

TELECOMPLUSPLC

Embargoed until 07.00

18 June 2019

Telecom Plus PLC Final Results for the year ended 31 March 2019

Telecom Plus PLC (trading as the Utility Warehouse), the UK's only fully integrated provider of a wide range of competitively priced utility services spanning both the communications and energy markets, today announces its final results for the year ended 31 March 2019.

Financial Highlights:

- Results in line with expectations
- Revenue up 1.5% to £804.4m
- Adjusted profit before tax up 3.7% to £56.3m
- Statutory profit before tax up 4.9% to £43.0m
- Adjusted EPS up 7.1% to 59.0p
- Statutory EPS up 9.5% to 42.5p
- Full year dividend up 4.0% to 52p per share

Operating Highlights:

- Significantly faster growth in both customers and Partners
- Services supplied up 8.2% to over 2.5 million
- Rising customer quality, with over 26% now taking their energy, broadband and mobile services from us
- Improved energy supply arrangements successfully negotiated with npower

Andrew Lindsay, CEO, commented:

“Partner confidence built steadily during the course of the year; this manifested itself in higher levels of activity and an acceleration in the numbers of new Partners joining the business, which in turn drove faster growth in both customer and service numbers.

“Our balance sheet remains robust, with low leverage and strong cash flow. In contrast to the majority of other energy suppliers, this puts us in a strong position to take advantage of a challenging retail marketplace.

“In an environment in which record numbers of households are switching energy suppliers, our churn rate has fallen, reflecting the improving quality of our customer base; over 26% of our members now take all their core utilities from us and this important metric continues to increase steadily each month.

“The combination of higher Partner confidence, our continuing steady growth, and improving gross margins means we expect adjusted profits before tax to increase to between £60m - £65m for FY2020, with a commensurate 10% increase in the total dividend to 57p per share.”

There will be a meeting for analysts today at the offices of Peel Hunt, Moor House, 120 London Wall, London, EC2Y 5ET at 8.45 for 9.00am

For more information please contact:

Telecom Plus PLC

Andrew Lindsay, CEO

020 8955 5000

Nick Schoenfeld, CFO

Peel Hunt

Dan Webster / George Sellar

020 7418 8900

JP Morgan Cazenove

Christopher Wood / Hugo Baring

020 7742 4000

MHP Communications

Reg Hoare / Katie Hunt / Florence Mayo

020 3128 8572

About Telecom Plus PLC ('Telecom Plus'):

www.utilitywarehouse.co.uk

Telecom Plus, which owns and operates the Utility Warehouse brand, is the UK's only fully integrated provider of a wide range of competitively priced utility services spanning the Communications, Energy and Insurance markets.

Members benefit from the convenience of a single monthly statement, consistently good value across all their utilities and exceptional levels of service. Telecom Plus does not advertise, relying instead on 'word of mouth' recommendation by existing satisfied Members and Partners in order to grow its market share.

Telecom Plus is listed on the London Stock Exchange (Ticker: TEP LN). For further information please visit www.utilitywarehouse.co.uk

Chairman's Statement

I am pleased to report a highly satisfactory year for the Company, in which we achieved meaningfully faster growth and an improved operating performance in the face of challenging market conditions.

Adjusted pre-tax profits increased by 3.7% to £56.3m (2018: £54.3m), and statutory pre-tax profits advanced by 4.9% to £43.0m (2018: £41.0m), on revenue up by 1.5% to £804.4m (2018: £792.9m); adjusted earnings per share for the year rose by 7.1% to 59.0p (2018: 55.1p), and statutory EPS increased by 9.5% to 42.5p (2018: 38.8p).

We saw customer and service number growth accelerate during the course of the year, notwithstanding a significant continuing gap between the low introductory fixed price energy deals available from other independent suppliers, and the standard variable tariffs ("SVTs") charged by the 'Big 6' (which we use as the basis for our own range of discounted retail tariffs).

Against this backdrop, the faster growth and higher profitability we have achieved clearly demonstrates the resilience and strength of our unique business model. Customer numbers for the year advanced by 4.0% (2018: 0.5%) to 635,039 (2018: 610,739) and service numbers advanced by 8.2% (2018: 2.3%) to 2,532,024 (2018: 2,340,719) reflecting a further improvement in the quality of our customer base.

We received a number of awards during the year recognising both the value we offer and the quality of service provided by our UK-based membership support teams, including being ranked by independent consumer champions *Which?* as one of the top suppliers and/or as a recommended provider for all our core services; we also received five awards from Moneywise.

We were particularly delighted to receive the prestigious accolade of 'Utilities Provider of the Year' at the 2018 *Which?* Annual Awards. Whilst each of our core services has been recognised individually by them on many occasions as amongst the best in the market, this was the first time that our unique multi-utility brand and the excellence we deliver across the board has been recognised in this way.

These third party independent and prestigious endorsements are testament to our customer-centric approach, our commitment to treating our Members fairly, our ongoing mission to be the Nation's most trusted utility provider, and the significant resources invested in delivering the best possible customer service.

Results overview

The modest rise in revenue reflects a number of factors; the increase in the total number of services we are supplying, partially offset by a growing proportion of Members benefitting from our most competitive 'Double Gold' tariffs, a reduction in average energy usage (reflecting the progressive impact of industry-wide energy efficiency measures enhanced by our successful LED light bulb replacement service, more efficient boilers and appliances, and an unusually warm winter), and the impact of the Ofgem price cap during the final quarter.

The small improvement in adjusted pre-tax profit also reflects a number of different factors; slower organic growth in the size of our membership base during the preceding year, improved commercial terms from our wholesale partners, and some early benefits from our smart meter roll-out programme, partially offset by growth in our customer support teams, a warmer winter, and increased investment in technology and systems.

Dividend

In line with previous guidance, we are proposing a final dividend of 27p (2018: 26p), bringing the total for the year to 52p (2018: 50p); this represents an increase of 4.0% compared with last year, and will be paid on 2 August 2019 to shareholders on the register at the close of business on 12 July 2019 subject to approval by shareholders at the Company's AGM which will be held on 25 July 2019.

We remain committed to a progressive dividend policy consistent with the underlying strong cash generation of our business. As previously indicated, and in the absence of unforeseen circumstances, this will result in an increase of around 10% in the total dividend to 57p per share for the current year.

Churn

Our churn remains significantly below prevailing industry levels despite record numbers of households switching their energy supplier (encouraged inter alia by government, press, and Ofgem). We attribute this to a combination of factors including our fair approach to pricing, high standards of customer service, unique route to market, and the steadily improving quality of our membership base, partially offset by the continuing large gap between SVTs and the introductory deals offered by a number of energy suppliers.

Ofgem Energy Price Cap

The Ofgem energy price cap ("the Price Cap") took effect on 1 January 2019, and the consequent reduction in SVTs (paid predominantly by millions of disengaged households) of around £75 led to a brief narrowing of the gap between the price they were paying and the introductory fixed price deals available to those who choose to switch supplier on a regular basis ("the Gap").

Higher wholesale costs during the autumn and early winter resulted in an increase of around £115 to the Price Cap on 1 April 2019. This rise coincided with a more recent period of falling commodity prices during the late winter and spring, and as a result, the Gap has now widened to over £300.

These lower recent commodity costs mean that the Price Cap is expected to fall again at the next review point on 1 October 2019. The forecast reduction of about £75 will take SVTs back to below the level they were at just prior to the introduction of the Price Cap in January, thus significantly narrowing the current Gap.

Overall, and notwithstanding these fluctuations, we believe that the Price Cap has created a fairer energy market than before, to the benefit of millions of disengaged households. This is evidenced by the significant negative impact being reported by the 'Big 6' on the profitability of their UK domestic supply businesses.

We remain sheltered from the full impact of the Price Cap under our wholesale supply arrangements with npower, and are encouraged by the modest improvement in our competitive position which it has created.

Our Route to Market - Partners

Our Partners can create real financial security for themselves and their families by using their spare time to sign up new Members and introduce our business opportunity to other like-minded people; by doing so, they receive meaningful short-term financial rewards combined with a long-term residual income.

This route to market gives us a significant competitive advantage, enabling us to target high quality customers who in many cases have never previously switched their supplier(s), by effectively communicating the savings, simplicity and service of our multi-utility retail proposition.

We are totally committed to helping our network of over 40,000 Partners build successful independent businesses. Action taken during the year in pursuance of this goal included improving the digital tools we provide to them, enriching the training and personal development programmes that we run for them, enhancing the compensation plan, and introducing a wider selection of short and medium-term incentives to motivate them to greater levels of activity.

We are encouraged by the acceleration in the number of new Partners signing up to the opportunity, with the recent level having stabilised at around 1,000 per month.

Business Development

Insurance

We continue to make good progress in gathering Home Insurance renewal dates from our members, with around 125,000 (2018: 60,000) having been collected by the end of March. Total policies grew to around 14,500 (2018: 4,700) with a quote conversion rate of around 30%; a key priority over the course of the current year is therefore to continue strengthening our panel of insurers in order to make our proposition more competitive across a wider range of risk profiles.

We are very pleased that our 'consistently low price' approach to setting premiums has led to average renewal rates in excess of 95%: this approach is unusual within the insurance market, and in many cases Members are seeing the cost of their insurance fall when their UW home insurance policy comes up for renewal.

It is highly encouraging that our Home Insurance business is already profitable, and we remain confident it will make a material contribution to the financial performance of the group in due course.

We extended our Insurance proposition by launching Boiler & Home Cover in March 2019; this has been designed primarily as a customer acquisition and retention tool, rather than as a further profit centre. It offers market leading cover at a highly competitive monthly premium, combined with a unique 10% discount on the cost of any gas we supply to them whilst they maintain their policy with us.

Energy

The energy market is now polarised between the 'Big 6', who have largely remained profitable at the expense of seeing their market share continue to decline, and a significant number of independent suppliers, who are growing their customer numbers whilst incurring substantial losses.

