

TELECOMPLUSPLC

Embargoed until 07.00

19 June 2018

Telecom Plus PLC Final Results for the year ended 31 March 2018

Telecom Plus PLC (trading as the Utility Warehouse), which supplies a wide range of utility services to both residential and business customers, today announces its final results for the year ended 31 March 2018.

Financial Highlights:

- Results and dividend in line with expectations
- Revenue up 7.1% to £792.9m
- Adjusted profit before tax (continuing operations) up 1.8% to £54.3m
- Statutory profit before tax (continuing operations) up 0.3% to £41.0m
- Adjusted EPS (continuing operations) up 3.4% to 55.1p
- Statutory EPS (continuing operations) up 2.1% to 38.8p
- Full year dividend up 4.2% to 50p per share

Operating Highlights:

- Further organic growth in both services and Members
- Winner 'Utilities Provider of the Year' at *Which?* awards 2018
- Membership quality continues to improve
- Home Insurance gaining traction
- Enhanced CashBack card launched

Andrew Lindsay, CEO, commented:

"I am pleased to report a further year of growth in all areas of the business, despite continued challenging conditions in the energy retail marketplace. Over 20% of our Members now take all five of our core services, and we have continued to expand our proposition during the year with the addition of Home Insurance.

"Winning the *Which?* 'Best Utilities Provider' 2018 Award is a reflection of the strong focus on the service levels that we provide to our customers by all of our teams. We have seen an overwhelmingly positive response from our Partners to this endorsement, and are optimistic that this will be a positive catalyst for them to recommend Utility Warehouse to their friends and families with renewed confidence and enthusiasm.

"The Standard Variable Tariff Price Cap legislation is on track to complete the parliamentary approval process before the summer recess; we fully support the introduction of this price cap, and Ofgem's proposed timeline for its implementation in December 2018.

"We believe the fundamental strengths of our business model - an efficient multi-utility consumer proposition and our unique route to market - remain intact, and anticipate that over the coming months the competitive advantage they provide will be reflected in renewed Partner confidence and accelerating growth."

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

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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 satisfactory year for the Company, in which we achieved modest growth across all our key performance metrics in the face of challenging market conditions.

Adjusted pre-tax profits increased by 1.8% to £54.3m (2017: £53.3m), and statutory pre-tax profits were marginally ahead at £41.0m (2017: £40.9m), on revenue up by 7.1% to £792.9m (2017: £740.3m); adjusted earnings per share for the year rose by 3.4% to 55.1p (2017: 53.3p), and statutory EPS increased by 2.1% to 38.8p (2017: 38.0p) (all these figures exclude the prior year financial contribution from our minority shareholding in Opus which was sold in February 2017 generating an exceptional profit of £62.3m).

Growth in customer and service numbers was held back by the large gap between standard variable energy tariffs and aggressively priced introductory deals from certain other suppliers, which persisted throughout the year. Against this competitive background, it is pleasing that full year customer and service numbers continued to grow, rising to 610,739 (2017: 607,802) and 2,340,719 (2017: 2,288,918) respectively. Within these headline figures there has been a further significant improvement in the quality of our customer base, with 120,329 (2017: 102,126) residential Members now taking all our core services (landline, broadband, mobile, gas and electricity).

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 rated by independent consumer champions *Which?* as **The Top Supplier** and/or as a **Recommended Provider** for all our core services: Energy, Broadband/Telephony and Mobile; we also received three awards from Moneywise.

We were particularly delighted to receive the prestigious accolade of 'Utilities Provider of the Year' at the recent *Which?* 2018 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 is 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

Revenues rose on the back of an industry wide increase in retail energy tariffs during Spring 2017, a colder winter than the previous year, modest growth in the total number of services we supply, and rising penetration of fibre broadband and mobile. Countering these positive factors, an increasing proportion of members benefitting from our cheapest 'Double Gold' tariffs, and 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) both acted to hold back revenue growth.

Our adjusted profit from continuing operations (ie: excluding the contribution from Opus that was sold in February 2017) predominantly reflects the continuing modest organic growth over the last two years in the number of services we are providing to our Members, improved commercial terms from our wholesale partners, some early benefits from our smart meter roll-out programme, continued investment in headcount and increased spending on technology and systems.

Dividend

In line with previous guidance, we are proposing a final dividend of 26p (2017: 25p), bringing the total for the year to 50p (2017: 48p); this represents an increase of 4.2% compared with last year, and will be paid on 3 August 2018 to shareholders on the register at the close of business on 13 July 2018 subject to approval by shareholders at the Company's AGM which will be held on 26 July 2018. We remain committed to a progressive dividend policy consistent with the underlying strong cash generation of our business.

Share Buyback

In light of our particularly strong balance sheet and cap-ex light business model, and to prevent the level of excess capital on our balance sheet continuing to increase, we announced in our interim management report our intention (until further notice) "to use any retained profits from this and any future financial periods to buy back shares in the market". To that end, we intend shortly to buy back shares with an aggregate value of £4.7m.

