

**Telecom *plus* PLC**

**Final Results for the year ended 31 March 2008**

Telecom *plus* PLC, the UK's leading low-cost multi-utility supplier (gas, electricity, telephony, broadband), announces final results for the year ended 31 March 2008.

**Financial Highlights:**

- Profit before tax up 45% to £16.8m (2007: £11.6m)
- EPS up 42% to 17.7p (2007: 12.5p)
- Cash generation of £17.0m before share buy-backs of £5.7m and dividend payments of £6.8m
- Year-end net cash balance increased by £4.5m to £30.3m (2007: £25.8m)
- Final dividend of 10p per share (2007: 6p) making a total for the year of 14p (2007: 8p) per share; this represents an increase in the total payment of 75% compared with last year

**Operating Highlights:**

- Annualised growth in services provided of 15% during Q4
- 49% increase in Business Club membership
- Average services per member of 3.11 (2007: 2.95)
- Significant growth in the number of distributors promoting our services
- Successful launch of new "Community Fundraiser" position

**Commenting on the results, Charles Wigoder, CEO said:**

"We are still the UK's only fully integrated multi-service utility provider, able to offer our 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 domestic market.

"In the context of the strong growth and cash generation currently being achieved, and subject to unforeseen circumstances, we intend to pay a total dividend of not less than 17.5p for the current financial year and not less than 22p for the year to 31 March 2010.

"Since the year end we have seen a further increase in activity, with encouraging growth in both new services and new distributor numbers. We are more confident than we have ever previously been in the ability of our business to deliver continuing satisfactory results."

There will be a meeting for analysts at Smithfield's offices at 12.30 pm today. To view the full text of this press release in PDF format, click on the link below: [http://www.telecomplus.co.uk/\\_prelim](http://www.telecomplus.co.uk/_prelim)

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## Chairman's Statement

I am delighted to report a further year of significant achievement for the Company, which has seen turnover, profitability, earnings per share and dividends all reach record levels.

Pre-tax profits increased by 45% to £16.8m (2007: £11.6m) on group turnover of £186m (2007: £176m). This strong increase in profitability clearly demonstrates the resilience of our infrastructure-light business model, and the benefits which the business can be expected to deliver as we achieve increasing economies of scale in the future. The relatively modest rise in turnover during the period reflects the impact of lower retail energy prices last spring (which have recently been reversed following a sharp increase in the wholesale markets), as well as our decision to restructure our multi-service discount scheme to provide Club members with free telephone calls instead of the previous "Cashback" scheme.

Earnings per share increased by 42% during the year to 17.7p (2007: 12.5p). Our share buy-back programme, in which we purchased 3.1m shares at an average cost of 182p per share, improved earnings per share by 2.3% this year, however this was offset by a higher effective tax rate of 28.7% (2007: 25.7%).

Customer numbers have been moving ahead steadily since the changes we announced at our sales conference in October, with the rate of growth increasing as we moved through the first quarter of 2008. Residential Club membership increased by over 9% during the year to 158,972 (2007: 145,317) and our Business Club membership grew by almost 50% during the year to 9,537 (2007: 6,388); together, these clubs (trading under the Utility Warehouse brand) now account for over 77% (2007: 72%) of our total customer base. We are particularly encouraged by the recent strong growth in the number of services we are providing, which reached 591,981 (2007: 542,039) by the year end; of this total, over 22,000 were added during the last quarter of the year (more than twice as many as were added during the whole of the first six months), representing an annualised growth rate of more than 15%.

During the year we continued to focus on the quality of our customer base. This has shown a steady improvement as measured by the proportion of our customers who are taking more than one service which has risen from 67% to 71%, the average number of services taken by each member which has increased to 3.11 (2007: 2.95) and the average spend per customer which has grown to £824 (2007: £801). We have also invested significant additional resources in improving our UK-based customer service team. As a result, we have seen a significant reduction in customer churn over the last six months to an annualised rate of around 20%.

Oxford Power Holdings ("Opus"), in which we maintain a 20% interest, has continued to produce extremely satisfactory results. Our share of their profits increased to £939,000 (2007: £473,000) and Opus declared its first dividend on 31 March 2008. On 31 December 2007, strong cash generation enabled Opus to repay its £2m loan to the Company which we had made to them at the time of our original investment in February 2003.