We find it difficult to understand how this multitude of sub-scale competitors can develop viable long-term businesses, given their similar wholesale cost structure and distribution channels (focussed on lowest-price retail propositions), rising administration costs as they become more mature, and inevitable high levels of churn (as customers who had chosen to switch to them based predominantly on price, actively search the market for further savings as soon as they reach the end of their introductory fixed-price period). It is therefore unsurprising that 14 such suppliers have experienced acute financial difficulties and ceased trading since January 2018.

Against this background, we continue to develop the significant niche we have identified, providing consistently fair and sustainable pricing combined with a unique range of other benefits, to a steadily growing customer base.

Amongst the unique benefits we offer is our innovative free LED light bulb replacement service, which we are currently delivering to around 3,000 households each month. By reducing household electricity usage, this benefit offers our customers real long term savings as opposed to short lived introductory discounts, and significantly strengthens our green credentials as a major energy supplier.

Improved Energy Supply Arrangements

We announced in our recent trading update on 17 April 2019 that we had successfully negotiated a number of changes to our wholesale energy supply arrangements with npower, including:

- An overall modest improvement to the commercial terms, including a small increase in the level of discount we receive;
- The ability for us to switch from our current 'retail-minus' wholesale pricing structure onto industry standard wholesale supply arrangements (either with npower or an alternative counterparty) from 1 April 2024, mitigating the risk that the current pricing structure ceases to be appropriate over the medium term as the energy industry continues to evolve;
- A relaxation in our previous exclusivity obligations, giving us the freedom to source energy in the open market in relation to any other company, business or customer base we may acquire in future (although we are not currently in discussion with any other parties);
- That if the Price Cap ceases to apply, our wholesale pricing will continue to be calculated using the Price Cap methodology rather than being based on higher 'Big 6' SVTs;
- The removal of our termination rights on any future change of control in the ownership of npower.

We were extremely pleased with the outcome of these discussions, which both secure and modestly enhance the benefits we are receiving from our ongoing energy supply arrangements with npower over the medium term.

Smart Meters

We made good progress during the year with our smart meter roll-out programme, achieving an installed base of approximately 315,000 (largely dual fuel) meters by the end of the financial year; this represents over 31% of our residential meter portfolio and puts us slightly ahead of the average for the industry as a whole, despite the continuing failure of our contracted meter operators to meet their agreed service levels.

To enable us to meet the increasingly challenging roll-out targets stipulated by BEIS over the next few years whilst delivering a satisfactory experience to our members, we previously reported that we were establishing a wholly-owned subsidiary ('UW Home Services') to install smart meters on our behalf. We are extremely pleased with the progress of this project over the last eight months, during which we have established a centralised support team, recruited and trained our first 70 live engineers, and successfully installed over 15,000 smart meters by the end of May.

UW Home Services is on track to deliver a significant acceleration in activity over the course of the current year as it progressively expands its geographic footprint. The financial benefits from this programme (excluding any timing differences which may arise between when costs are incurred and when they are recovered) remain partly dependent on the speed and efficiency of our roll-out relative to other suppliers.

Boiler Installation and Servicing (via Glow Green)

Last summer we purchased a 75% shareholding in Glow Green Ltd, a regional supplier/installer of domestic gas boilers and warranty/care plans, making a modest initial cash investment of £2m. Since then, we have assisted them in securing improved customer financing and boiler

procurement terms, upgrading their financial controls, optimising their marketing spend, and implementing a new CRM platform.

Although loss-making last year (c. £1m for the period to 31 March 2019), Glow Green's financial performance has been improving over the last few months, and we expect a modest positive financial contribution for the current year, as we progressively market their services to our members. Whilst initial volumes are expected to be moderate, this represents another substantial medium-term business opportunity for us, with an estimated 35,000 of our members needing to have their boiler replaced each year.

Improving our customer proposition

During the course of the year we instigated a number of initiatives aimed at improving the experience of our members:

- We redesigned our bills, making them easier for our members to understand;
- We introduced a choice of premium routers on our broadband service, providing an improved customer experience (particularly for members living in larger homes);
- We increased the functionality of our online Clubhouse, enabling more members to self-serve without needing to call our customer service team, with significant further enhancements planned for the future;
- We introduced an enhanced version of our CashBack card in March 2018, giving holders the opportunity to significantly increase their annual savings by earning 1% CashBack wherever they shop (in addition to receiving between 3% and 7% at a wide selection of retail partners); this is now being rolled out to all cardholders;
- Our drive to encourage Members to receive their monthly bill electronically is continuing, with 64% (2018: 59%) no longer receiving a paper copy; as this proportion continues to rise, we will benefit from increased operational efficiency from the ability to smooth out the peaks and troughs in the volume of inbound customer service calls, and with lower environmental impact.

Technology

We continue to invest in the technology platform that is at the very core of our business, in order to ensure that we can provide best in class service levels to our customers across the increasing range of services we supply, and to provide our Partners with the tools and support that they need to make the most of the part time income opportunity that we offer them.

Corporate Governance

The UK Corporate Governance Code (the 'Code') encourages the Chairman to report personally on how the principles in the Code relating to the role and effectiveness of the Board have been applied.

As a board we are responsible to the Company's shareholders for delivering sustainable shareholder value over the long term through effective management and good governance. A key role of mine, as Executive Chairman, is to provide strong leadership to enable the Board to operate effectively.

We believe that open and rigorous debate around key strategic issues and risks faced by the Company is important in achieving our objectives and the Company is fortunate to have non-executive directors with diverse and extensive business experience who actively contribute to these discussions.

Further detail of the Company's governance processes and compliance with the Code is set out in the Corporate Governance Statement in the Annual Report.

Recent Trading and Outlook

Recent Trading

Performance since the year-end is in line with management expectations, with the quantity and quality of new Members continuing to run comfortably ahead of the levels we achieved during the corresponding period last year. In addition, the number of new Partners joining the business has remained buoyant, with around 1,000 joining each month.

Our annual conference took place in March, with attendance levels significantly ahead of the previous year. We launched our new Boiler and Home Cover insurance service (which received an enthusiastic response from the 6,000 Partners present), shared motivational ideas, recognised their achievements, provided them with useful tips to help build their businesses, and encouraged each Partner to define and commit to their own clear vision for the coming year.

We are particularly pleased that our own churn has remained steady at around 12% a year (which is around half the average rate being experienced across the energy industry) – this is despite the impact of the Ofgem price cap being reset at a higher level on 1 April 2019, a widening Gap between the Price Cap and the bottom of the market, and record levels of switching within the broader energy market.

Energy Prices and Regulatory Changes

Since 1 February 2019, forward energy commodity prices have been below the average level which prevailed during the period 1 September 2018 to 31 January 2019; this means that the level of the Price Cap is expected to fall on 1 October 2019 by around £75, partially reversing the recent £125 rise.

Many commentators had opposed the introduction of the Price Cap, on the basis it would lead to a reduction in the level of savings available to engaged customers, and a corresponding reduction in switching levels. These fears have not been borne out, with savings of over £300 still available, and record levels of switching taking place over the last five months.

This has been driven by many smaller suppliers continuing to set their retail prices at whatever level is required to maintain a position at (or towards) the top of price comparison sites, irrespective of the impact this may have on their profitability and/or cashflow. In the absence of strong balance sheets to absorb the losses they will be making, further insolvencies (in addition to the 14 suppliers who ceased trading over the last 18 months) seem inevitable.

We are pleased that Ofgem is taking action in this area with the recent announcement of 'tougher' entry tests for new energy suppliers. In our view, these tentative first steps fall well short of what is required to deal with these challenges, such as adding both ongoing minimum capital requirements and an obligation to segregate customer credit balances until such time as a new supplier has demonstrated the sustainability of their business model.

Outlook

We are well positioned for further growth over the coming year, with a diverse and growing portfolio of services, a motivated Partner network, a unique integrated multi-utility business model and a strong balance sheet. These attributes, together with our continuing focus on treating our customers fairly and delivering consistently good value and service, have enabled us to build an exceptionally high quality membership base, with market leading levels of customer retention and strong visibility over our future earnings stream.

We anticipate the momentum that has been building within our business over the last 12 months will continue, with growth in customer and service numbers for the current year reaching 5% and

10% respectively. Whilst it is inevitably more expensive to add multi-service customers, we are hugely encouraged by the record proportion of new members choosing to switch all their services to us (which has recently been running at over 58%), with the higher investment made in acquiring them being more than offset by the length of time they are likely to remain with us, and correspondingly higher expected lifetime value.

From a financial perspective, the combination of a higher quality customer base, improved commercial terms from our wholesale partners, growing benefits from our smart meter roll-out programme, and an initial contribution from the extra customers we added over the past 12 months, mean that in the absence of unforeseen circumstances we expect adjusted profits before tax for FY2020 to be between £60m and £65m – a significant increase on our performance for the year just ended – accompanied by a corresponding 10% increase in our dividend to 57p per share.

Once again, I would like to thank my boardroom colleagues for their support and all our staff and Partners for their loyalty and hard work which have played such a huge part in achieving such a strong performance this year. Our medium term objective is to continue building this business to one million households (and beyond), and I look forward to the opportunities and value that reaching this goal will create for all stakeholders.

Charles Wigoder
Executive Chairman
17 June 2019

Chief Executive's Review

Markets

We supply a wide range of essential services under the Utility Warehouse brand (gas, electricity, landline, broadband, mobile and insurance) to both domestic and small business Members throughout the UK; these are all substantial markets and represent a significant opportunity for further organic growth.

The markets we operate in are generally dominated by a relatively small number of former monopoly suppliers and other owners of infrastructure assets, although in each there are also a number of independent suppliers carving out their own niches, generally based on offering highly competitive introductory deals promoted through price comparison sites, national advertising, and direct marketing campaigns.

Business model

Our business model is fundamentally different to all other UK utility providers in three key respects:

- we are the only fully integrated provider of both energy and communications services; this enables us to enjoy significant operating efficiencies by spreading a single set of overheads across the multiple revenue streams we receive from our Members;
- we have a unique route to market, with over 40,000 part-time self-employed Partners; rather than seeking to attract new Members through expensive advertising or price comparison sites, we instead benefit from personal recommendations from both our Partners and our existing Members; and
- we operate our business as a Discount Club; each of our customers becomes a Member, and is treated in a way that is commensurate with that status.