Churn

Against a background in which record numbers of households are switching their energy supplier (encouraged by government, press, the CMA and Ofgem), our churn remains significantly below prevailing industry levels. We attribute this to a combination of factors including our 'consistently low pricing' approach, high standards of customer service, unique route to market, the steadily improving quality of our customer base and increased investment by us in retention activities, partially offset by the continuing large gap between standard variable tariffs and introductory deals.

Proposed Energy Price Cap

We welcome the proposed energy price cap which has now passed the Committee Stage at the House of Lords without amendment. We believe this will create a fairer energy market by narrowing the gap between standard variable tariffs (paid predominantly by millions of disengaged households) and the introductory fixed price deals available to those who choose to switch supplier on a regular basis.

Whilst the implementation date and level of the cap have not yet been finalised, Ofgem has recently published a timetable (subject to consultation) suggesting it will become effective at the end of December 2018, subject to an initial review that will be effective from 1 April 2019, and further reviews effective six-monthly thereafter. The level will clearly depend on commodity and policy price movements.

We will be sheltered from the full impact of this price cap under our wholesale supply arrangements with npower, and we look forward to passing these lower energy prices onto our customers with the consequential improvement in our competitive position it implies.

Business Development

Insurance

We are encouraged by the early results from our Home Insurance service, which is starting to gather momentum. By the end of May 2018 we had collected over 75,000 renewals dates from our membership, to whom we can send targeted direct marketing over the course of the coming year; we anticipate this will enable us to grow our policy book from c.5,000 to c.20,000 over the course of the current year.

Our 'consistently low price' approach to setting premiums is unusual within the insurance sector, and means that in many cases Members are actually seeing the cost of their insurance fall when their UW insurance policy comes up for renewal; as a result, we are seeing average renewal rates in excess of 95%.

We are currently working on launching both Home Care Insurance and a Boiler Maintenance Policy for our members, which will complement our recent purchase of Glow Green Limited. Expanding into these areas has been a long-term aspiration for us, as these policies are directly relevant to the core services we are already providing to our members, and we are excited by the significant market opportunity this opens up for us (with over five million UK households currently taking these types of cover from another supplier).

We remain confident that Insurance has the potential to make a material contribution to the financial performance of the group in due course.

Energy

The energy market remains polarised between the 'Big 6', who are trying (with some success) to maintain profitability at the expense of seeing their market share shrink, and an increasing number of independent suppliers, who are growing their customer numbers whilst incurring significant losses.

The downward trend in energy prices which prevailed for most of the last four years has started to reverse, with rising commodity prices being accompanied by higher regulatory, distribution and policy costs; this has led to higher retail prices for both standard variable tariffs and, to a lesser extent, on fixed price introductory deals. However, a large gap between the top and bottom of the market remains, caused by a combination of regulatory cost exemptions enjoyed by smaller suppliers, their lower operating costs (associated mainly with not having a legacy customer base), and their decision to price retail energy tariffs at whatever price is needed to attract new customers irrespective of whether this generates a positive margin.

We find it difficult to understand how this multitude of sub-scale competitors can develop viable long-term business models, given their similar wholesale cost structures, similar distribution channels (focussed on lowest-price retail propositions) and 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).

In contrast, our approach is to offer consistently fair pricing combined with a unique range of other benefits, in order to attract and retain good quality multi-utility customers. This has enabled us to deliver consistent (albeit modest) growth in both service numbers and profitability, in contrast to either the 'Big 6' or other independent suppliers.

Amongst the unique benefits we offer is Project Daffodil, an innovative free LED light bulb replacement service. We are currently providing this service to around 3,000 households each month, and have so far installed approaching 3,000,000 energy efficient bulbs in more than 78,000 Members homes (both new and existing) who have switched their energy and telephony services to us. By reducing household electricity usage, Daffodil goes a long way towards narrowing the gap between our energy prices and the introductory tariffs available elsewhere; this has been a major factor behind the improvement in the quality of new Members joining the Club, as well as encouraging our longer-standing Members to add additional services in order to take advantage of this valuable benefit.

We made good progress during the year with our smart meter roll-out programme, achieving an installed base of over 207,000 (largely dual fuel) meters by the end of the financial year; this represents 21.6% of our residential meter portfolio and puts us slightly ahead of the average for the industry as a whole. This performance was achieved despite the continuing failure of our contracted meter operators to meet their agreed service levels, which has contributed to a small rise in delinquency levels.

We anticipate the pace at which we install meters will pick up rapidly over the next two years as we work towards meeting our BEIS targets, although there is a risk that the planned changeover from SMETS1 to SMETS2 (second generation) smart meters later this year could disrupt our planned rollout schedule. The financial benefits from this programme (excluding any timing differences which may arise between when costs are incurred and when they are recovered) remain subject to considerable uncertainty, and are partly dependent on the speed and efficiency of our roll-out relative to other suppliers.