Year-end net cash balances increased by £4.5m to £30.3m (2007: £25.8m), notwithstanding spending £5.7m on repurchasing shares. We still have considerable scope to repurchase further shares over the coming year, as well as continuing to increase the proportion of our earnings paid out as dividends.

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 saw a net increase of over 3,000 distributors over the year (2007: net increase of 600), taking the total to around 19,600 (2007: 16,600); this represents an increase of over 18% during the year, all of which took place during the second half. The current total includes approximately 500 Community Fundraisers, a new business opportunity we introduced in October 2007 to enable 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 infrastructure and systems were originally developed to enable us to manage a significantly larger number of customers than those currently using our services, which means we have the potential to benefit from further economies of scale by growing our customer numbers and the number of services we provide. This remains a key priority for the coming year.

Recently published customer satisfaction surveys compare us favourably against our competitors. We intend to capitalise on these positive opinions by enhancing the benefits available under our recently introduced customer referral programme through offering existing members, who successfully recommend a new customer to us, a discount on their own monthly utility bill – a discount which increases with the number of new customers they introduce. This initiative will be supported by the inbound tele-sales fulfilment team we established late last year, which enables potential new customers to sign up for our services with the minimum of effort or inconvenience.

We have also recently introduced new systems designed to encourage “New Occupiers” (potential customers who have moved into a property where we are the incumbent utility supplier) to become Club members, rather than reverting back to their previous supplier(s). Notwithstanding the slowdown in the housing market recently, this initiative is expected to have a positive impact on our net growth, as around 4% of our residential customers move home each year.

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.

## **Dividend**

We are proposing a final dividend of 10p for the year (2007: 6p) making a total for the year of 14p (2006: 8p). This represents an increase of 75% in our total payment compared with last year. The final dividend will be paid on 8 August 2008 to shareholders on the register at the close of business on 11 July 2008 and is subject to approval by shareholders at the Company’s Annual General Meeting which is being held on 9 July 2008.

In the context of the strong growth and cash generation currently being achieved, and subject to unforeseen circumstances, we intend to pay a total dividend of not less than 17.5p for the current financial year and not less than 22p for the year to 31 March 2010.

## Summary and Outlook

The nature of our business model gives us considerable visibility over our future revenues, and it is extremely encouraging that we have been able to maintain our margins in all of the business areas in which we operate.

The forward price curves for gas and electricity suggest there are likely to be further industry wide increases in retail energy prices this autumn. However we remain insulated from any volatility in the wholesale energy markets under our long-term supply arrangements with npower, where they are responsible for meeting the energy requirements of our customers in accordance with a price formula designed to ensure we earn a positive margin whilst maintaining competitive retail prices.

We are still the UK's only fully integrated multi-service utility provider, able to offer our 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 domestic market.

The combination of higher growth in the number of services we provide and the lower churn which we have seen in recent months will, if these trends continue, feed through into significantly higher turnover and profits over the coming years. We would logically expect to benefit from the difficult general economic environment as consumers search for better value suppliers in order to reduce their outgoings, and the tendency amongst those whose standard of living is being squeezed to seek additional sources of income such as that provided by becoming one of our distributors. Indeed, March 2008 saw us recruit more new distributors than in any other single month during the last three years.

Since the year end we have seen a further increase in activity, with encouraging growth in the number of new services and new distributors. We are more confident than we have ever previously been in the ability of our business to deliver continuing satisfactory results.

Peter Nutting  
Chairman  
22 May 2008

# Business Review

## Performance

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

- record Group pre-tax profits and turnover of £16.8m and £186m respectively
- cash generation of £17.0m before share buy-backs of £5.7m and dividend payments of £6.8m
- significant growth in the number of distributors promoting our services
- substantial reduction in churn
- 9% increase in the number of services we provide over the full year
- successful launch of new Community Fundraiser position
- 49% increase in membership of our Business Club

The year was distinctly one of two halves. During the first six months customer numbers showed a small decline as we focussed our resources on developing the infrastructure needed to support the various sales initiatives we were planning to introduce at our annual sales conference in October. During the second half, we saw the impact of those initiatives on our business with higher distributor activity, higher customer growth and lower churn. Indeed, the annualised rate of growth in the number of new services we provide increased to over 15% during the final quarter of the year.