Partners can earn a small percentage of the monthly revenues generated by any Members gathered, either personally, or by someone in their team. And in a similar way, we reward our existing Members with shopping vouchers when they introduce a new Member to the Club.

We continue to follow a different strategy to that of our competitors in both the energy and communications markets, focussing on delivering an integrated multi-utility proposition that includes three key benefits: **Savings** (compared with the prices they were previously paying), **Simplicity** (just one convenient monthly bill making it easier to manage a significant part of their monthly household budget), and **Service** (delivered by our award-winning UK-based support teams).

These benefits are supported by our commitment to treating our Members fairly, avoiding the business practice adopted by our competitors of combining cheap introductory deals for new customers with higher tariffs charged to their legacy customer bases.

We believe their approach is not only viewed by loyal customers as being fundamentally unfair, but makes it less likely they will succeed in creating a sustainable long term business - as customers who have chosen to switch once based solely on the headline price on a comparison site will have a high propensity to do so again when their introductory deal expires. In contrast, our alternative approach is to reward loyalty and commitment, with additional savings and benefits available to our most valuable and long-standing Members.

These dynamics are illustrated by recent switching data within the electricity market for domestic customers, where reported churn amongst other small and medium suppliers is currently running at an annualised rate of around 27% - over twice the level we are experiencing ourselves.

The delivery of these core values is critical to our route to market, giving our Partners the confidence to promote our services to their friends and family – as well as generating recommendations from existing Members who in many cases also become advocates for our brand. The Net Promoter Scores ('NPS') of around 50 that we consistently achieve reflect our relentless focus on this goal, and are in stark contrast to the negative NPS scores prevalent within the utility and telecoms markets.

Against a backdrop where most of our competitors seem focussed almost solely on price, we believe that genuinely earning the trust of our Members is the key point of differentiation that will enable us to achieve our medium-term growth objectives and help us maximise long term shareholder value.

Examples of this approach include (i) not offering introductory deals to new Members as an inducement to switch, (ii) allowing existing loyal Members to benefit from any new tariffs we introduce, and (iii) reserving our best benefits and lowest prices for those who have switched the most services to us. Combined with the wider range of benefits and consistently good value we offer, this is expected to create significantly greater shareholder value over the medium term through lower churn and longer average customer lifetimes.

We continue to invest in our technology systems, which enable us to integrate all the services we supply into a single monthly bill, supported by just one set of central overheads (including all administrative and membership support functions). This highly efficient cost base is a key factor in enabling us to offer attractive pricing and a wide range of valuable benefits to our Members, a secure and growing residual income to our Partners, and a healthy dividend stream to shareholders. We are making good progress with our medium-term programme to enhance and update these systems, and we look forward to the greater business efficiency and flexibility this will deliver in due course.

We have strong commercial relationships with all our key suppliers, who recognise the value of our unique route to market and the importance of maintaining our competitive market position. To this end, we have regular and ongoing discussions with each of them about how the market dynamics for each of our services are changing, and the best way to ensure these are appropriately reflected in our wholesale pricing structure. These strong relationships are illustrated by the improvements we announced to our wholesale energy arrangements in our April trading update, as well as the better mobile and broadband commercial terms we have negotiated over the last two years.

We are extremely pleased with the further progress we have made this year in taking advantage of our multiple key points of differentiation, and towards securing our position as the Nation's most trusted utility provider.

Strategy

Our strategy is to progressively grow our share of the markets in which we operate, primarily through organic means, in order to build a robust, sustainable and increasingly profitable business.

We will achieve this by expanding our Partner network and making it easier for them to promote our services more effectively, through maintaining our focus on delivering best-in-class service and support to our Members, treating them fairly and investing in our systems and staff. We will seek to simplify and, where possible, further improve the competitiveness of our services, encouraging existing Members to talk about the unique benefits we offer to their friends and acquaintances.

An example of this is the enhanced CashBack card we launched last year, offering savings to Members wherever they shop, rather than solely at our retail partners, and providing a number of other features which make it easier for our members to use; over 90,000 Members are now benefitting from this enhanced card, and we will automatically be upgrading the remainder of the original cardholders over the course of the next few months. We have been encouraged by the consistently high proportion of new Members (around 65%) who have requested our new CashBack card over the last 12 months.

Expanding our current range of services into related areas remains a significant opportunity for the coming decade, identifying opportunities where we can build upon our existing strong relationship with our Members to give them both a better experience and better value on services they currently obtain from other suppliers, whilst also delivering a satisfactory return for our shareholders. Recent examples include the successful introduction of Home Insurance, the addition of Boiler and Home Cover this spring, and our new boiler installation business.

In the longer term, there may be an opportunity to start supplying water and/or television, or to combine the national rollout of smart meters with other 'connected home' products and services by leveraging our position as the UK's only fully integrated multi-utility supplier.

Operational performance and non-financial KPIs

Despite a challenging competitive environment, our overall performance for the year has been encouraging in a number of key respects:

- strong organic growth with service numbers up by 191,305 (2018: 51,801)
- continued low churn against a background of record levels of energy switching
- record proportion of Members taking our 'Double Gold' bundle
- over 90,000 Members taking our enhanced CashBack card
- over 14,500 Home Insurance policies issued
- over 315,000 smart meters now installed
- Best Utilities Provider at annual *Which?* Awards 2018
- *Which?* #1 rated provider for Mobile April 2018
- *Which?* 'Recommended Provider' for Broadband March 2019
- Continuing high Net Promoter Scores

Against the background of a slowly growing economy, and with household incomes remaining under pressure, our value-based consumer proposition and the part-time income opportunity we offer remain extremely attractive to both Members and Partners respectively.

Our continuing organic growth is underpinned by high levels of confidence amongst our Partners in our brand and financial strength, the good value we provide through our fair pricing policies, and our commitment to delivering best-in-class service and support to our Members.

Partners

Our Partners are one of the key strengths of our business. In contrast to the routes to market adopted by other suppliers of similar household services, the alignment of financial interest provided by our revenue-sharing model and the structure of our compensation plan incentivise them to focus their activities on finding creditworthy higher-spending Members 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 both inadvertent and extremely rare.

Our Partners are also extremely effective at targeting high quality customers who would not otherwise be engaged in the market, and in communicating the savings, simplicity and service provided by our unique integrated multi-utility proposition to prospective new Members.

We provide a variety of training and personal development courses, both online and classroom-based, designed to furnish them with the skills and knowledge they need to gather Members and recruit other Partners effectively and successfully.

For any Partner who wants to spend a substantial amount of time developing their Utility Warehouse business, we operate a Quick Income Plan; this gives them the opportunity to accelerate some of their commission payments. This initiative is a key driver behind the pleasing trend towards higher numbers of new Partners joining the business each month, and the improving quality of new Members they are gathering.

Our Car Plan, which provides eligible Partners with the opportunity to purchase a Utility Warehouse branded BMW Mini (or in some cases a BMW X5), remains extremely popular, with over 1,050 Minis and 25 BMW X5s delivered since the scheme was introduced. Owners inform us that they find these helpful in raising their local profile, resulting in enquiries from both potential new Members and Partners.

Members

	<u>2019</u>	<u>2018</u>
Residential Club	608,371	583,273
Business Club	26,668	27,466
Total Club	635,039	610,739

Whilst we continue to regard our business Club as an exciting long-term opportunity, the dynamics of this market make it extremely difficult to grow in the current energy wholesale pricing environment.

The current focus remains firmly on our residential Club, where there is a significant difference in average expected customer lifetimes between Members (and therefore in the revenues and profits they will generate) depending on whether they are an owner-occupier, and on the number of services we are providing to them. The most attractive category are owner-occupiers taking our 'Double Gold' bundle.

Our focus and success in attracting this type of Member has been reflected in the consistently high proportion of new Members gathered by Partners who switch all their core services to us (landline, broadband, mobile, electricity and/or gas) as can be seen from the following figures:

Percentage of new Members taking 'Double Gold' bundle

Q1 FY18	50.9%
Q2 FY18	48.3%
Q3 FY18	48.6%
Q4 FY18	53.2%
Q1 FY19	55.3%
Q2 FY19	57.0%
Q3 FY19	57.6%
Q4 FY19	55.4%

It is extremely encouraging that since the year-end, this proportion has continued to increase.

We were encouraged to see our energy supply point churn falling to around 1.0% per month, against a background of record levels of switching within the energy industry, and the continuing large gap between the introductory fixed price deals available from other suppliers and the range of tariffs we offer:

**Our Energy
supply point churn**

FY11	16.3%
FY12	13.3%
FY13	11.2%
FY14	10.4%
FY15	11.2%
FY16	13.1%
FY17	13.2%
FY18	12.7%
FY19	11.8%

Average revenue per Member fell slightly to £1,245 (2018: £1,267) due to a combination of the Ofgem price cap (which reduced energy revenues during Q4), lower energy consumption during a particularly warm winter, and steadily declining landline call spend, partially offset by an increasing proportion of fibre broadband and mobile services within our membership base.

**Average Revenue per
Member**

1999	£190
2000	£286
2001	£316
2002	£329
2003	£459
2004	£482
2005	£505
2006	£634
2007	£801
2008	£819
2009	£1,064
2010	£1,149
2011	£1,137
2012	£1,186
2013	£1,359
2014	£1,304
2015	£1,279
2016	£1,226
2017	£1,191
2018	£1,267
2019	£1,245

Services

Our core services are landline telephony (calls and line rental), broadband, mobile, gas, electricity, home insurance, and our CashBack card. At the year end, we supplied a total of 2,532,024 services to Club Members (2018: 2,340,719), an increase of 8.2% during the year.