Improving our customer proposition

We made some key enhancements to our mobile service during the year, introducing larger data bundles and significantly reducing the cost of roaming (both in the EU and worldwide) – both of which have led to improved take-up of this service amongst our Members.

We have a competitive two-year fixed energy tariff available to Members (new and existing) who are taking their Energy, Broadband and Mobile services from us.

We have recently launched an improved CashBack Card, giving Members the opportunity to significantly increase their annual savings, by enabling them to earn CashBack wherever they shop.

Our mobile app has been enhanced, and is increasingly being used by Members to submit meter readings, top-up their mobile and/or CashBack card, track their mobile usage, and find their nearest CashBack retail outlets. Further improvements to its functionality are planned going forward.

Our drive to encourage Members to receive their monthly bill electronically is progressing well, with 59% (2017: 47%) 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 in the volume of inbound customer service calls.

In May 2018, we acquired a 75% shareholding in Glow Green Limited ('Glow Green'), a small fast-growing supplier/installer of domestic gas boilers and warranty/care plans for consideration of £1.5m. In addition, we have provided Glow Green with a £0.5m repayable working capital loan facility. Our intention is to support their existing management team in implementing their exciting and ambitious growth plans for the business (which include creating a nationwide engineering footprint) by providing the relatively modest working capital they need to achieve their ambitions, and promoting their services to our membership base.

In addition to supporting the launch of new Home Care insurance policies and Boiler Maintenance plans, Glow Green will also enable us to offer new gas boilers to our Members as their existing ones reach the end of their useful lives; this is another significant potential market, and we look forward to building a progressively increasing share of it over the coming years.

Information Technology

We continue to increase our investment in IT, which is at the core of our business. Important projects have included preparing for GDPR, strengthening our cyber-defences, updating our technology and systems generally, and preparing for the mass rollout of smart metering.

Route to Market

Our network of almost 40,000 'Partners' represents one of our core strengths, and we are totally committed to helping them build successful independent businesses which generate significant residual incomes. We are encouraged at the steady number of new Partners signing up to the opportunity, which has been broadly constant at about 600-800 per month since the start of the current calendar year.

These Partners continue to introduce high quality new Members in significant volumes, and we are constantly looking for ways to help them achieve this in even greater numbers (by improving our customer proposition, training tools, and sign-up processes) and to motivate them to do so (by enhancing the compensation plan and offering a range of holiday incentive trips).

We recognise it has been more challenging for Partners to gather new Members and build their Utility Warehouse businesses when there are such large pricing differentials in the energy markets, but we have been pleased that so many of them still achieved significant success during the year by focussing on the unique strengths of our proposition and the exclusive benefits we offer.

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.

Outlook

Recent Trading

Our annual sales conference took place on 17/18 March 2018, and was attended by over 5,000 Partners. We highlighted the strong alignment of interest that exists between the Company and the Partner Network under the theme "One Team – One Dream", and announced the launch of an improved CashBack Card and a new range of Mobile tariffs, both of which were extremely well received.

These changes have led to an encouraging rise in the number of new Members being gathered during the first quarter, accompanied by a significant improvement in their quality, with a record level (over 55%) switching all their services to us.

Energy Prices and Regulatory Changes

Forward energy commodity prices have risen by around 19% since 1 January 2018, and non-commodity costs (eg: distribution, renewables, smart-meter roll-out, etc) are also on a rising trend. This has exerted upward pressure on retail energy prices, with all the 'Big 6' having recently announced modest increases to their standard variable tariffs; we have informed our Members that our own tariffs will also be increasing from 1 July, albeit that they will remain up to 5% cheaper than the average of the equivalent tariffs available from the 'Big 6'.

Counterintuitively, these higher wholesale costs have not as yet been reflected in the introductory retail prices offered by smaller new entrants, whose customer acquisition strategy appears to rely upon having a retail price position at (or towards) the top of price comparison site results, irrespective of the impact this will have on their profitability and/or cashflow. This is clearly not sustainable, as has been demonstrated by the number of smaller independent suppliers who have ceased trading recently. In the absence of strong balance sheets to absorb the losses they will be making, and/or a collapse in commodity prices, further insolvencies seem inevitable.

These dynamics have led to a continuing large gap between the cheapest introductory deals and standard variable tariffs, which seems likely to remain until Ofgem implement the price cap on standard variable tariffs, currently expected at the end of December 2018.

The financial impact of this cap on suppliers will depend (inter alia) on their cost structures, operational efficiency, tariff mix and hedging strategy. For us, our wholesale energy supply arrangements are expected to shelter our margins, with the downward pressure on profits from lower prices being offset by faster growth and lower churn over the medium term. Overall, we strongly welcome this initiative.

We note the recent corporate activity relating to npower, a wholly owned subsidiary of Innogy. npower and SSE have agreed (subject to regulatory approval) to merge their UK supply businesses, and separately, Eon has agreed to acquire Innogy (also subject to regulatory approval). If concluded, either of these transactions may enable us to improve our current wholesale terms, making our retail energy proposition even more competitive in the future.

