best Buy" recommendation from *Which?* magazine during the year for our combined fixed telephony and broadband package. They also rated us as the best energy supplier on two separate occasions, with a customer satisfaction rating significantly higher than any of the "Big 6" suppliers. And when we asked

our own customers directly for their opinion, over 94% said they would recommend us to a friend.

We intend to capitalise on these positive opinions by continuing to promote our customer referral programme. This provides existing members who successfully recommend a new customer to us with an ongoing additional discount on their own monthly utility bill – a discount which increases with the number of new customers they introduce. This initiative is being supported by our inbound telesales fulfilment team, which enables potential new customers (particularly those introduced by community fundraising groups) to sign up for our services with the minimum of effort or inconvenience.

Once again I would like to thank our staff and distributors for the loyalty they have shown, and the continuing contribution they are making to the success of the Company.

### **Board Changes**

I am delighted to welcome Christopher Houghton to the Board, who joined the Company last autumn and was promoted to Finance Director in February 2009 following the departure of Mr Hateley. His previous experience at PricewaterhouseCoopers, where he qualified as a chartered accountant and had recently completed a two year secondment to The Takeover Panel, clearly identify him as a candidate of exceptional ability, and we were delighted when he accepted our offer. His appointment represents a further important step in our continuing programme to strengthen our senior management team in line with the significant organic growth being achieved.

### **Outlook**

Since the year end we have seen continuing high levels of activity, with strong growth in both new customer and new distributor numbers. The confidence we expressed last year in the ability of our business to continue to deliver strong results has been vindicated.

The nature of our business model continues to give us considerable visibility over future revenues, and it is extremely encouraging that we were able to maintain satisfactory gross margins last year in each of the business areas in which we operate. However, it is more difficult to provide accurate guidance on short-term profitability during periods of rapid growth, not least due to the conservative accounting policy we adopt where all customer acquisition costs are immediately written off against profits. This difficulty is exacerbated by the seasonal nature of domestic energy consumption in the UK, where approaching 40% of annual consumption occurs in the final quarter of each financial year, and the actual amount used can fluctuate considerably depending on the weather.

Although the absolute amount of energy our customers will use this year remains subject to considerable uncertainty, as explained above, the Company remains protected against any volatility in the wholesale energy markets under our long-term supply arrangements with npower, under which they are responsible for providing 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 suggest that retail prices are unlikely to fall much further from their current levels over the next 12 months.

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 just a single clear and concise bill each month. Our distribution channel has demonstrated its continuing

ability to gather high quality new customers, cost-effectively and in increasing volumes; this gives us a considerable competitive advantage in the residential market.

The directors consider the rapid and accelerating growth curve we are currently following is the best way to maximise shareholder value in the medium term, notwithstanding any pressure it may create on our profitability in the meantime. As we fund this rapid growth from the earnings generated by our current customer base, it will clearly have an impact on our reported earnings, which are also being adversely affected by a number of other factors, namely: a reduction in our financial income of around £1.5m compared with last year as a result of the sharp fall in interest rates; slightly lower energy margins following the reduction in retail prices from 1 April and a further small reduction anticipated later this year; additional fixed costs associated with our new headquarters office building; and an increase in bad debts. For these reasons, we believe at this stage it is unlikely our profits for the current year will match the record figure for last year which we announced today.

### **Dividend**

We are proposing a final dividend of 12.5p for the year (2008: 10p) making a total for the year of 17.5p (2008: 14p). This represents an increase of 25% in our total payment compared with last year. The final dividend will be paid on 7 August 2009 to shareholders on the register at the close of business on 10 July 2009 and is subject to approval by shareholders at the Company's Annual General Meeting which is being held on 8 July 2009.

Notwithstanding anticipated lower profits in the short-term, it remains our intention to pay a total dividend of 22p for the current year in the absence of unforeseen circumstances, even though this may not be fully covered by our earnings.

This reflects our confidence in a continuation of the current rapid growth we are seeing in both new services and new customers, which can be expected to provide the Company with a platform from which to deliver significantly higher profits in future years.