	<u>2019</u>	<u>2018</u>
Electricity	579,603	555,721
Gas	470,227	449,810
Fixed Telephony (calls and NGN)	338,439	321,494
Fixed Telephony (line rental)	326,766	307,742
Broadband	304,678	283,518
Mobile	252,206	221,716
CashBack card	245,620	195,960
Home Insurance	14,485	4,758
Total	2,532,024	2,340,719
Residential Club	2,455,698	2,261,680
Business Club	76,326	79,039
Total	2,532,024	2,340,719

All our core services grew during the year, with the strongest performances being a 25% increase in the number of Cashback cards and a 14% rise in mobile services. This reflects the attractiveness of our new CashBack card and our strategic decision to place mobile at the heart of our multi-service retail proposition.

CashBack

Our CashBack card has proven itself as an attractive and important Member acquisition and retention tool. We believe it is a key factor behind our continuing organic growth and low churn against a challenging market background.

Historically it offered our Members the opportunity to achieve additional savings of between 3% and 7% on their shopping at a wide range of participating retailers, which they receive as an automatic credit on their next monthly bill from us. Around 12 months ago, we broadened its appeal by launching an enhanced version which also offers 1% CashBack on everyday household shopping at non-participating retailers (on up to £1,000 of retail spend each month). Over the course of the next few months, we will be upgrading all existing cardholders onto the new card.

Many Members also use our online shopping portal to reduce their bills; this generated over £300,000 of additional CashBack for our Members over the course of last year.

Member Service and Support

We pride ourselves on delivering a consistently high standard of service to our Members through a single support centre for all our core services based in north London, ensuring where possible that the first person a Member speaks to is able to resolve any issues they may have with their multi-utility account.

At the same time, we are always looking for ways to further improve the service experience we deliver, hence our ongoing digital transformation programme, and the numerous qualitative and quantitative performance measurement tools that we employ to monitor all aspects of our Members' interactions with us.

We have been delighted at the consistently high ratings, awards and recognition we receive from Moneywise and *Which?* for the quality of the service, support and value we provide to our Members, and the overwhelmingly positive feedback we receive from Members in our own surveys.

We were particularly proud to be recognised as the UK's Best Utilities Provider at the *Which?* 2018 Awards, a massive endorsement of our commitment to looking after our customers, and treating them as we would wish to be treated ourselves, from the UK's leading independent consumer champion.

The Environment

Although there is little we can directly do as an energy supplier to influence the generation mix which enters the National Grid each year, we are committed to playing our part in helping reduce the UK's overall carbon footprint. This is best illustrated by the significant investment we continue to make each year in project Daffodil – our free LED light bulb replacement service – an exclusive benefit which we are currently providing to around 3,000 households each month.

Since launching this service, we have installed a cumulative total of almost 4,000,000 energy efficient bulbs in more than 100,000 Members' homes (both new and existing) who have switched their energy and telephony services to us. By reducing household electricity usage, we make a direct and significant positive impact on our carbon footprint as a major energy supplier. This initiative has also been a major factor behind the improvement in the quality of new Members joining the Club, whilst encouraging, many thousands of longer-standing Members to take additional services in order to take advantage of this valuable benefit.

In addition, we continue to encourage our members to receive their monthly bills electronically (rather than by post) with considerable success. Since January 2017, the proportion receiving a paper bill has fallen significantly from 56% to around 36%, equivalent to a saving of over 7 million pieces of paper.

Our new boiler installation business only installs highly efficient A-rated boilers from Vaillant and Worcester Bosch, two of the world's leading manufacturers, thereby helping to reduce the amount of gas our customers are using.

Smart Meter roll-out

By the end of the financial year our rollout programme has resulted in an installed base of over 315,000 smart meters, representing over 31% of our domestic energy customer portfolio; whilst less than we were forecasting due to the ongoing failure of our Meter Operator partners to meet their agreed targets, the proportion of our base who now have a smart meter is now slightly ahead of the average for the industry as a whole.

The transition from first generation SMETS1 smart meters to second generation SMETS2 smart meters is now taking place; all of the engineers within our UW Home Services division have been re-trained accordingly, and are now primarily installing SMETS2 meters in our Members homes.

In addition to possible efficiency benefits, smart meters improve billing accuracy; this should improve the generally contentious relationship that exists between many customers and their energy supplier. We are broadly supportive of the nationwide smart meter programme, albeit we remain highly concerned over the significant additional costs that are being incurred as a result of an ill-conceived and sub-optimal rollout strategy combined with unrealistic deadlines – a cost that will ultimately be met by consumers.

Technology

We are making steady progress on our digital transformation project to update our systems and processes. While this is creating significant additional costs in the short term, with benefits that will still take several more years to materialise, we are now making real progress and I am confident that making this investment is the right long-term decision for the business.

In the meantime, our operating costs remain lower than those of any of our peers on a like-for-like basis, and we look forward to the operating efficiencies and performance improvements which our new systems are expected to deliver in due course.

Andrew Lindsay MBE

Chief Executive Officer

17 June 2019

Financial Review

Overview of Results

	2019	Adjusted 2018	Change	2019	Statutory 2018	Change
Revenue	£804.4m	£792.9m	1.5%	£804.4m	£792.9m	1.5%
Profit before tax	£56.3m	£54.3m	3.7%	£43.0m	£41.0m	4.9%
Basic EPS	59.0p	55.1p	7.1%	42.5p	38.8p	9.5%
Dividend per share	52.0p	50.0p	4.0%	52.0p	50.0p	4.0%

In order to provide a clearer presentation of the underlying performance of the group, adjusted profit before tax and adjusted basic EPS exclude share incentive scheme charges of £1.8m (2018: £2.0m) and the amortisation of the intangible asset of £11.2m (2018: £11.2m) arising from entering into the energy supply arrangements with npower in December 2013; this decision reflects both the relative size and non-cash nature of these charges. The reconciliation for adjusted EPS is set out in note 2.

Summary

Adjusted profit before tax increased by 3.7% to £56.3m (2018: £54.3m) on higher revenues of £804.4m (2018: £792.9m). The relatively small increase in revenues reflects the larger customer base offset by the warm winter, and the impact of the Ofgem price cap, which reduced energy revenues in the final quarter. The improvement in adjusted pre-tax profit mainly reflects the organic growth in the number of services we are providing to our Members and improved terms from certain key suppliers, partially offset by continued investment in staff headcount, modest losses associated with our expansion into related business areas (such as Glow Green and Boiler & Home Cover insurance), and higher technology costs.

Within our Customer Acquisition operating segment, net costs increased to £19.5m (2018: £18.0m), mainly reflecting the increased growth in new customers and services during the year.

Distribution expenses increased to £26.0m (2018: £21.9m), mainly reflecting higher commissions and an increase in the cost of other incentives provided to Partners arising from higher levels of activity.

Administrative expenses increased during the year by £4.7m to £67.9m (2018: £63.2m) mainly as a result of higher remuneration costs (as we grow our headcount in line with the number of services we are supplying), costs associated with our expansion into related business areas, and greater costs associated with our digital transformation programme.

Adjusted earnings per share increased by 7.1% to 59.0p (2018: 55.1p), with statutory EPS increasing by 9.5% to 42.5p (2018: 38.8p). The increase in adjusted EPS reflects higher profits and the lower number of shares in issue following the share buyback in July 2018. In accordance with previous guidance and our strong cash position, the Board is proposing to pay a final dividend of 27p (2018: 26p) per share, making a total dividend of 52p (2018: 50p) per share for the year.

Margins

Our overall gross margin for the year was 18.6% (2018: 17.6%) mainly reflecting the improved terms from certain key suppliers and a lower proportion of energy sales due to the warm winter and the Ofgem price cap.

Customer Management

We delivered faster growth in the number of services we are supplying, with an increase of 191,000 services (2018: 52,000) during the course of the year, taking the total number of services provided within our Discount Club to over 2.5 million.

The relatively small increase in revenues reflects the warm winter and the impact of the Ofgem price cap which reduced energy revenues in the final quarter, partially offset by the increase in the number of services being supplied:

Revenues £m	2019	2018
Electricity	351.2	337.5
Gas	268.1	280.3
Landline and Broadband	116.5	114.0
Mobile	32.5	30.8
Other	16.6	13.5
	784.9	776.1

Customer Acquisition

Our Customer Acquisition operating segment loss increased to £19.5m (2018: £18.0m), mainly reflecting the greater number of new customers and services added during the year.

Distribution and Administrative Expenses

Distribution expenses include the share of our revenues that we pay as commission to Partners, together with other direct costs associated with gathering new Members which are included as part of the Customer Acquisition Segment result for the year. These rose to £26.0m (2018: £21.9m), mainly reflecting an increase in commissions paid to Partners due to a larger customer base and higher growth, and higher Partner incentive costs.

Within administrative expenses, the bad debt charge for the year of £8.1m (2018: £8.8m) remained broadly flat at 1.0% of revenues (2018: 1.1%).

The number of prepayment meters we installed during the year, many of which were provided at the Member's own request, fell to 4,209 (2018: 4,556). At the end of the year we had an installed base of 74,840 (2018: 71,796) prepayment meters, representing approximately 7.1% of the energy services we supply; this remains significantly below the average level of prepayment meters within the industry of around 16% (source: CMA). An investigation into the Group's debt management processes announced by Ofgem in June 2018 remains ongoing, and any potential exposure is not considered likely to be material.

The proportion of Members who have at least two energy bills outstanding has increased to 1.50% (2018: 1.34%). This is largely due to delays caused by third party engineers in fitting prepayment meters requested by customers and as a result of this we made the decision to establish UW Home Services in order to gain greater control over these processes.

Overall, administrative expenses (excluding share incentive scheme charges and amortisation of the energy supply agreement intangible) increased during the year by £4.7m to £67.9m (2018: £63.2m) mainly as a result of higher staff costs, expansion into new business areas, and higher technology costs. The increase in staff costs reflects our ongoing commitment to deliver the best possible experience to our Members (a rising proportion of whom are taking multiple services from us) and a significant ongoing investment in strengthening our technology resources, regulatory functions and management structure, together with the broadening of the business through the acquisition of Glow Green Limited and the setting up of our own meter operator UW Home Services.