The Competition and Markets Authority published their final report on the domestic energy market during 2017. Their proposals to remove the previous restrictions on discounts, bundling, and the number of tariffs each supplier can offer have now largely been implemented, but there are widespread concerns within the industry that Ofgem seem committed to persevering with their proposed database of disengaged customers, notwithstanding that the impending price cap will significantly reduce the issue that the database was designed to address; the likely impact of this will be greater bureaucracy, more churn and increased supplier costs, which will inevitably be reflected in higher overall energy prices for everyone.

We accept that regulation has an important role to play in ensuring the energy markets are operating in a transparent manner, creating a framework which encourages real competition, protecting the rights of consumers, and ensuring they receive a fair deal for their energy. However, there are too many instances where decisions are being made which unnecessarily increase supplier costs, with the burden ultimately falling on consumers.

One such area is in relation to so-called 'small supplier exemptions' enjoyed by suppliers with less than 250,000 customers. These create significant distortions and widespread consumer detriment, and we are encouraged that a consensus seems to be building that these exemptions are no longer serving the purpose for which they were conceived, and ought to be scrapped.

Prospects

Successfully navigating the constant stream of changes flowing across all the sectors in which we operate has been challenging, however our experienced senior management team have demonstrated their consistent ability to do so in a way which is creating significant and growing value for all our stakeholders.

After four years of modest growth, achieved in the face of fierce headwinds, our competitive position and the market environment for our unique multi-utility proposition are starting to improve.

On Mobile, we have recently introduced an attractive range of new tariffs, designed to address the needs of a broader cross-section of the population. The combination of attractive benefits, value and service provided by our mobile proposition was recognised by *Which?* magazine in their most recent survey of the mobile market, when they awarded us 'Recommended Provider' status and ranked us ahead of all other suppliers. As a result, we anticipate that penetration of Mobile within our customer base will continue to increase over the current year.

On Home Insurance, the rate at which we add new policies is expected to increase as we add further underwriters to our panel and fine tune our marketing to existing Members, over 75,000 of whom have already provided us with the policy renewal date for their current provider. The feedback we are receiving and the high renewal rates we are seeing (in excess of 95%) from Members reaching the first anniversary of their UW home insurance policy, make us increasingly confident this service will make a material contribution to the business in due course.

On Energy, we look forward to the price cap taking effect later this year, which we anticipate will lead to faster customer growth for a number of reasons: (i) it will reduce the cost of standard variable tariffs throughout the industry, which will lower our wholesale cost and therefore make us more competitive; (ii) it will remove the opportunity for other suppliers to use the excess profits they are making from their legacy unengaged customer bases, towards funding introductory deals for new customers; and (iii) a smaller gap between SVTs and introductory fixed tariffs will reduce churn, create higher Partner confidence and thus drive more activity.

Partner confidence should be further enhanced by our recent recognition by *Which?* (the UK's leading independent consumer champion) as the 'Utilities Provider of the Year' for 2018. This is a hugely powerful endorsement of our business model, our commitment to treating our Members fairly, the trust we are building, and the consistently good value and great service we deliver. We will seek to leverage this endorsement over the next twelve months, working closely with our Partners, to help them increase the conversion ratio amongst potential customers they approach, and to encourage more new Partners to join.

Our strategy of achieving consistent high quality growth through delivering savings, simplicity and exceptional customer service continues to bear fruit. We have seen a significant improvement in the proportion of new Members who are switching all their services to us over the course of the last two years (from c.35% to over 50%); these better quality customers have the highest expected lifetime value, although they cost significantly more to acquire.

From a financial perspective, the outcome for this year will depend on when the proposed energy price cap becomes effective, which Ofgem have indicated (subject to consultation) will happen on 31 December 2018. On that basis, we remain comfortable with our guidance range for this year's adjusted pre-tax profits of £55m-£60m, which would enable us to increase our dividend to not less than 52p per share for the current year.

It only remains for me to thank my boardroom colleagues for their support and all our staff and Partners for their loyalty and hard work. As a team, we remain committed to building this business to one million households (and beyond) over the coming years, and I look forward to the opportunities and value that achieving this goal will create for all stakeholders.

Charles Wigoder
Executive Chairman
18 June 2018

Chief Executive's Review

Markets

We supply a wide range of essential services under the Utility Warehouse brand (gas, electricity, landline, broadband, mobile and home 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

We have a fundamentally different business model to any other utility provider in the UK in three key respects:

- we operate our business as a Discount Club; each of our customers becomes a Member, receiving a level of service commensurate with that status;
- we are the only fully integrated provider of both energy and communications services in the country. 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; and
- we have a unique route to market, with approaching 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 by both our Partners and our existing Members.