Peter Nutting  
Chairman  
20 May 2009

# Business Review

## Performance

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

- record Group turnover and pre-tax profits of £278.3m and £22.5m respectively;
- continuing strong underlying cash generation;
- significant growth in the number of distributors actively promoting our services;
- 34% increase in the number of services we are providing to over 790,000;
- successful launch of new CashBack Card and mobile Pre-Pay service;
- 69% increase in membership of our Business Club.

This exceptional performance has been driven by increasing confidence within our distribution channel in our financial strength (as demonstrated by our profitability, cash resources, and promotion into the FTSE250), the value of our services, and our commitment to ensuring we consistently deliver a first class experience to our customers (as evidenced by the numerous independent endorsements we have received in magazines like *Which?*).

Our growth has benefited from the deteriorating economic climate, which has made the part-time earning opportunity we offer new distributors increasingly attractive against the background of a broader labour market where working hours are being cut, overtime is being reduced, part-time jobs are less readily available and unemployment is rising. It has also made it easier for distributors to find new customers, as households become more focused on finding new ways to reduce their monthly outgoings.

## Margins

Gross margins improved during the year in all areas of our business, primarily 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, and the impact of higher energy prices compared with the previous year. The overall gross margin reduced slightly, however, due to the increasing proportion of our turnover which derives from supplying energy (which has relatively low gross margins) compared with telephony and broadband (which has relatively high gross margins), and the impact of providing "Free Global Calls" to a growing proportion of our customers.

## The Market

Our focus is on supplying a wide range of essential utility services (gas, electricity, fixed telephony, mobile telephony and internet) 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.

## Our Customers

The majority of our customers choose to take advantage of our multi-service proposition, with over 85% having joined our Discount Club since its launch in October 2003.

On average, each member of our residential club now takes 3.07 services (2008: 3.13) with 85% taking two or more services, and 51% taking three or more services; this slight reduction in the average number of services per member compared with last year reflects an increase in the proportion of "energy only" customers, who are primarily in rental accommodation. These figures (which exclude CashBack cards) are illustrated by the analysis below, and demonstrate the effectiveness of our Club concept in encouraging customers to subscribe for additional services:

	<u>Members</u>	<u>Non-Members</u>
1 Service	15%	55%
2 Services	34%	37%
3 Services	13%	6%
4 Services	14%	2%
5 Services	20%	-
6 Services	3%	-
7 Services	1%	-

*At the year end we had 238,868 members and 42,307 non-members. Non-members relate to customers gathered prior to the launch of our Discount Club in October 2003 or who have moved into a property where we were the incumbent utility supplier, and have not yet applied to join the Discount Club.*

The combination of an increasing proportion of customers taking our Broadcall service and higher retail energy prices has led to a further increase in average revenue per customer, notwithstanding considerable price deflation in the fixed telephony markets over the last nine years.

<u>Year</u>	<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

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 recent survey which we carried out amongst our members where over 94% stated that they would recommend us to their friends. Our overall monthly churn increased slightly to around 2.0% during the year, but remains considerably below the average levels experienced

by our competitors, when compared with customers who had similarly already switched away from their original supplier.

We further increased the range of benefits available to our members during the year, with the launch of a CashBack Card (which gives members the opportunity to save an extra 5% on all their shopping at a wide range of leading UK retailers), and the introduction of "Free Global Calls".

## Services

Our range of essential utility services includes fixed telephony (calls and line rental), mobile telephony, gas, electricity and internet. At the year end we supplied a total of 794,118 services (2008: 591,981), representing an increase of over 34% during the course of the year.

	<u>2009</u>	<u>2008</u>
Electricity	209,262	133,873
Gas	177,452	113,761
Home phone	167,607	155,035
Fixed line rental	116,622	87,108
Broadband	76,717	55,564
Mobile	35,550	36,358
Freephone	10,908	10,282
<b>Total</b>	<b>794,118</b>	<b>591,981</b>

We saw strong growth in the number of customers to whom we supply gas, electricity, broadband, home phone and fixed line rental, although there was a small reduction in the number of mobile services during the first half of the year prior to the launch of our mobile Pay as you Go service in the Autumn.