Cash, Capital Expenditure, Working Capital and Borrowings

We ended the period with a net debt position of £37.0m (2018: £11.2m), mainly reflecting the higher working capital requirements associated with changes to the phasing of certain energy industry payments, higher technology investment, smart meter roll-out costs, the success of our Quick Income Plan in driving higher levels of Partner activity, the establishment of our own meter operator (UW Home Services) and the share buy back in July 2018. A number of these increases were of a one-off nature, and more modest increases in working capital are anticipated over the coming years. The Group's Net Debt/EBITDA ratio remains low at around 0.6x (EBITDA of £62.0m used in this ratio represents adjusted pre-tax profit of £56.3m plus depreciation and amortisation of fixed assets of £4.4m and net interest costs of £1.3m).

Our net working capital position showed a year on year cash outflow of £22.3m primarily due to changes to the phasing of certain energy industry payments and the Quick Income Plan we launched for Partners earlier in the year. Capital expenditure of £7.5m (2018: £3.8m) related primarily to our continuing digital transformation programme.

Under the terms of our energy supply arrangements, the npower billing profile to the Group broadly equates to our customer billing profile, which helps to reduce the amount of working capital we need.

Dividend

The final dividend of 27p per share (2018: 26p) will be paid on 2 August 2019 to shareholders on the register at the close of business on 12 July 2019 and is subject to approval by shareholders at the Company's Annual General Meeting which will be held on 25 July 2019. This makes a total dividend payable for the year of 52p (2018: 50p), an increase of 4.0% compared with the previous year.

Our intention going forward remains to bring our dividend pay-out ratio to around 85% of adjusted EPS over the medium term, whilst maintaining our long-standing progressive dividend policy. Consistent with this approach, and reflecting the profit guidance we have provided, we expect to increase our dividend to 57p per share for the current year.

Share Incentive Scheme Charges

Operating profit is stated after share incentive scheme charges of £1.8m (2018: £2.0m). These relate to an accounting charge under IFRS 2 Share Based Payments ('IFRS 2').

As a result of the relative size of share incentive scheme charges as a proportion of our pre-tax profits, we are separately disclosing this amount within the Consolidated Statement of Comprehensive Income for the period (and excluding these charges from our calculation of adjusted profits and earnings) so that the underlying performance of the business can be clearly identified. Our current adjusted earnings per share have also therefore been adjusted to eliminate these share incentive scheme charges.

Taxation

A full analysis of the taxation charge for the year is set out in note 4 to the financial statements in the Annual Report. The tax charge for the year is £10.2m (2018: £10.5m). The effective tax rate for the year was 23.7% (2018: 25.6%).

Nick Schoenfeld
Chief Financial Officer
17 June 2019

Principal Risks and Uncertainties

Background

The Group faces various risk factors, both internal and external, which could have a material impact on long-term performance. However, the Group's underlying business model is considered relatively low-risk, with no need for management to take any disproportionate risks in order to preserve or generate shareholder value.

The Group 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, prioritised and (where possible) eliminated, and that systems of control are in place to manage any remaining risks.

A formal document is prepared by the executive directors and senior management team on a regular basis detailing the key risks faced by the Group and the operational controls in place to mitigate those risks; this document is then reviewed by the Audit Committee. No new principal risks have been identified during the period, and save as set out below, nor has the magnitude of any risks previously identified significantly changed during the period.

Business model

The principal risks outlined below should be viewed in the context of the Group's business model as a reseller of utility services (gas, electricity, fixed line telephony, mobile telephony, broadband and insurance services) under the Utility Warehouse and TML brands. As a reseller, the Group does not own any of the network infrastructure required to deliver these services to its membership base. This means that while the Group is heavily reliant on third party providers, it is insulated from all the direct risks associated with owning and/or operating such capital-intensive infrastructure itself.

The Group's services are promoted using 'word of mouth' by a large network of independent Partners, who are paid predominantly on a commission basis. This means that the Group has limited fixed costs associated with acquiring new Members.

The principal specific risks arising from the Group's business model, and the measures taken to mitigate those risks, are set out below.

Reputational risk

The Group's reputation amongst its Members, suppliers and Partners is believed to be fundamental to the future success of the Group. Failure to meet expectations in terms of the services provided by the Group, the way the Group does business or in the Group's financial performance could have a material negative impact on the Group's performance.

In developing new services, and in enhancing current ones, careful consideration is given to the likely impact of such changes on existing Members.

In relation to the service provided to its membership base, reputational risk is principally mitigated through the Group's recruitment processes, a focus on closely monitoring staff performance, including the use of direct feedback surveys from Members (Net Promoter Score), and through the provision of rigorous staff training.

Responsibility for maintaining effective relationships with suppliers and Partners rests primarily with the appropriate member of the Group's senior management team with responsibility for the relevant area. Any material changes to supplier agreements and Partner commission arrangements which could impact the Group's relationships are generally negotiated by the executive Directors and ultimately approved by the full Board.

Information technology risk

The Group is reliant on its in-house developed and supported systems for the successful operation of its business model. Any failure in the operation of these systems could negatively impact service to Members, undermine Partner confidence, and potentially be damaging to the Group's brand. Application software is developed and maintained by the Group's Technology team to support the changing needs of the business using the best 'fit for purpose' tools and infrastructure. The Technology team is made up of highly skilled, motivated and experienced individuals.

Changes made to the systems are prioritised by business 'Product Managers' who clarify system needs. They work with the Technology teams undertaking the change to ensure a proper understanding and successful outcome. Changes are tested as extensively as reasonably practicable before deployment. Review and testing are carried out at various stages of the development by both the Technology team and the operational department who ultimately take ownership of the system.

The Group has strategic control over the core Member and Partner platforms including the software development frameworks and source code behind these key applications. The Group also uses strategic third-party vendors to deliver solutions outside of our core competency. This largely restricts our counterparty risks to services that can be replaced with alternative vendors if required, albeit this could lead to temporary disruption to the day-to-day operations of the business.

Monitoring, backing up and restoring of the software and underlying data are made on a regular basis. Backups are securely stored or replicated to different locations. Disaster recovery facilities are either provided through third-party hosting services or in certain cases maintained in a warm standby state in the event of a failure of the main system. These facilities are designed to ensure a near-seamless service can be maintained for Members.

Data security risk

The Group processes sensitive personal and commercial data and in doing so is required by law to protect customer and corporate information and data, as well as to keep its infrastructure secure. A breach of security could result in the Group facing prosecution and fines as well as loss of business from damage to the Group's reputation. Recovery could be hampered due to any extended period necessary to identify and recover a loss of sensitive information and financial losses could arise from fraud and theft. Unplanned costs could be incurred to restore the Group's security.

The Group has deployed both a consumer-facing and enterprise layered security strategy, providing effective control to mitigate the relevant threats and risks. External consultants conduct regular penetration testing of the Group's internal and external systems and network infrastructure.

The Information Commissioner's Office ('ICO') upholds information rights in the public interest and the Group is a data controller registered with the ICO. If the Group fails to comply with all the relevant legislation concerning information security, it could be subject to enforcement action and significant fines.

Information security risks are overseen by the Group's Legal and Compliance team who are supported by security specialists.

Legislative and regulatory risk

The Group is subject to varying laws and regulations, including possible adverse effects from European regulatory intervention. The energy and communications markets in the UK and Continental Europe are subject to comprehensive operating requirements as defined by the relevant sector regulators and/or government departments. Amendments to the regulatory regime could have an impact on the Group's ability to achieve its financial goals and any failure to comply

may result in the Group being fined and lead to reputational damage which could impact the Group's brand. Furthermore, the Group is obliged to comply with retail supply procedures, amendments to which could have an impact on operating costs.

The Group is a licensed gas and electricity supplier, and therefore has a direct regulatory relationship with Ofgem. If the Group fails to comply with its licence obligations, it could be subject to fines or to the removal of its respective licences.

Proposed regulatory changes such as the imposition of retail energy price caps, the rapid rollout programme of smart energy meters (with the potential for additional costs if existing meters must be replaced prior to the end of their planned lives), and the replacement of existing environmental and social policies, could all have a potentially significant impact on the sector, and the net profit margins available to energy suppliers.

The Group is also a licensed supplier of telephony services and therefore has a direct regulatory relationship with Ofcom. If the Group fails to comply with its licence obligations, it could be subject to fines or to the removal of its licences.

The Group is an Appointed Representative of a Financial Conduct Authority ('FCA') authorised and regulated insurance broker for the purposes of providing insurance services to Members. If the Group fails to comply with FCA regulations, it could be indirectly exposed to fines and risk losing its status as an Appointed Representative severely restricting its ability to offer insurance services to Members.

In general, the majority of the Group's services are supplied into highly regulated markets, and this could restrict the operational flexibility of the Group's business. In order to mitigate this risk, the Group seeks to maintain appropriate relations with both Ofgem and Ofcom (the UK regulators for the energy and communications markets respectively), the Department for Business, Energy and Industrial Strategy ('BEIS'), and the FCA. The Group engages with officials from all these organisations on a periodic basis to ensure they are aware of the Group's views when they are consulting on proposed regulatory changes or if there are competition issues the Group needs to raise with them. An investigation into the Group's debt management processes announced by Ofgem in June 2018 remains ongoing, and any potential exposure is not considered likely to be material.

It should be noted that the regulatory environment for the various markets in which the Group operates is generally focussed on promoting competition; it therefore seems reasonable to expect that most potential changes will broadly be beneficial to the Group, given the Group's relatively small size compared to the former monopoly incumbents with whom it competes. However, these changes and their actual impact will always remain uncertain and could include, in extremis, the re-nationalisation of the energy supply industry.

Political and consumer concern over energy prices, vulnerable customers and fuel poverty may lead to further reviews of the energy market which could result in further consumer protection legislation being introduced through energy supply licences with price controls for certain customer segments currently being proposed. In addition, political and regulatory developments affecting the energy and telecoms markets within which the Group operates may have a material adverse effect on the Group's business, results of operations and overall financial condition.