## Margins

Margins improved during the year in our fixed telephony business, reflecting the continuing competitive pressures on the owners of network infrastructure to attract and retain call traffic from the dwindling number of substantial independent resellers like ourselves. Energy margins improved slightly over the full year, reflecting increasing economies of scale in our energy business combined with the impact of higher industry energy prices which we passed on to our customers in the final quarter of the year. Broadband margins also improved slightly, as we were able to negotiate reductions in our cost base ahead of those required to maintain competitive retail prices. Overall however the gross margin reduced slightly reflecting the increasing shift in the balance of our turnover from telephony (which has relatively high margins) towards energy (where the margins are lower), exacerbated by the recent trend towards higher retail energy prices and our introduction of "Free UK Calls" as a replacement for "Cashback".

## 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, 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 convenience of a single monthly bill for each customer.

We estimate that the approximate size of the UK domestic market for the principal services we provide is around £40.6bn as follows:

	<u>Number of Households</u>	<u>Retail Market Value</u>
Gas	21.5m	£11.7bn
Electricity	26.7m	£14.2bn
Home Phone - Calls	23.4m	£3.0bn
Home Phone - Line Rental (Lines)	23.4m	£2.8bn
Mobile (excluding Pre-Pay)	24.0m	£6.1bn
Broadband	15.6m	£2.8bn

*Retail market values based on average prices charged by us to customers for each service during the year ended 31 March 2008. Sources for No. of households: Ofgem domestic retail market report 2007; Ofcom Telecoms market report Q4:2007*

## **Our Customers**

The majority of our customers choose to take advantage of our multi-service proposition, with over 77% having joined our Discount Club since its launch in October 2003.

On average each member takes 3.11 services (2007: 2.95) with 83% taking two or more services, and 55% taking three or more services. These figures are illustrated by the analysis below, which demonstrates the effectiveness of our Club concept in encouraging customers to subscribe for additional services:

	<u>Members</u>	<u>Non-Members</u>
1 Service	17%	61%
2 Services	28%	29%
3 Services	17%	7%
4 Services	16%	2%
5 Services	18%	1%
6 Services	3%	-
7 Services	1%	-

*At the year end we had 168,509 members and 49,348 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.*

This growth in services has led to a further increase in average revenue per customer, notwithstanding considerable price deflation in the fixed telephony markets over the last ten years and the reduction in retail energy prices in spring 2007.

Year	<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

We enjoy high levels of overall customer satisfaction, as evidenced by the relatively low churn we experience. Our overall monthly churn has fallen to around 1.8% during recent months, which compares with an average within the energy industry (amongst customers who have switched away from their original supplier) of around 5% per month.

We substantially increased the range of benefits available to our members during the year, with the introduction of an exclusive discount booklet providing savings on a wide range of everyday purchases. We also introduced new premium membership categories with enhanced benefits for those members choosing to participate, including free Accidental Death Cover and freephone technical support. We are encouraged that over 10% of all new customers who have joined since our October sales conference have chosen one of the premium membership categories.

## Services

Our range of essential utility services includes fixed telephony (calls and line rental), mobile telephony, gas, electricity and broadband. At the year end we supplied a total of 591,981 services (2007: 542,039), representing an increase of over 9% during the course of the year.

	<u>2008</u>	<u>2007</u>
Services:		
Gas	113,761	98,095
Electricity	133,873	115,643
Home phone	155,035	158,896
Fixed line rental	87,108	71,557
Freephone	10,282	10,670
Mobile	36,358	40,418
Broadband	55,564	46,760
Total	591,981	542,039

As can be seen from the above table, we experienced a small reduction in the number of mobile and home phone telephony services, partly due to the increasing tendency of our main competitors to tie customers into onerous long-term contracts whenever possible, offset by strong growth in the number of customers to whom we supply gas, electricity, broadband and fixed line rental.

Included within the above figures are 9,537 members of our Business Club, who are taking in aggregate over 26,000 services and contributing £11.1m (2007: £5.8m) to Group turnover. We are extremely encouraged by this strong performance, and the continuing enthusiastic response of our distribution channel to this opportunity. In order to support their activities in this segment of the market, we launched a new sales tool in March 2008 which enables them to provide potential business customers with a comprehensive personalised proposal covering our full range of services, clearly setting out the benefits and savings the customer will receive from us. This should assist our distributors to increase their penetration into this profitable sector of the UK market, where there are over one million home-based, small and medium-sized businesses. The introduction of this new sales tool gives us considerable confidence that this sector of the market will make an increasingly significant contribution to the Group in due course.