Included within the above figures are 16,163 members of our Business Club, who are taking in aggregate over 39,497 services and contributing £24m (2008: £11.1m) to Group turnover. We are extremely encouraged by this strong performance, and the continuing enthusiastic response of our distribution channel to this opportunity.

## 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 continue to invest in improving our customer service resources, and have developed specialist teams capable of dealing with some of the more complicated problems which arise due to continuing inefficiencies in the standard industry processes for switching 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.

## **Our People**

We rely on the combined efforts of over 400 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 appropriate people.

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 and the Company's intranet service. We also have an established staff forum, which includes a representative from each department in the Company, to enable employees to give their views on any major changes being considered by management which might have a material impact on their roles within the organisation.

We continue to invest in our premises to ensure the working environment is as attractive as possible, consistent with the practical needs of running the business. We are currently part-way through a rolling programme that will include redecorating our current office accommodation, and have just completed the first phase of refurbishing our new headquarters office building.

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 2009, there were outstanding options over 1,620,650 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 also 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 interests provided by our revenue-sharing model ensures that our distributors focus their activities on finding credit-worthy and high-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.

Our Car Plan, which provides eligible distributors with a subsidised Utility Warehouse branded Mini, remains extremely popular and we have now supplied over 170 cars following the extension of the programme in October 2007 to bring it within reach of a substantially larger number of distributors. Owners find these helpful in raising their local profile, resulting in enquiries from both potential new customers and distributors.

Distributors have generally seen a considerable increase in their average earnings from each customer during the last three years as a result of the growth in the number of services taken combined with rising energy prices. The largest increases in earnings have however been achieved by those who have been working consistently at building their personal and group customer numbers. Our unique market position continues to make this predominantly part-time career extremely attractive to potential new recruits.

We have continued to invest in our national training programme (the "College of Excellence") during the year, in order to keep up with the massively increased demand for its services from the rapidly growing numbers of new distributors who are joining each month. These are designed to help our distributors maximise their potential and provide our next generation of leaders with the additional skills they will need. In addition to increasing the frequency and number of venues for our "Career Opportunity Presentations" and "Getting Started Courses", we now also run Goal Setting Courses, Accelerator Courses and an enhanced Leadership training module. In addition, we have recently begun to investigate the possibility of extending the scope of our training so that successful participants can gain a valuable NVQ qualification, and will be trialling this program over the next few months.

## **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 165 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.

## **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. To avoid these, the Company decided in 2005 to seek a relationship with a larger energy supplier which would preserve our integrated multi-utility business model whilst passing the substantive risks and rewards of hedging and buying energy to them. The transaction with npower which was completed on 31 March 2006 achieved these objectives, and 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  
20 May 2009

# Financial Review

## Overview

Revenues of £278.3m (2008: £186.5m) were 49% higher than in the previous financial year to 31 March 2008. The pre-tax profit was £22.5m (2008: £16.8m), and we saw a net cash inflow from operating activities of £9.1m. Overall, our year-end net cash position reduced slightly to £25.4m.

The increase in turnover to £278.3m was primarily due to the 34% increase in the number of services we are providing compared with the previous year, combined with the impact of higher retail energy prices. This was partially offset by a reduction in our fixed monthly line rental charges last autumn.

The overall gross profit margin fell slightly during the year to 18.6% (2008: 19.3%), reflecting the increasing proportion of our turnover which now derives from supplying energy, partially offset by higher margins from each of the individual services we provide. The increase at the operating profit level was primarily due to the rise in the number of services we are providing, combined with the impact of higher energy prices and improving economies of scale, although our bad debt charge rose to £7.2m (2008: £3.1m) due to a combination of significantly higher turnover and a more difficult economic climate.

Earnings per share increased by 37% to 24.2p (2008: 17.7p) and the Company is therefore proposing a final dividend of 12.5p (2008: 10p) per share, making a total dividend of 17.5p (2008: 14p) per share for the year; a 25% increase.