Financing risk

The Group has debt service obligations which may place operating and financial restrictions on the Group. This debt could have adverse consequences insofar as it: (a) requires the Group to dedicate a proportion of its cash flows from operations to fund payments in respect of the debt, thereby reducing the flexibility of the Group to utilise its cash to invest in and/or grow the business; (b) increases the Group's vulnerability to adverse general economic and/or industry conditions; (c) may

limit the Group's flexibility in planning for, or reacting to, changes in its business or the industry in which it operates; (d) may limit the Group's ability to raise additional debt in the long term; and (e) could restrict the Group from making larger strategic acquisitions or exploiting business opportunities.

Each of these prospective adverse consequences (or a combination of some or all of them) could result in the potential growth of the Group being at a slower rate than may otherwise be achieved.

Fraud and bad debt risk

The Group has a universal supply obligation in relation to the provision of energy to domestic customers. This means that although the Group is entitled to request a reasonable deposit from potential new Members who are not considered creditworthy, the Group is obliged to supply domestic energy to everyone who submits a properly completed application form. Where Members subsequently fail to pay for the energy they have used, there is likely to be a considerable delay before the Group is able to control its exposure to future bad debt from them by either switching their smart meters to pre-payment mode, installing a pre-payment meter or disconnecting their supply, and the costs associated with preventing such Members from increasing their indebtedness are not always fully recovered.

Fraud and bad debt within the telephony industry may arise from Members using the services, or being provided with a mobile handset, without intending to pay their supplier. The amounts involved are generally relatively small as the Group has sophisticated call traffic monitoring systems to identify material occurrences of usage fraud. The Group is able to immediately eliminate any further usage bad debt exposure by disconnecting any telephony service that demonstrates a suspicious usage profile, or falls into arrears on payments.

More generally, the Group is also exposed to payment card fraud, where Members use stolen cards to obtain credit (e.g. on their CashBack card) or goods (e.g. Smartphones and Tablets) from the Group; the Group regularly reviews and refines its fraud protection systems to reduce its potential exposure to such risks.

Wholesale price risk

The Group does not own or operate any utility network infrastructure itself, choosing instead to purchase the capacity needed from third parties. The advantage of this approach is that the Group is largely protected from technological risk, capacity risk or the risk of obsolescence, as it can purchase the amount of each service required to meet its Members' needs.

Whilst there is a theoretical risk that in some of the areas in which the Group 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 typically either regulated (as in the energy market) or subject to significant competitive pressures (as in telephony and broadband). The profile of the Group's Members, the significant quantities of each service they consume in aggregate, and the Group's clearly differentiated route to market has historically proven attractive to infrastructure owners, who compete aggressively to secure a share of the Group's growing business.

The supply of energy has different risks associated with it. The wholesale price can be extremely volatile, and Member demand can be subject to considerable short-term fluctuations depending on the weather. The Group has a long-standing supply relationship with npower under which the latter assumes the substantive risks and rewards of buying and hedging energy for the Group's Members, and where the price paid by the Group to cover commodity, balancing, transportation, distribution, agreed metering, regulatory and certain other associated supply costs is set by reference to the average of the standard variable tariffs charged by the 'Big 6' to their domestic customers less an agreed discount, which is set at the start of each quarter; this may not be competitive against the equivalent supply costs incurred by new and/or other independent

suppliers. In addition, the timing of any quarterly price changes under the npower arrangement may not align with changes in retail prices, creating temporary short-term fluctuations in the underlying margins earned by the Group from supplying energy. However, if the Group did not have the benefit of this long-term supply agreement it would need to find alternative means of protecting itself from the pricing risk of securing access to the necessary energy on the open market and the costs of balancing.

Competitive risk

The Group operates in highly competitive markets and significant service innovations or increased price competition could impact future profit margins. In order to maintain its competitive position, there is a consistent focus on ways of improving operational efficiency. New service innovations are monitored closely by senior management and the Group is generally able to respond within an acceptable timeframe by offering any new services using the infrastructure of its existing suppliers. The increasing proportion of Members who are benefiting from the genuinely unique multi-utility solution that is offered by the Group, and which is unavailable from any other known supplier, is considered likely to materially reduce any competitive threat.

The Directors anticipate that the Group will face continued competition in the future as new companies enter the market and alternative technologies and services become available. The Group's services and expertise may be rendered obsolete or uneconomic by technological advances or novel approaches developed by one or more of the Group's competitors. In the event that smaller independent energy suppliers were to experience financial difficulties as a result of increasing wholesale prices for instance, it is possible that customers could also have a loss of confidence in the Group, given that it is also an independent energy supplier. The existing approaches of the Group's competitors or new approaches or technologies developed by such competitors may be more effective or affordable than those available to the Group. There can be no assurance that the Group will be able to compete successfully with existing or potential competitors or that competitive factors will not have a material adverse effect on the Group's business, financial condition or results of operations. However, as the Group's membership base continues to rise, competition amongst suppliers of services to the Group is expected to increase. This has already been evidenced by various volume-related growth incentives which have been agreed with some of the Group's largest wholesale suppliers. This should also ensure that the Group has direct access to new technologies and services available to the market.

Infrastructure risk

The provision of services to the Group's Members is reliant on the efficient operation of third party physical infrastructure. There is a risk of disruption to the supply of services to Members through any failure in the infrastructure e.g. gas shortages, power cuts or damage to communications networks. However, as the infrastructure is generally shared with other suppliers, any material disruption to the supply of services is likely to impact a large part of the market as a whole and it is unlikely that the Group would be disproportionately affected. In the event of any prolonged disruption isolated to the Group's principal supplier within a particular market, services required by Members could in due course be sourced from another provider.

The development of localised energy generation and distribution technology may lead to increased peer-to-peer energy trading, thereby reducing the volume of energy provided by nationwide suppliers. As a nationwide retail supplier, the Group's results from the sale of energy could therefore be adversely affected.

Similarly, the construction of 'local monopoly' fibre telephony networks to which the Group's access may be limited as a reseller could restrict the Group's ability to compete effectively for customers in certain areas.

Smart meter rollout risk

The Group is reliant on third party meter operators to deliver its smart meter rollout programme effectively. In the event that the Group suffers delays to its smart meter rollout programme the Group may be in breach of its regulatory obligations and therefore become subject to fines from Ofgem. In order to mitigate this risk the Group regularly monitors the performance of third party meter operators and addresses any issues as they arise.

The Group may also be indirectly exposed to reputational damage and litigation from the risk of technical complications arising from the installation of smart meters or other acts or omissions of third party meter operators, e.g. the escape of gas in a Member's property causing injury or death. The Group mitigates this risk through using reputable third party meter operators and through the establishment of the Group's own meter operator UW Home Services Limited.

Energy industry estimation risk

A significant degree of judgement and estimation is required in order to determine the actual level of energy used by Members and hence that should be recognised by the Group as sales. There is an inherent risk that the estimation routines used by the Group do not in all instances fully reflect the actual usage of Members. However, this risk is mitigated by the relatively high proportion of Members who provide meter readings on a periodic basis, and the rapid anticipated growth in the installed base of smart meters resulting from the national rollout programme.

Gas leakage within the national gas distribution network

The operational management of the national gas distribution network is outside the control of the Group, and in common with all other licensed domestic gas suppliers the Group is responsible for meeting its pro-rata share of the total leakage cost. There is a risk that the level of leakage in future could be higher than historically experienced, and above the level currently expected.

Key man risk

The Group is dependent on its key management for the successful development and operation of its business. In the event that any or all of the members of the key management team were to leave the business, it could have a material adverse effect on the Group's operations. The Group seeks to mitigate this risk through its remuneration policy.

Single site risk

The Group operates from one principal site and, in the event of significant damage to that site through fire or other issues, the operations of the Group could be adversely affected. In order to mitigate, where possible, the impact of this risk the Group has in place appropriate disaster recovery arrangements.

Acquisition risk

The Group may invest in other businesses, taking a minority, majority or 100% equity shareholding, or through a joint venture partnership. Such investments may not deliver the anticipated returns, and may require additional funding in future. This risk is mitigated through conducting appropriate pre-acquisition due diligence where relevant.

UK withdrawal from the EU risk

The Directors do not anticipate that, as a UK centric business supplying core household services (where any increases in costs tend to be passed through into retail prices), the UK's potential withdrawal from the EU ("Brexit") will have any material negative impact on the Group's earnings or

growth. It is not expected that Brexit will have a significant impact on the security of supply of the services the Group provides given its arrangements with key suppliers.

It is possible that if Brexit has a meaningful negative impact on the UK economy in the short term, certain consumers may face temporary hardship. However, as a supplier of essential non-discretionary household services to a large and diverse customer base, it is not expected that this will have a material overall impact on the Company's sales levels and exposure to credit risk. Nonetheless the situation is being kept under review.