## **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 our 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 300 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 mid-way through a rolling programme that will see most of our current office accommodation comprehensively refurbished.

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 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, without any performance conditions being attached to the exercise thereof. As at 31 March 2008, there were outstanding options over 1,424,000 shares which had been granted to staff, representing approximately 2% of the issued share capital of the Company.

Due to low utilisation of the subsidised crèche introduced last year, the Company has decided to replace this with a new scheme. Employees returning from maternity leave with children less than 12 months old will in future be 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 inadvertent and extremely rare.

During the autumn, we introduced a new incentive enabling our most active distributors to earn a place on a luxury holiday or to receive Gift Vouchers from a choice of leading retailers.

Our Car Plan, which provides eligible distributors with a subsidised fully-branded Mini remains extremely popular, and we have now supplied over 100 cars following the extension of the programme last autumn 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 two 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 improve our national training programme (the "College of Excellence") during the year with the introduction of new Goal Setting Courses, Accelerator Courses and an enhanced Leadership training module. These are designed to help our distributors maximise their potential and provide our next generation of leaders with the additional skills they will need. We have also increased the frequency of our "Career Opportunity Presentations" and "Getting Started" training sessions, as well as growing the number of venues at which they are offered, in line with the demands of the strong growth we have seen in the number of new distributors joining the business.

## **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 88 trees during 2007. 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 November 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 a potential new customer who is not considered credit worthy, the Company is obliged to supply domestic energy to anyone who submits a properly completed application form. Where such 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  
22 May 2008

# Financial Review

## Overview

Revenues of £186m (2007: £176m) were 6% higher in the financial year to 31 March 2008. The pre-tax profit was £16.8m compared with £11.6m in the last financial year. This increase in profitability, together with a £2m loan repayment received from Oxford Power Holdings, resulted in a net cash inflow from operating activities of £15.3m. Overall, our year-end net cash position increased by £4.5m from £25.8m to £30.3m.

The increase in turnover to £186m was due to the 9% increase in the number of services we provide, partially offset by the impact of lower energy prices for most of the year.

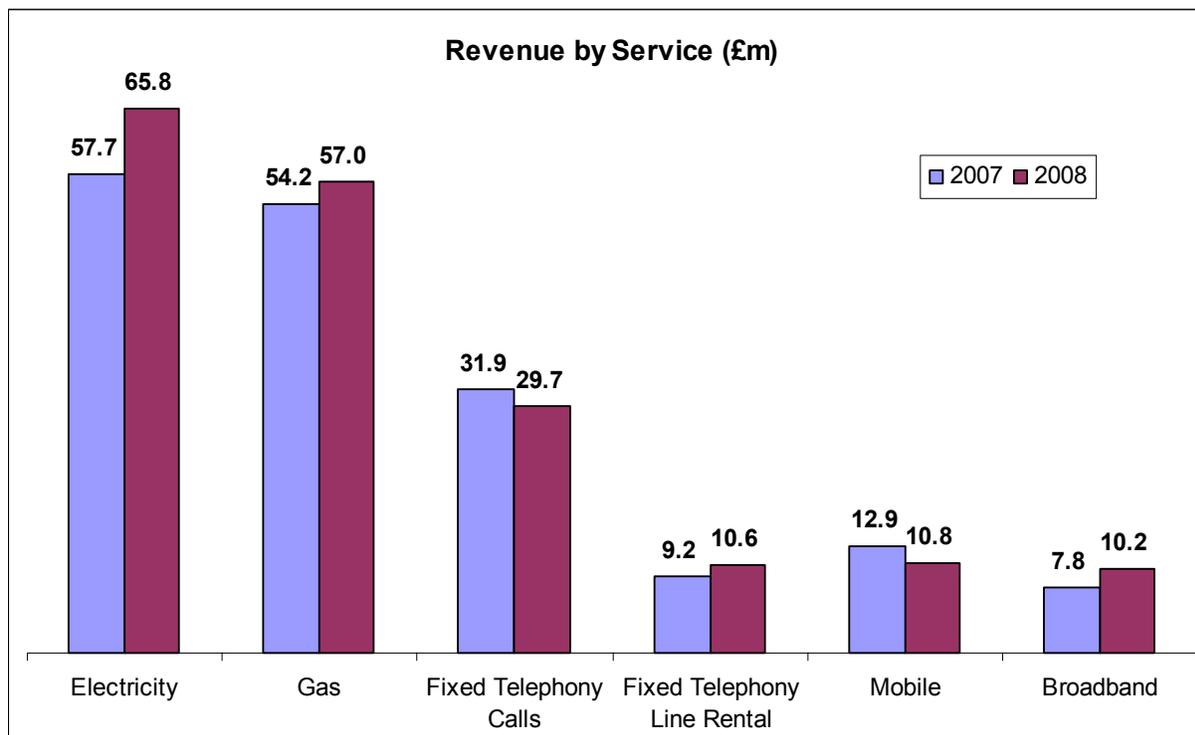
The gross profit margin fell slightly during the year to 19.3% (2007: 19.8%), reflecting the increasing proportion of our turnover which now derives from supplying energy, partially offset by increasing gross margins from the various services we provide. The increase at the operating profit level was due to increasing economies of scale; these resulted from the rise in the number of services we are providing, combined with the initial positive benefits from the improved systems we introduced during the year for managing our exposure to delinquent energy customers, in respect of which we had made a substantial provision in our 2007 accounts.