Partners can earn a small percentage of the monthly revenues generated by any Members gathered, either personally, or by someone in their team. Applying a similar principle, 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 typical marketing strategy adopted by our competitors of combining cheap introductory deals for new customers with much higher tariffs charged to their legacy customer bases. We believe their approach is not only fundamentally unfair on loyal customers, but less likely to create 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 higher propensity to do so again when their introductory deal expires; these dynamics are supported by recent switching data within the electricity market for domestic customers, where reported churn amongst small and medium suppliers (excluding ourselves) is running at an annualised rate of approaching 30%.

Our alternative approach is to focus on treating all our Members in a fair manner, and to give everyone consistently good value on all their services, rewarding loyalty and commitment with additional discounts and benefits available to our most valuable and long-standing Members. 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. By treating our Members fairly, as we would like to be treated ourselves, we aim to earn both their loyalty (which delivers long term, sustainable revenues) and their enthusiasm for our business model (which creates growth through referrals).

Examples of this approach include not offering short-term discounts to new Members as an inducement to switch, always allowing existing loyal Members to benefit from any new tariffs we introduce, 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 IT 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 now around two years into our medium term programme to enhance and update these systems; progress is encouraging, 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 recent improvements to our wholesale mobile rates which enabled us to significantly improve UK inclusive data allowances and worldwide roaming charges, as well as the better broadband commercials we negotiated with TalkTalk last year.

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 increase our share of the markets in which we operate through organic growth, and to build a robust, sustainable and profitable business.

We will achieve this by growing 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, improve the competitiveness of our services even

further, encouraging existing Members to talk about the unique benefits we offer to their friends and acquaintances.

To this end, we have recently introduced an enhanced new CashBack card which offers savings to Members wherever they shop, rather than solely at a limited number of major retail partners; since announcing this benefit at our annual sales conference in March, we have seen the proportion of new Members applying for a CashBack card increase.

We continue to explore the possibility of expanding our current range of core services into areas where we can build upon our existing strong relationship with our Members by offering 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. This approach is demonstrated by the successful initial roll-out of our new Home Insurance service, which we anticipate will be supplemented by a range of other insurance products in due course - starting with a Home Care policy later this year. In the medium to longer term, potential new services include water and television, and combining the national rollout of smart meters with other 'connected home' products and services to leverage our position as the only fully integrated multi-utility supplier in the country.

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:

- continuing organic growth with service numbers up by 52,000 (2017: 107,214)
- reduced churn against a background of record levels of energy switching
- materially higher proportion of Members now taking our 'Double Gold' bundle
- over 75,000 Home Insurance renewal dates captured from Members
- lower unit fulfilment costs for our free LED light bulb replacement service
- **Best Telecom Services Provider at annual Which? Awards 2017**
- **Best Utilities Provider at annual Which? Awards 2018**
- Which? #1 rated provider for Mobile April 2018
- Which? #1 rated provider for Energy January 2018
- Which? 'Recommended Provider' for Broadband March 2018
- consistently 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.

Members

	<u>2018</u>	<u>2017</u>
Residential Club	583,273	578,799
Business Club	27,466	29,003
Total Club	610,739	607,802

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 is therefore 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 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 FY17	51.5%
Q2 FY17	44.7%
Q3 FY17	46.6%
Q4 FY17	55.1%
Q1 FY18	50.9%
Q2 FY18	48.3%
Q3 FY18	48.6%
Q4 FY18	53.2%

It is extremely encouraging that since the year-end, this proportion has further increased to a record level of over 56%, taking the proportion of our total membership base who are taking all our services to over 23.5% at the end of May.

We were encouraged to see our energy supply point churn fall marginally to around 1.1% per month, against a background of record levels of switching within the energy industry generally, 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%

Average revenue per Member increased due to a combination of rising energy prices and the benefit from the higher penetration of communications services (particularly mobile) within our membership:

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

(These revenue figures relate solely to our Customer Management operating segment, the figures for 2008 to 2014 inclusive are restated as detailed in the 2015 Annual Report)

Services

The full range of services we offer includes 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 2,340,719 services to Club Members (2017: 2,288,918), an increase of 2.3% during the year.

	2018	2017
Electricity	555,721	551,622
Gas	449,810	446,394
Fixed Telephony (calls and NGN)	321,494	320,269
Fixed Telephony (line rental)	307,742	303,787
Broadband	283,518	276,721
Mobile	221,716	201,372
CashBack card	195,960	188,753
Home Insurance	4,758	-
Total	2,340,719	2,288,918
Residential Club	2,261,680	2,205,462
Business Club	79,039	83,456
Total	2,340,719	2,288,918

All the services grew during the year, with the strongest performer being a 10% rise in mobile numbers. This reflects our strategic decision to place mobile at the heart of our retail proposition, progressively improving its competitive position as we obtain better wholesale terms ourselves from EE; enhancements over the last 18 months have included the introduction of 4G data, launching new tariffs with significantly larger data allowances, much lower global roaming rates, and reductions to our out-of-bundle charges. And from 1st July, we're adding Switzerland to our list of 'roam-like-home' destinations.