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2019

	<i>Note</i>	2019 £'000	2018 £'000
Revenue	1	804,438	792,872
Cost of sales		(654,874)	(653,237)
Gross profit		<u>149,564</u>	<u>139,635</u>
Distribution expenses		(25,981)	(21,879)
Share incentive scheme charges		(10)	(60)
Total distribution expenses		(25,991)	(21,939)
Administrative expenses		(67,916)	(63,222)
Share incentive scheme charges		(1,772)	(1,971)
Amortisation of energy supply contract intangible		(11,228)	(11,228)
Total administrative expenses		(80,916)	(76,421)
Other income		1,656	629
Operating profit	1	<u>44,313</u>	<u>41,904</u>
Financial income		206	92
Financial expenses		(1,520)	(997)
Net financial expense		<u>(1,314)</u>	<u>(905)</u>
Profit before taxation		<u>42,999</u>	<u>40,999</u>
Taxation		(10,174)	(10,509)
Profit for period		<u>32,825</u>	<u>30,490</u>
Profit and other comprehensive income for the year attributable to owners of the parent		33,103	30,490
Loss for the year attributable to non-controlling interest		(278)	-
Profit for the period		<u>32,825</u>	<u>30,490</u>
Basic earnings per share	2	42.5p	38.8p
Diluted earnings per share	2	<u>42.3p</u>	<u>38.6p</u>

Consolidated Balance Sheet

As at 31 March 2019

	2019	2018
	£'000	£'000
Assets		
Non-current assets		
Property, plant and equipment	30,579	29,165
Investment property	8,621	8,705
Intangible assets	173,655	181,110
Goodwill	5,324	3,742
Other non-current assets	19,052	16,274
Total non-current assets	<u>237,231</u>	<u>238,996</u>
Current assets		
Inventories	4,781	6,101
Trade and other receivables	48,450	37,788
Prepayments and accrued income	119,190	126,884
Cash	24,166	28,151
Total current assets	<u>196,587</u>	<u>198,924</u>
Total assets	<u>433,818</u>	<u>437,920</u>
Current liabilities		
Trade and other payables	(31,064)	(30,983)
Current tax payable	(5,065)	(5,210)
Accrued expenses and deferred income	(111,386)	(134,708)
Total current liabilities	<u>(147,515)</u>	<u>(170,901)</u>
Non-current liabilities		
Long term borrowings	(59,598)	(39,369)
Finance leases	(1,616)	-
Deferred tax	-	(635)
Total non-current liabilities	<u>(61,214)</u>	<u>(40,004)</u>
Total assets less total liabilities	<u>225,089</u>	<u>227,015</u>
Equity		
Share capital	3,950	3,930
Share premium	141,732	139,055
Capital redemption reserve	107	107
Treasury shares	(5,502)	(760)
JSOP reserve	(1,150)	(1,150)
Retained earnings	86,230	85,833
Non-controlling interest	(278)	-
Total equity	<u>225,089</u>	<u>227,015</u>

Consolidated Cash Flow Statement

For the year ended 31 March 2019

	2019	2018
	£'000	£'000
Operating activities		
Profit before taxation	42,999	40,999
Adjustments for:		
Net financial expense	1,314	905
Depreciation of property, plant and equipment	3,100	3,362
Loss/(profit) on disposal of fixed assets	1	(1)
Amortisation of intangible assets	12,509	12,244
Amortisation of debt arrangement fees	229	229
Decrease/(increase) in inventories	1,320	(3,425)
Increase in trade and other receivables	(5,695)	(38,071)
(Decrease)/increase in trade and other payables	(23,457)	29,784
Non-cash adjustments arising from IFRSs 9 and 15	6,348	-
Non-cash adjustments arising from acquisitions	(834)	-
Share incentive scheme charges	1,783	2,031
Corporation tax paid	(12,148)	(10,675)
Net cash flow from operating activities	<u>27,469</u>	<u>37,382</u>
Investing activities		
Purchase of property, plant and equipment	(2,495)	(1,028)
Purchase of fixed assets under finance leases	(1,557)	-
Purchase of intangible assets	(5,054)	(2,779)
Disposal of property, plant and equipment	5	3
Purchase of shares in subsidiaries acquired (net of cash acquired)	(709)	-
Interest received	167	81
Cash flow from investing activities	<u>(9,643)</u>	<u>(3,723)</u>
Financing activities		
Dividends paid	(39,739)	(38,273)
Interest paid	(1,310)	(1,020)
Drawdown of long term borrowing facilities	20,000	40,000
Finance leases for the purchase of fixed assets	1,557	-
Repayment of other borrowings	(274)	-
Issue of new B shares in subsidiary	1	7
Issue of new ordinary shares	2,696	419
Purchase of own shares	(4,742)	(25,373)
Cash flow from financing activities	<u>(21,811)</u>	<u>(24,240)</u>
(Decrease)/increase in cash and cash equivalents	(3,985)	9,419
Net cash and cash equivalents at the beginning of the year	<u>28,151</u>	<u>18,732</u>
Net cash and cash equivalents at the year end	<u>24,166</u>	<u>28,151</u>

Consolidated Statement of Changes in Equity

For the year ended 31 March 2019

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Treasury shares £'000	JSOP reserve £'000	Retained earnings £'000	Non- controlling interest £'000	Total £'000
Balance at 1 April 2017	4,024	138,642	-	(760)	(1,150)	116,958	-	257,714
Profit and total comprehensive income	-	-	-	-	-	30,490	-	30,490
Dividends	-	-	-	-	-	(38,273)	-	(38,273)
Credit arising on share options	-	-	-	-	-	2,031	-	2,031
Issue of new ordinary shares	6	413	-	-	-	-	-	419
Issue of B shares in subsidiary	7	-	-	-	-	-	-	7
Purchase of cancelled shares	(107)	-	107	-	-	(25,373)	-	(25,373)
Balance at 31 March 2018	3,930	139,055	107	(760)	(1,150)	85,833	-	227,015
Balance at 1 April 2018	3,930	139,055	107	(760)	(1,150)	85,833	-	227,015
Opening balance adjustments	-	-	-	-	-	5,068	-	5,068
Revised opening balances	3,930	139,055	107	(760)	(1,150)	90,901	-	232,083
Profit and total comprehensive income	-	-	-	-	-	33,103	(278)	32,825
Dividends	-	-	-	-	-	(39,739)	-	(39,739)
Credit arising on share options	-	-	-	-	-	1,783	-	1,783
Deferred tax on share options	-	-	-	-	-	182	-	182
Issue of new ordinary shares	19	2,677	-	-	-	-	-	2,696
Issue of B shares in subsidiary	1	-	-	-	-	-	-	1
Purchase of treasury shares	-	-	-	(4,742)	-	-	-	(4,742)
Balance at 31 March 2019	3,950	141,732	107	(5,502)	(1,150)	86,230	(278)	225,089

Notes

1. Segment reporting

The Group's reportable segments reflect the two distinct activities around which the Group is organised:

- Customer Acquisition; and
- Customer Management.

Customer Acquisition revenues mainly comprise sales of equipment including mobile phone handsets and wireless internet routers to customers. Customer Management revenues are principally derived from the supply of fixed telephony, mobile telephony, gas, electricity, internet services, home insurance and boiler installation services to residential and small business customers.

The Board measures the performance of its operating segments based on revenue and segment result, which is referred to as operating profit. The Group applies the same significant accounting policies across both operating segments.

Operating segments

	Year ended 31 March 2019			Year ended 31 March 2018		
	Customer Management	Customer Acquisition	Total	Customer Management	Customer Acquisition	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	784,973	19,465	804,438	776,087	16,785	792,872
Segment result	63,862	(19,549)	44,313	59,859	(17,955)	41,904
Operating profit			44,313			41,904
Net financing expense			(1,314)			(905)
Profit before taxation			42,999			40,999
Taxation			(10,174)			(10,509)
Profit for the period			32,825			30,490
Segment assets	421,312	12,506	433,818	428,447	9,473	437,920
Total assets	421,312	12,506	433,818	428,447	9,473	437,920
Segment liabilities	(205,558)	(3,171)	(208,729)	(207,567)	(3,338)	(210,905)
Net assets			225,089			227,015
Capital expenditure	(7,365)	(184)	(7,549)	(3,727)	(80)	(3,807)
Depreciation	3,024	76	3,100	3,291	71	3,362
Amortisation	12,509	-	12,509	12,244	-	12,244

Statutory operating profit is stated after deducting share incentive scheme charges (£1.8m) and the amortisation of the energy supply contract intangible asset (£11.2m).

Revenue by service

	2019 £'000	2018 £'000
Customer Management		
- Electricity	351,197	337,461
- Gas	268,140	280,293
- Fixed communications	116,522	114,050
- Mobile	32,477	30,828
- Other	16,637	13,455
	<u>784,973</u>	<u>776,087</u>
Customer Acquisition	19,465	16,785
	<u>804,438</u>	<u>792,872</u>

The Group operates solely in the United Kingdom.

2. Earnings per share

The calculation of basic and diluted earnings per share ("EPS") is based on the following data:

	2019 £'000	2018 £'000
Earnings for the purpose of basic and diluted EPS	33,103	30,490
Share incentive scheme charges (net of tax)	1,649	1,657
Amortisation of energy supply contract intangible assets	11,228	11,228
	<u>45,980</u>	<u>43,375</u>
Earnings excluding share incentive scheme charges and amortisation of intangibles for the purpose of adjusted basic and diluted EPS		
	<u>45,980</u>	<u>43,375</u>
	Number (‘000s)	Number (‘000s)
Weighted average number of ordinary shares for the purpose of basic EPS	77,975	78,659
Effect of dilutive potential ordinary shares (share incentive awards)	335	426
	<u>78,310</u>	<u>79,085</u>
Weighted average number of ordinary shares for the purpose of diluted EPS		
	<u>78,310</u>	<u>79,085</u>
Adjusted basic EPS ¹	59.0p	55.1p
Basic EPS	42.5p	38.8p
Adjusted diluted EPS ¹	58.7p	54.8p
Diluted EPS	42.3p	38.6p

¹ Adjusted basic and diluted EPS exclude share incentive scheme charges and the amortisation of the intangible asset recognised as a result of the new energy supply arrangements entered into with npower in December 2013.

It has been deemed appropriate to present the analysis of adjusted EPS excluding share incentive scheme charges due to the relative size and historical volatility of the charges. In view of the size and nature of the charge as a non-cash item the amortisation of intangible assets arising from the energy supply agreement with npower has also been adjusted.

3. Dividends

	2019	2018
	£'000	£'000
Prior year final paid 26p (2018: 25p) per share	20,257	19,523
Interim paid 25p (2018: 24p) per share	19,482	18,750

The Directors have proposed a final dividend of 27p per ordinary share totalling approximately £21.1 million, payable on 2 August 2019, to shareholders on the register at the close of business on 12 July 2019. In accordance with the Group's accounting policies the dividend has not been included as a liability as at 31 March 2019. This dividend will be subject to income tax at each recipient's individual marginal income tax rate.

4. Related parties

Identity of related parties

The Company has related party relationships with its subsidiaries and with its directors and executive officers.