## Customer Management Business

Our customer management business experienced significant growth during the year, with the rate accelerating with each passing quarter:

	Net growth in number of services provided
Quarter to 30/06/08	26,339
Quarter to 30/09/08	41,204
Quarter to 31/12/08	64,902
Quarter to 31/03/09	69,692

This growth has been driven by the significant increase in new distributor recruitment over the last 12 months, mainly due to the attractiveness of this predominantly part-time income opportunity in a recessionary economic climate, supported by rising confidence in the financial strength of the Company, the value we offer, and the quality of our customer service.

We saw particularly strong growth in the number of gas and electricity services we supply. This was largely responsible for the increase of almost 50% in our revenues for the year, although we also experienced high levels of demand from new customers for our broadband and fixed telephony services on the back of our "Best Buy" recommendation in *Which?* Magazine.

<b>Revenue by Service (£m)</b>	<b>2008</b>	<b>2009</b>
Electricity	65.8	101.6
Gas	57.0	107.5
Fixed Telephony Calls	29.7	30.3
Fixed Telephony Line Rental	10.6	10.8
Mobile	10.8	9.5
Broadband	10.2	14.3
Total	184.1	274.0

### **Customer Acquisition**

The net cost in respect of our Customer Acquisition business increased during the year to £5.0m (2008: £3.6m). This is mainly due to the costs associated with the significant increase in the number of new customers, such as third-party connection charges, distributor bonuses and the provision of hardware (e.g. mobile handsets and broadband routers).

Between October 2007 and February 2009 we offered a "BroadCall Laptop" tariff, under which customers were provided with a free laptop in return for entering into a two-year service agreement on a premium tariff. The cost of supplying these laptops has been capitalised and is being amortised against the profits we earn from supplying their broadband service over the minimum contract term. The amount included on the balance sheet at 31 March 2009 in respect of these laptops was £1.3m (2008: £0.6m); all other customer acquisition costs are expensed as incurred. Although this tariff is no longer available for new customers, those already benefiting from it are able to continue using this service for as long as they choose.

### **Distribution and Administrative Expenses**

Distribution costs, which primarily represent the share of our revenues which we pay as commission to distributors, increased by £3.1m to £11.7m (2008: £8.6m); this reflects the substantial growth in turnover during the year.

Administration expenses have remained constant at around 7.2% of turnover, notwithstanding an increase in bad debts due to a combination of higher revenues and a more difficult economic climate. Personnel expenses increased to £11.6m (2008: £8.9m) as we continue to build our customer service and administration resources to support the significant increase in the number of services we are providing. Property costs have also increased following our acquisition of additional freehold office premises at the end of September and our move to new leasehold warehouse premises in November.

### **Share Option Costs**

The operating profit is stated after share option expenses of £454,000 (2008: £54,000). These expenses relate to an accounting charge under IFRS 2 'Share based payments'.

### **Taxation**

The amount of corporation tax payable in respect of the year is £7.0m (2008: £5.1m).

The effective tax rate for the year is 28.0% (2008: 28.7%).

## **Treasury Shares**

At the start of the year, the Company held 2,879,868 shares in treasury following the successful share repurchase programme which had been in operation the previous year.

During the year, 586,093 of these shares were used to satisfy exercises under the Company's two share option plans, and 1,500,000 were issued for cash in February 2009 to provide additional working capital, leaving a balance in treasury of 793,775 at 31 March 2009.

## **Cash Flow and Balance Sheet**

Underlying cash flow remains strong, with net cash generated from operating activities of £9.1m (2008: £15.3m) notwithstanding the significant organic growth we achieved during the year. The primary reason for this reduction of £6.2m compared with last year is the impact on customer budget plan balances of the exceptionally cold weather this winter. Overall cash outflows were partially offset by the £4.7m proceeds from the sale of Treasury Shares in February 2009.

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 much colder than usual (following average winter temperatures in 2008), which has led to an increase in the gross energy budget plan debtor balance of £14.1m (included within prepayments and accrued income) compared with the position at the end of March 2008. This adverse movement was exacerbated by the higher retail energy prices which applied this winter, compared with the corresponding period the previous year.

We purchased a freehold office building during the year at a cost (including refurbishment) of around £10m, which has been funded from our existing cash resources.