CashBack

Our exclusive CashBack card has proven an attractive and important Member acquisition and retention tool, and is one of the key factors behind our continuing organic growth and low churn against a challenging market background.

It has historically given 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. Since launching the programme, the total value of CashBack funded by participating retailers and credited to Members now exceeds £38m (2017: £33m).

We believe the continuing strong demand for this card clearly demonstrates the attractiveness of this unique membership benefit, and contributes towards our consistently high levels of customer retention.

To broaden its appeal, we announced at our sales conference in March 2018 that we would shortly be launching an enhanced CashBack card, which provides 1% CashBack on everyday household shopping at non-participating retailers (on up to £1,000 of retail spend each month) in addition to the 3%-7% at participating retailers. Since this announcement, the proportion of new members signed up by Partners who request a CashBack card has increased.

Historically, the CashBack that we pay to our Members each month has been funded entirely by the participating retailers, with many Members achieving a reduction of 20% to 30% on the net cost of their utilities simply by using their CashBack card (instead of an alternative payment card) for most of their regular household shopping. Where customers are using our enhanced new card, the 1% cashback on their general household spend will largely be funded by us, but the cost of this is expected to be largely offset by the combination of the £2 monthly fee, an increase in the number of new Members, and lower churn.

As well as any savings from using their CashBack cards, many Members also use our online shopping portal to reduce their bills; this generated around £0.5m of additional CashBack for our Members over the course of last year.

Member Service and Support

We pride ourselves on delivering first-class service to our Members through a single support centre based in the UK, and 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.

We are clearly focussed on improving the service experience we deliver to our Members, willingly investing in technology designed to achieve this objective, and continually assessing the numerous qualitative and quantitative performance measurement tools that we employ to monitor all aspects of our Members' interactions with us to improve the overall quality of their experience.

We have been delighted at the consistently high ratings, awards and recognition we receive from Moneywise and *Which?* for the quality of the service and support provided 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 few weeks ago, 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.

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 (together with all the other benefits of being part of our discount club) to prospective new Members.

We provide a variety of training and personal development courses, both online and classroom-based, designed to provide them with the skills and knowledge they need to gather Members and recruit other Partners effectively and successfully. In addition, we offer a low-cost hire purchase scheme which gives Partners access to a Tablet so they can present the benefits of our unique Discount Club more effectively.

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 residual income and thus potentially replace their previous main source of income. This recent initiative has been well received, and is transforming the way increasing numbers of potential new recruits are looking at this opportunity.

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, as demonstrated by the delivery of our 1000th Mini (2017: c.900) a few weeks ago. Owners inform us that they find these helpful in raising their local profile, resulting in enquiries from both potential new Members and Partners.

Smart Meter roll-out

By the end of the financial year our rollout programme has resulted in an installed base of over 207,000 smart meters, representing 21.6% of our domestic energy customer portfolio; whilst less than we were forecasting due to the ongoing failure of our MOP 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 has repeatedly been pushed back, and is now scheduled to start sometime this winter; considerable scepticism exists within the industry on the achievability of this new target.

In addition to much-debated efficiency benefits, smart meters have the potential to materially improve the relationship between customers and energy suppliers. We remain broadly supportive of the nationwide smart meter programme, albeit we are concerned over the significant additional costs that are being incurred as a result of an ill-conceived and sub-optimum rollout strategy combined with unrealistic deadlines – a cost that will ultimately be met by consumers.

IT Systems

The journey we embarked on in 2016 to start reviewing the systems and processes which have evolved over the course of the last 20 years, and to prepare for the introduction of new services, is gathering steam. And while this is creating significant additional costs in the short term, with benefits that may take many years to arrive, I am confident that making this investment is the right 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

18 June 2018

Financial Review

Overview of Results

<i>Continuing operations</i>	Adjusted ¹			Statutory		
	2018	2017	Change	2018	2017	Change
Revenue	£792.9m	£740.3m	7.1%	£792.9m	£740.3m	7.1%
Profit before tax	£54.3m	£53.3m	1.8%	£41.0m	£40.9m	0.3%
Basic EPS	55.1p	53.3p	3.4%	38.8p	38.0p	2.1%
Dividend per share	50.0p	48.0p	4.2%	50.0p	48.0p	4.2%

¹ As a result of the relative size and historical volatility of share incentive scheme charges of £2.0m (2017: £1.2m), these have been excluded from adjusted profit before tax and adjusted basic EPS. In view of the size and nature of the charge as a non-cash item, the amortisation of the intangible asset of £11.2m (2017: £11.2m) arising on entering into the energy supply arrangements with npower in December 2013 has also been excluded from adjusted profit before tax and adjusted basic EPS. For ease of comparability, following the sale of the Group's 20% shareholding in Opus Energy Group Limited ('Opus') in February 2017 (resulting in Opus becoming a discontinued operation), the contribution from Opus and the £62.3m exceptional profit from its sale in 2017 have been excluded in the above table.