Earnings per share increased by 42% to 17.7p (2007: 12.5p). The Company is therefore proposing a final dividend of 10p (2007: 6p) making a total dividend of 14p for the year (2007: 8p).

## Customer Management Business

Revenues from providing both gas and electricity increased by almost 10% during the year, due to an increase of around 15% in the number of energy services supplied to customers, partially offset by the impact of the retail energy price reductions which took effect in May and July last year. We also saw an increase in revenues of over 30% from supplying broadband services and around 15% from providing fixed telephony line rental. Call revenues in our fixed telephony businesses fell slightly, primarily reflecting our decision in autumn 2006 to restructure our multi-service discount scheme to provide Club members with free telephone calls instead of the previous "Cashback" scheme. Our mobile business however saw a reduction in both revenues and customer numbers due to the increasingly competitive environment for supplying these services, combined with the absence of a pre-pay solution within our current mobile product range.

Overall margins in our Customer Management business improved from 7.5% to 9.5% due to higher telephony margins during the second half of the year, administrative costs (excluding staff costs) remaining constant despite significant growth in services, and the positive impact of the improved systems we introduced during the year for managing our exposure to delinquent energy customers.



### Customer Acquisition Business

The net cost in respect of our Customer Acquisition business increased during the year to £3.6m (2007: £3.1m). This was mainly due to an increase in the number of broadband customers during the year (where we generally incur significant upfront costs in providing a new router or modem, as well as third-party connection charges). We introduced a new broadband tariff in October 2007 offering customers 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 2008 in respect of these laptops was £0.6m; all other customer acquisition costs are expensed as incurred.

### Operating Expenses

Operating expenses reduced during the year from £24.9m to £22.0m. Higher commission payments to our distributors, an increase in our bad debt charge in line with the growth in turnover, and extra payroll costs resulting from our decision to increase the number of staff we employ (which has enabled us to improve the quality of our customer service and further strengthen the senior management team) have been more than offset by the decrease in the provision required for delinquent energy customers representing an improvement of around £3.2m compared with last year.

We have put considerable resources into reducing our exposure to delinquent energy customers, through intensive account management combined with an active programme to install pre-payment meters where necessary. We have also created a new team whose key objective is to establish a customer relationship more quickly with New Occupiers, namely potential customers, who have moved into a property where we are the incumbent energy supplier. As a result, we have been able to reduce slightly our delinquent energy provision compared with the previous year end balance.

## **Share Option Costs**

The operating profit is stated after share option expenses of £54,000 (2007: £425,000). 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 £5.1m (2007: £3.6m).

The effective tax rate for the year is 28.7% (2007: 25.7%) which is principally due to credit adjustments in respect of prior years included in the 2007 tax charge and a decrease in the deferred tax credit following the reduction in Corporation tax from 30% to 28% on 1 April 2008.

## **Share Purchase Programme**

Following authorisation received at last year's AGM, the Company spent £5.7m on purchasing a total of 3,084,000 shares between 20 July 2007 and 7 January 2008, at prices between 175p and 192.5p per share. The purchased shares are held in treasury.

By 31 March 2008, 204,132 of the shares held in treasury had been used to satisfy exercises under the Company's two share option plans.