Transactions with key management personnel

Directors of the Company and their immediate relatives control approximately 23.9% of the voting shares of the Company. No other employees are considered to meet the definition of key management personnel other than those disclosed in the Directors' Remuneration Report in the Annual Report.

Details of the total remuneration paid to the directors of the Company as key management personnel for qualifying services are set out below:

	2019	2018
	£'000	£'000
Short-term employee benefits	1,729	1,639
Social security costs	228	219
Post-employment benefits	20	40
	1,977	1,898
Share incentive scheme charges	86	294
	2,063	2,192

During the year, the Group acquired goods and services worth approximately £25,000 (2018: £22,000) from companies in which directors have a beneficial interest. No amounts were owed to these companies by the Group as at 31 March 2019. During the year, the Group sold goods and services worth £Nil (2018: £12,000) to companies in which directors have a beneficial interest.

During the year directors purchased goods and services on behalf of the Group worth approximately £755,000 (2018: £75,000). The directors were fully reimbursed for the purchases and no amounts were owing to the directors by the Group as at 31 March 2019.

During the year the directors purchased goods and services from the Group worth approximately £29,000 (2018: £32,000) and persons closely connected with the directors earned commissions as Partners for the Group of approximately £10,000 (2018: £13,000).

Other related party transactions

Subsidiary companies

During the year ended 31 March 2019, the Company purchased goods and services from the subsidiaries in the amount of £171,000 (2018: £239,000 purchased by the Company from the subsidiaries). During the year ended 31 March 2019 the Company also received distributions from subsidiaries of £30,000,000 (2018: £Nil). At 31 March 2019 the Company owed the subsidiaries £76,197,000 which is recognised within trade payables (2018: £63,626,000 owed by the Company to the subsidiaries).

5. Financial reporting standards applied for the first time in current year

Background

IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contracts with Customers) were applied for the first time as of 1 April 2018. The effects resulting from their first-time application are detailed in this note. Full details of the nature of the expected impact of these new accounting standards was set out on pages 101 to 104 of the Company's Annual Report for the year ended 31 March 2018.

The Company has decided to apply these new accounting standards in modified form retrospectively for the first time as at 1 April 2018, without restating the prior-year figures, accounting for the aggregate amount of any transition effects by way of an adjustment to equity and presenting the comparative period in line with previous standards.

The effects that the first-time application of IFRS 9 and IFRS 15 had on retained earnings and other comprehensive income in the statement of comprehensive income in the current period are detailed in the tables below where significant.

Retained earnings reconciliation IFRS 9 and IFRS 15

	£'000	£'000
Retained earnings as at 31 March 2018		<u>85,833</u>
Effects of IFRS 9 (net of tax)		(424)
<i>of which increase in allowances for unbilled trade receivables</i>	(424)	
Effects of IFRS 15 (net of tax)		5,492
<i>of which increase in prepayments</i>	3,368	
<i>of which increase in contract assets relating to provision of light bulbs and routers</i>	2,591	
<i>of which increase in deferred income relating to CashBack card scheme</i>	(467)	
Retained earnings as at 1 April 2018		<u>90,901</u>

Impact of IFRS 15 on the Balance Sheet as at 31 March 2019

	As at 31 March 2019	Changes of timing in recognition	As at 31 March 2019
	Before accounting changes		After accounting changes
	£'000	£'000	£'000
Trade and other receivables	48,944	(494)	48,450
Prepayments and accrued income	118,971	219	119,190
Current tax payable	(5,139)	74	(5,065)
Accrued expenses and deferred income	(111,273)	(113)	(111,386)
Retained earnings	86,544	(314)	86,230

The impact of IFRS 9 on the Balance Sheet as at 31 March 2019 is not significant.

Impact of IFRS 15 on the Statement of Comprehensive Income for the year ended 31 March 2019

	31 March 2019	Changes of timing in recognition	31 March 2019
	Before accounting changes		After accounting changes
	£'000	£'000	£'000
Revenue	805,045	(607)	804,438
Distribution expenses	(26,200)	219	(25,981)
Taxation	(10,248)	74	(10,174)

The impact of IFRS 9 on the Statement of Comprehensive Income for the year ended 31 March 2019 is not significant.

Summary of accounting policy changes – IFRS 9

IFRS 9 established that an expected credit loss model should be applied that will result in a day one loss on initial recognition of trade receivables or contract assets that arise from transactions in the scope of IFRS 15.

In relation to trade receivables and accrued income, the Group already made a day one provision for losses on initial recognition and has therefore previously applied the principles of IFRS 9. In relation to certain contract assets, under IFRS 9 the Group has recognised a small provision on day one to reflect the expected level of recoverability of such balances as they are invoiced/demanded.

The Group has adopted IFRS 9 using the modified retrospective approach. Consequently, comparatives for the year-end position as at 31 March 2018, have not been restated.

Summary of accounting policy changes – IFRS 15

Under IFRS 15, the core principle is that an entity recognises revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For bundled packages, IFRS 15 requires the Group to account for individual goods and services separately if they are distinct – i.e. broadly, if the customer can benefit from the goods and/or services on their own or together with other readily available resources. The transaction price is allocated between separate goods and services in a bundle based on their stand-alone selling prices. Revenue is then recognised when the Group transfers control of a good or service to a customer. IFRS 15 also requires the Group to recognise any incremental costs of obtaining a contract to be capitalised and amortised on a systematic basis.

The Group has adopted IFRS 15 using the modified retrospective approach. Consequently, comparatives for the year-end position as at 31 March 2018, have not been restated.

<p>Sale of goods <i>Daffodil light bulbs</i></p>	<p>In marketing the sale of bundled services, the Group offers most “Double Gold” and certain “Gold” customers the provision and installation of LED light bulbs throughout their homes (the ‘Daffodil’ scheme). Under IAS 18, no up-front revenue was separately recognised for the provision of light bulbs, and the associated costs were recognised as incurred.</p> <p>Under IFRS 15 the provision of Daffodil light bulbs is distinct from the provision of the other bundled goods and services. This has resulted in an allocation of revenue to the light bulbs, which is being recognised as control of the light bulbs is passed to the customer – i.e. at the point of installation by a Utility Warehouse fitter. There is a corresponding reduction compared to the previous accounting treatment in revenues from services over the remaining contractual term.</p>
<p>Sale of goods <i>Broadband routers</i></p>	<p>In the provision of broadband services, the Group provides its customers with a broadband router at the start of their contract. Under IAS 18, no up-front revenue was separately recognised for the provision of routers, and the associated costs were recognised as incurred.</p> <p>Under IFRS 15, as the routers provided by the Group can be used with other service providers, they are considered to be distinct from the provision of broadband services. This has resulted in an allocation of revenue to the broadband routers, which is being recognised as control of the routers is passed to the customer – i.e. on receipt of the router. There is a corresponding reduction compared to the previous accounting treatment in revenues from broadband services over the remaining contractual term. The terms and conditions under which broadband routers are supplied to customers changed from mid-September 2018 and routers shipped after this date are now accounted for as finance leases.</p>
<p>Commissions</p>	<p>Management considers commissions paid to Partners to be incremental costs of obtaining a contract. The Group’s services are promoted by a large network of independent distributors. The Group’s independent distributors earn commissions primarily on the introduction of new customers to the Group (‘upfront commissions’) and on the ongoing monthly use of the Group’s services by the customers they have introduced (‘trailing commissions’). Previously, upfront commissions and trailing commissions</p>

	<p>were recognised as an expense as they are incurred.</p> <p>Under IFRS 15, upfront commissions have been capitalised and are being amortised over the expected life of the customer.</p>
CashBack card scheme	<p>The Group operates a CashBack card scheme, whereby a pre-paid payment card is provided to customers through a third-party e-money issuer. Customers earn CashBack on any spend at retailers that are part of the scheme. The cashback earned is applied against the customers' subsequent non-energy service bills. The Group charges various fees to the customer for operating the scheme, including initial application fees, monthly management fees and other transactional based fees.</p> <p>Under IFRS 15, as the initial application fee is considered to be a non-refundable upfront fee that does not relate to the transfer of a promised good or services, the associated fee is now therefore being recognised over the expected life of the customer.</p>

6. Acquisitions of Glow Green Limited and Cofield Limited

On 31 May 2018 the Group acquired 75% of the ordinary share capital of Glow Green Limited, a small supplier/installer of domestic gas boilers and warranty/care plans for consideration of £1.5 million, plus a £0.5 million repayable working capital loan facility ("the Transaction"). The Group also acquired 75% of the share capital of Cofield Limited as part of the Transaction. Cofield Limited was under the same ownership as Glow Green Limited and is a small online retailer of central heating equipment to the plumbing industry.

The book value of the net assets and liabilities at acquisition of £(28,000) was considered to reflect the fair value of the identifiable assets and liabilities of the two companies. The two companies did not have any other identifiable assets and liabilities at acquisition and therefore the consideration of £1.5 million has been entirely allocated to goodwill on the Group balance sheet.

7. Basis of preparation

The financial information set out above does not constitute the Group's statutory information for the years ended 31 March 2019 or 2018, but is derived from those accounts. The Group's consolidated financial information has been prepared in accordance with accounting policies consistent with those adopted for the year ended 31 March 2018. Statutory accounts for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered following the Company's annual general meeting. The auditor has reported on these accounts, their reports were unqualified and did not contain statements under the Companies Act 2006, s498(2) or (3).

8. Directors' responsibility statement

The directors confirm, to the best of their knowledge:

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

(b) the Chairman's Statement, Chief Executive's Review, Financial Review and Principal Risks and Uncertainties include a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The directors of Telecom Plus PLC and their functions are listed below:

Charles Wigoder – Executive Chairman
Julian Schild – Deputy Chairman and Senior Non Executive Director
Andrew Lindsay – Chief Executive Officer
Nick Schoenfeld – Chief Financial Officer
Andrew Blowers – Non Executive Director
Beatrice Hollond – Non Executive Director
Melvin Lawson – Non Executive Director

By order of the Board