Summary

Adjusted profit before tax increased by 1.8% to £54.3m¹ (2017 continuing operations: £53.3m) on higher revenues of £792.9m (2017: £740.3m). These profits included a £1.2m recovery credited to cost of sales of Electricity Market Reform levy costs incurred in prior years under our energy supply contract (2017: £4.2m one-off recovery of costs incurred in prior years relating to the smart meter rollout programme, 70% credited to cost of sales and 30% to administrative expenses). The increase in revenue during the year has been principally driven by higher average energy prices and increased usage during a cold winter, partly offset by a reduction in average energy usage (reflecting the progressive impact of industry-wide energy efficiency measures over the last few years, enhanced by our successful LED light bulb replacement service). The improvement in adjusted pre-tax profits (continuing operations) mainly reflects the modest organic growth over the last three years in the number of services we are providing to our Members and improved terms from certain key suppliers, partially offset by increased investment in staff headcount and higher IT costs.

Within our Customer Acquisition operating segment, losses remained broadly stable at £18.0m (2017: £18.3m), consistent with a broadly similar number of new Members joining during the year.

Distribution expenses increased to £21.9m (2017: £21.1m), mainly reflecting an increase in commissions paid to Partners on the larger number of services being provided to our membership base compared to the previous year.

Administrative expenses increased during the year by £8.0m to £63.2m (2017: £55.2m) mainly as a result of continued investment in growing staff headcount to sustain our current high standards of customer service as the business grows (particularly in relation to the smart meter roll out) and higher IT costs.

Adjusted earnings per share (continuing operations) increased by 3.4% to 55.1p (2017: 53.3p), statutory EPS (continuing operations) 38.8p (2017: 38.0p). The increase in adjusted EPS reflects higher profits, the lower number of shares in issue following the tender offer in July 2017 and the lower corporation tax rate this year. In accordance with previous guidance and

our strong cash position, the Board is proposing to pay a final dividend of 26p (2017: 25p) per share, making a total dividend of 50p (2017: 48p) per share for the year.

Margins

Our overall gross margin for the year was 17.6% (2017: 17.6%) mainly reflecting the improved terms from our key suppliers, offset by a lower recovery of previously incurred costs relative to the prior year.

Customer Management

We delivered further (albeit modest) growth in the number of services we are supplying, with an increase of 52,000 services during the course of the year, taking the total number of services provided within our Discount Club to over 2.3 million.

We continue to focus on making it easier for Partners to gather new Members by simplifying our processes, improving membership benefits, making our prices more competitive, and improving the quality of service and support we provide to our membership base. As a result, all our core services have continued to see organic growth in a challenging competitive environment.

Revenues increased due to higher energy prices and usage through a cold winter, partly offset by a reduction in average underlying energy usage, with growing revenues in all other service areas following increases in the number of services being provided and changes to our pricing structures:

Revenues £m	2018	2017
Electricity	337.5	310.4
Gas	280.3	265.8
Landline and Broadband	114.0	106.7
Mobile	30.8	27.5
Other	13.5	12.4
	776.1	722.8

Customer Acquisition

Our Customer Acquisition operating segment loss remained broadly flat during the year at £18.0m (2017: £18.3m), reflecting the modest growth in the number of new Members joining our discount club 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 £21.9m (2017: £21.1m), reflecting increases in Partner commission resulting from the industry wide electricity price increases in spring 2017, and growth in the number of services we are providing.

Within administrative expenses, the bad debt charge for the year remained broadly flat at 1.1% of revenues (2017: 1.1%), rising in absolute terms to £8.8m (2017: £7.8m), mainly reflecting higher energy prices.

The number of prepayment meters we installed during the year, many of which were provided at the Member's own request, fell to 4,556 (2017: 5,357), partly due to delays in fitting

prepayment meters following service level issues with one of our meter operators ('MOPs') in the first half of the year as previously highlighted. At the end of the year we had an installed base of 71,796 (2017: 69,828) 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).

Delinquent Members

FY12	1.46%
FY13	1.23%
FY14	1.15%
FY15	1.10%
FY16	1.09%
FY17	1.15%
FY18	1.34%

Delinquency (the proportion of Members who have at least two energy bills outstanding) has increased to 1.34% (2017: 1.15%). This is largely due to delays in fitting prepayment meters during the second half of the prior year resulting from operational challenges with our MOPs.

The average number of employees increased from 1,049 to 1,177. This 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 both our IT resources and our management structure. Personnel expenses (excluding the non-cash accounting cost of share incentive schemes) increased by 16.6% during the year to £41.1m (2017: £35.3m).

During the year, administrative expenses were also impacted by £2.2m in respect of the non-recovery of customer debts relating to VAT and CCL liabilities, which were mostly offset by other one-off credits. Overall, administrative expenses increased during the year by £8.0m to £63.2m (2017: £55.2m) mainly as a result of higher staff costs and increased investment in IT, together with higher regulatory costs (including GDPR preparation), and including the impact from the recovery of previously incurred smart meter rollout costs in the prior year mentioned above.