## **Cash Flow and Balance Sheet**

The operating profit of £14.0m (2007: £10.0m) together with repayment of a £2m long-term loan received from Oxford Power Holdings, resulted in a net cash inflow from operating activities of £15.3m (2007: £20.8m). The comparative net cash inflow figure for 2007 benefited from the unwinding of our historic energy purchasing commitments following the transfer of buying responsibility to npower.

Our net cash position increased at the year end by £4.5m from £25.8m to £30.3m, despite investing £5.7m to purchase our own shares.

The March cash position was also adversely affected by energy customers who pay by Budget Plan, where the high proportion of annual energy consumption used during the winter period 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 broadly in line with seasonal normal temperatures (following a particularly mild winter the previous year), which has had a negative impact of around £4m on the Company's cash position at the year end compared with the position at the end of March 2007.

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.

Richard Hateley  
Finance Director  
22 May 2008

## Consolidated income statement

For the year ended 31 March 2008

	<i>Note</i>	<b>2008</b> £'000	<b>2007</b> £'000
Revenue	1	186,458	176,065
Cost of sales		<u>150,478</u>	<u>141,136</u>
<b>Gross profit</b>		35,980	34,929
Distribution expenses		8,566	8,327
Administrative expenses		<u>13,454</u>	<u>16,584</u>
<b>Operating profit</b>	1	<u>13,960</u>	<u>10,018</u>
Financial income		1,865	1,105
Financial expenses		<u>2</u>	<u>6</u>
<b>Net financial income</b>		<u>1,863</u>	<u>1,099</u>
Share of profit of associate		939	473
<b>Profit before taxation</b>		<u>16,762</u>	<u>11,590</u>
Taxation		<u>(4,808)</u>	<u>(2,982)</u>
<b>Profit for the year</b>		<u>11,954</u>	<u>8,608</u>
Basic earnings per share	2	<u>17.7p</u>	<u>12.5p</u>
Diluted earnings per share	2	<u>17.6p</u>	<u>12.5p</u>

## Statement of recognised income and expense

For the year ended 31 March 2008

	<i>Note</i>	<b>Group</b>		<b>Company</b>	
		<b>2008</b> £'000	<b>2007</b> £'000	<b>2008</b> £'000	<b>2007</b> £'000
Profit for the year		11,954	8,608	10,805	7,551
Deferred tax on share options recognised directly in equity		211	18	211	18
<b>Total recognised income and expense for the year</b>		<u>12,165</u>	<u>8,626</u>	<u>11,016</u>	<u>7,569</u>

## Balance sheet

As at 31 March 2008

	Note	Group		Company	
		2008	2007	2008	2007
		£'000	£'000	£'000	£'000
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment		866	884	866	884
Goodwill and intangible assets		3,749	3,761	7	19
Investment in associate		1,815	1,422	1,047	1,047
Deferred tax		1,361	904	1,350	890
Other receivables		1,036	858	1,035	858
<b>Total non-current assets</b>		<b>8,827</b>	<b>7,829</b>	<b>4,305</b>	<b>3,698</b>
<b>Current assets</b>					
Inventories		175	202	175	202
Trade and other receivables		5,126	3,258	5,659	4,621
Prepayments and accrued income		25,478	28,649	24,411	27,567
Cash		30,331	25,801	30,329	25,796
<b>Total current assets</b>		<b>61,110</b>	<b>57,910</b>	<b>60,574</b>	<b>58,186</b>
<b>Total assets</b>		<b>69,937</b>	<b>65,739</b>	<b>64,879</b>	<b>61,884</b>
<b>Current liabilities</b>					
Trade and other payables		6,075	3,727	5,439	2,792
Current tax payable		3,019	1,969	2,723	1,842
Accrued expenses and deferred income		28,409	27,695	27,373	26,843
<b>Total current liabilities</b>		<b>37,503</b>	<b>33,391</b>	<b>35,535</b>	<b>31,477</b>
<b>Total assets less total liabilities</b>		<b>32,434</b>	<b>32,348</b>	<b>29,344</b>	<b>30,407</b>
<b>Equity</b>					
Share capital		3,452	3,446	3,452	3,446
Share premium		2	19,444	2	19,444
Treasury shares		(5,286)	-	(5,286)	-
Retained earnings		34,266	9,458	31,176	7,517
<b>Total equity</b>		<b>32,434</b>	<b>32,348</b>	<b>29,344</b>	<b>30,407</b>