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  
20 May 2009

## Consolidated income statement

For the year ended 31 March 2009

	<i>Note</i>	<b>2009</b>	<b>2008</b>
		£'000	£'000
Revenue	1	278,342	186,458
Cost of sales		<u>226,581</u>	<u>150,478</u>
<b>Gross profit</b>		51,761	35,980
Distribution expenses		11,745	8,566
Administrative expenses		20,107	13,454
Other income		73	-
<b>Operating profit</b>	1	<u>19,982</u>	<u>13,960</u>
Financial income		1,647	1,865
Financial expenses		<u>26</u>	<u>2</u>
<b>Net financial income</b>		1,621	1,863
Share of profit of associates		<u>888</u>	<u>939</u>
<b>Profit before taxation</b>		22,491	16,762
Taxation		<u>(6,307)</u>	<u>(4,808)</u>
<b>Profit for the year</b>		<u>16,184</u>	<u>11,954</u>
Basic earnings per share	2	<u>24.2p</u>	<u>17.7p</u>
Diluted earnings per share	2	<u>23.9p</u>	<u>17.6p</u>

## Statement of recognised income and expense

For the year ended 31 March 2009

	<i>Note</i>	<b>Group</b>	
		<b>2009</b>	<b>2008</b>
		£'000	£'000
Profit for the year		16,184	11,954
Deferred tax on share options recognised directly in equity		22	211
<b>Total recognised income and expense for the year</b>		<u>16,206</u>	<u>12,165</u>

## Consolidated balance sheet

As at 31 March 2009

	<i>Note</i>	Group	
		2009	2008
		£'000	£'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment		11,470	866
Goodwill and intangible assets		3,743	3,749
Investments in associates		2,703	1,815
Deferred tax		2,036	1,361
Other receivables		1,697	1,036
<b>Total non-current assets</b>		<u>21,649</u>	<u>8,827</u>
<b>Current assets</b>			
Inventories		357	175
Trade and other receivables		5,071	5,126
Prepayments and accrued income		51,120	25,478
Cash and cash equivalents		25,357	30,331
<b>Total current assets</b>		<u>81,905</u>	<u>61,110</u>
<b>Total assets</b>		<u>103,554</u>	<u>69,937</u>
<b>Current liabilities</b>			
Trade and other payables		16,322	6,075
Current tax payable		3,944	3,019
Accrued expenses and deferred income		38,696	28,409
<b>Total current liabilities</b>		<u>58,962</u>	<u>37,503</u>
<b>Total assets less total liabilities</b>		<u>44,592</u>	<u>32,434</u>
<b>Equity</b>			
Share capital		3,452	3,452
Share premium		1,992	2
Treasury shares		(1,457)	(5,286)
Retained earnings		40,605	34,266
<b>Total equity</b>		<u>44,592</u>	<u>32,434</u>

## Statement of cash flows

For the year ended 31 March 2009

	Group	
	2009	2008
	£'000	£'000
<b>Operating activities</b>		
Operating profit	19,982	13,960
Depreciation of property, plant and equipment	579	480
Amortisation of intangible assets	6	12
Distribution from associated company	-	546
Profit on disposal of property, plant and equipment	-	(1)
(Increase) / Decrease in inventories	(182)	27
(Increase) / Decrease in trade and other receivables	(26,248)	1,127
Increase in trade and other payables	20,534	3,065
Repayment of inter-company receivable	-	-
Costs attributed to the issue of share options	454	54
Corporation tax paid	(6,030)	(4,009)
<b>Net cash flow from operating activities</b>	<u>9,095</u>	<u>15,261</u>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(11,183)	(464)
Sale of property, plant and equipment	-	3
<b>Cash flow from investing activities</b>	<u>(11,183)</u>	<u>(461)</u>
<b>Financing activities</b>		
Dividends paid	(9,988)	(6,815)
Interest received	1,647	1,865
Interest paid	(26)	(2)
Issue of ordinary shares	-	122
Purchase of own shares	-	(5,659)
Sale of treasury shares	5,481	219
<b>Cash flow from financing activities</b>	<u>(2,886)</u>	<u>(10,270)</u>
(Decrease)/Increase in cash and cash equivalents	(4,974)	4,530
Cash and cash equivalents at the beginning of the year	30,331	25,801
<b>Cash and cash equivalents at the end of the year</b>	<u>25,357</u>	<u>30,331</u>

## Notes

### 1. Segment reporting

For management reporting purposes, the Group is currently organised into two operating divisions:

- Customer Management
- Customer Acquisition

These divisions are the basis on which the Group reports its primary segmental information.

#### Business segments

	Year ended 31 March 2009			Year ended 31 March 2008		
	Customer Management	Customer Acquisition	Total	Customer Management	Customer Acquisition	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue:						
External sales	274,012	4,330	278,342	184,145	2,313	186,458
Segment result	24,957	(4,975)	19,982	17,566	(3,606)	13,960
Operating profit			19,982			13,960
Net financing income			1,621			1,863
Share of profit of associates			888			939
Profit before taxation			22,491			16,762
Taxation			(6,307)			(4,808)
Profit for the year			16,184			11,954
Segment assets	98,087	2,764	100,851	66,595	1,527	68,122
Investment in equity method associates	2,703	-	2,703	1,815	-	1,815
Total assets	100,790	2,764	103,554	68,410	1,527	69,937
Segment liabilities	(58,736)	(226)	(58,962)	(37,217)	(286)	(37,503)
Net assets			44,592			32,434
Capital expenditure	11,009	174	11,183	458	6	464
Depreciation and amortisation	576	9	585	486	6	492

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

All turnover is derived in the United Kingdom and substantially arises from the provision of services.

## 2. Earnings per share

### Basic earnings per share

The calculation of basic earnings per share at 31 March 2009 was based on the profit attributable to ordinary shareholders of £16,184,000 (2008: £11,954,000) and a weighted average number of ordinary shares outstanding during the year ended 31 March 2009 of 66,757,038 (2008: 67,407,883).

	2009	2008
Basic earnings per share	24.2p	17.7p
Diluted earnings per share	<u>23.9p</u>	<u>17.6p</u>

### Diluted earnings per share

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

	2009		2008	
	Profit £'000	Number of shares '000	Profit £'000	Number of shares '000
Basic earnings	16,184	66,757	11,954	67,408
Dilutive effects – Options		827		353
Diluted earnings	<u>16,184</u>	<u>67,584</u>	<u>11,954</u>	<u>67,761</u>

The share options may be dilutive in future periods.

## 3. Dividends

	2009	2008
	£'000	£'000
Prior year final paid 10p (2008: 6p) per share	6,656	4,142
Interim paid 5p (2008: 4p) per share	<u>3,332</u>	<u>2,673</u>

The Directors have proposed a final dividend of 12.5p per ordinary share totalling £8.5 million, payable on 7 August 2009, to shareholders on the register at the close of business on 10 July 2009. In accordance with the Group's accounting policies the dividend has not been included as a liability as at 31 March 2009.

#### **4. Related parties**

##### **Identity of related parties**

The Group has a related party relationship with its associate and with its directors and executive officers.

##### **Transactions with key management personnel**

Directors of the Company and their immediate relatives control 28.86% of the voting shares of the Company.

During the year, the Company acquired goods and services worth approximately £92,000 (2008: £20,000) from companies in which directors have a beneficial interest.

##### **Other related party transactions**

##### **Associates**

During the year ended 31 March 2009, the associate supplied goods to the Group in the amount of £386,000 (2008: £325,000) and at 31 March 2009 the associate was owed by the Group £80,000 (2008 owed by the group: £33,000). Transactions with the associate are priced on an arm's length basis. Dividends received during the year from the associate amounted to £nil (2008: £545,510) relating to the financial year to 31 March 2008.

#### **5. Basis of preparation**

The financial information set out above does not constitute the Group's statutory information for the years ended 31 March 2009 or 2008, but is derived from these 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 2008 have been delivered to the Registrar of Companies and those for 2009 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 1985, s237(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 Standards as adopted by the EU, 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 management report 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