These accounts were approved and authorised for issue by the Board on 22 May 2008

Charles Wigoder	Director
Richard Hateley	Director

## Statement of cash flows

For the year ended 31 March 2008

	Group		Company	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
<b>Operating activities</b>				
Operating profit	13,960	10,018	12,918	9,597
Depreciation of property, plant and equipment	480	447	480	447
Amortisation of intangible assets	12	133	12	133
Distribution from associated company	546	-	546	-
Profit on disposal of property, plant and equipment	(1)	(44)	(1)	(44)
Decrease in inventories	27	310	27	310
Decrease in trade and other receivables	1,127	218	1,272	36
Increase in trade and other payables	3,065	10,647	3,179	10,661
Repayment of inter-company receivable	-	-	670	871
Costs attributed to the issue of share options	54	425	54	425
Corporation tax paid	(4,009)	(1,402)	(3,893)	(1,680)
<b>Net cash flow from operating activities</b>	<b>15,261</b>	<b>20,752</b>	<b>15,264</b>	<b>20,756</b>
<b>Investing activities</b>				
Investment in associates	-	(9)	-	(9)
Purchase of property, plant and equipment	(464)	(341)	(464)	(341)
Sale of property, plant and equipment	3	70	3	70
<b>Cash flow from investing activities</b>	<b>(461)</b>	<b>(280)</b>	<b>(461)</b>	<b>(280)</b>
<b>Financing activities</b>				
Dividends paid	(6,815)	(2,062)	(6,815)	(2,062)
Interest received	1,865	1,105	1,865	1,105
Interest paid	(2)	(6)	(2)	(6)
Issue of ordinary shares	122	404	122	404
Purchase of own shares	(5,659)	-	(5,659)	-
Issue of treasury shares	219	-	219	-
<b>Cash flow from financing activities</b>	<b>(10,270)</b>	<b>(559)</b>	<b>(10,270)</b>	<b>(559)</b>
Increase in cash and cash equivalents	4,530	19,913	4,533	19,917
Cash and cash equivalents at the beginning of the year	25,801	5,888	25,796	5,879
<b>Cash and cash equivalents at the end of the year</b>	<b>30,331</b>	<b>25,801</b>	<b>30,329</b>	<b>25,796</b>

# Notes to the consolidated financial statements

## 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 2008			Year ended 31 March 2007		
	Customer Management	Customer Acquisition	Total	Customer Management	Customer Acquisition	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue:						
External sales	184,145	2,313	186,458	173,735	2,330	176,065
Segment result	17,566	(3,606)	13,960	13,107	(3,089)	10,018
Operating profit			13,960			10,018
Net financing income			1,863			1,099
Share of profit of associates			939			473
Taxation			(4,808)			(2,982)
Profit for the year			11,954			8,608
Segment assets	66,595	1,527	68,122	63,008	1,309	64,317
Investment in equity method associates	1,815	-	1,815	1,422	-	1,422
Total assets	68,410	1,527	69,937	64,430	1,309	65,739
Segment liabilities	(37,217)	(286)	(37,503)	(33,079)	(312)	(33,391)
Capital expenditure	458	6	464	336	5	341
Depreciation and amortisation	486	6	492	572	8	580

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.

## Notes to the consolidated financial statements

### 2. Earnings per share

#### Basic earnings per share

The calculation of basic earnings per share at 31 March 2008 was based on the profit attributable to ordinary shareholders of £11,954,000 (2007: £8,608,000) and a weighted average number of ordinary shares outstanding during the year ended 31 March 2008 of 67,407,883 (2007: 68,606,607).

	2008	2007
Basic earnings per share	17.7p	12.5p
Diluted earnings per share	<u>17.6p</u>	<u>12.5p</u>

#### Diluted earnings per share

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

	2008		2007	
	Profit £'000	Number of shares (‘000)	Profit £'000	Number of shares (‘000)
Basic earnings	11,954	67,408	8,608	68,607
Dilutive effects – Options		353	-	171
Diluted earnings	<u>11,954</u>	<u>67,761</u>	<u>8,608</u>	<u>68,778</u>

The share options may be dilutive in future periods.

### 3. Basis of preparation

The financial information set out above does not constitute the Group's statutory information for the years ended 31 March 2008 or 2007, but is derived from these accounts. Statutory accounts for 2007 have been delivered to the Registrar of Companies and those for 2008 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).