Cash, Capital Expenditure, Working Capital and Borrowings

We ended the period with a net debt position of £11.2m (2017: £18.7m net cash), mainly reflecting the £25m tender offer made to shareholders in July 2017 following the sale of Opus; the Group's Net Debt/EBITDA ratio remains low at around 0.2x.

As expected, our net working capital position showed a year on year cash outflow of £11.7m primarily due to timing differences related to our energy purchasing arrangements with npower, the Quick Income Plan we launched for Partners earlier in the year, and the ramp-up in the smart meter roll-out programme. Capital expenditure of £3.8m (2017: £5.5m) related primarily to our continuing IT development programme.

Under the terms of our energy supply arrangements, the npower billing profile to the Group broadly equates to our customer billing profile and this limits our need for working capital.

Dividend and share buy-back

The final dividend of 26p per share (2017: 25p) will be paid on 3 August 2018 to shareholders on the register at the close of business on 13 July 2018 and is subject to approval by shareholders at the Company's Annual General Meeting which will be held on 26

July 2018. This makes a total dividend payable for the year of 50p (2017: 48p), an increase of 4.2% compared with the previous year.

We believe our strong underlying cash flow, rising adjusted earnings and strong credit profile will enable us to refinance any remaining borrowings as they fall due, whilst maintaining a progressive dividend policy. In the light of the steadily improving quality of our membership base and the good visibility it provides over future revenues and margins, we expect to increase our dividend to not less than 52p per share for the current year. Our intention going forward remains to bring our dividend pay-out ratio back to around 85% of adjusted EPS over the medium term, whilst maintaining our long-standing progressive dividend policy.

In our interim management report we announced our intention to use any retained profits from this and any future financial periods to buy back shares in the market, to prevent the level of excess capital on our balance sheet continuing to increase. We will therefore shortly be buying back shares with an aggregate value of £4.7m.

Share Incentive Scheme Charges

Operating profit is stated after share incentive scheme charges of £2.0m (2017: £1.2m). These relate to an accounting charge under IFRS 2 Share Based Payments ('IFRS 2') and the increase reflects the issue of growth shares made during the year under the new LTIP 2016.

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 £10.5m (2017: £10.4m).

The effective tax rate for the year was 25.6% (2017: 25.5% excluding the sale of our 20% shareholding in Opus at a profit of £62.3m; no tax was paid on this, as it was eligible for the substantial shareholding exemption).

Nick Schoenfeld
Chief Financial Officer
18 June 2018

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 dependent on its proprietary billing and membership management software for the successful operation of its business model. This software is developed and maintained in accordance with the changing needs of the business by a team of highly skilled, motivated and experienced individuals. The Group relies on this software and any failure in its operation could negatively impact service to Members and potentially be damaging to the Group's brand.

All significant changes which are made to the billing and membership management software are tested as extensively as reasonably practicable before launch and are ultimately approved by the Chief Technology Officer and Billing departments in consultation with the Chief Executive as appropriate.

Back-ups of both the software and underlying billing and membership data are made on a regular basis and securely stored off-site. The Group also maintains a disaster recovery facility in a warm standby state in the event of a failure of the main system, designed to ensure that a near-seamless service to Members can be maintained.

The Group has full strategic control over the source code behind its billing and membership management system, thereby removing any risk of future software development not being able to meet the precise requirements of the Group.

Data security risk

The Group processes sensitive personal and commercial data during the course of its business. The Group looks to protect customer and corporate information and data and to keep its infrastructure secure. A significant breach of cyber security could result in the Group facing prosecution and fines, loss of commercially sensitive information, financial losses from fraud and theft, lost productivity from not being able to process orders and invoices, and unplanned costs to restore and improve the Group's security. This could damage the Group's brand and Partner confidence which might take an extended period of time to rebuild. Ultimately, individuals' welfare could be put at risk in the event that the Group was not able to provide services or personal data was misappropriated. The Group uses high specification firewalling, network segmentation, and multifaceted network and endpoint anti-viral mitigation systems; external consultants are also used to conduct penetration testing of the Group's internal and external IT infrastructure.

The Information Commissioner's Officer ('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.

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 licenced 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 licenced 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.

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 ('Delinquent Members'), 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 Delinquent 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.

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 which includes an attractive LTIP.

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.

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2018

	<i>Note</i>	2018 £'000	2017 £'000
<i>Continuing operations</i>			
Revenue	1	792,872	740,290
Cost of sales		(653,237)	(609,859)
Gross profit		<u>139,635</u>	<u>130,431</u>
Distribution expenses		(21,879)	(21,116)
Share incentive scheme charges		(60)	(101)
Total distribution expenses		(21,939)	(21,217)
Administrative expenses		(63,222)	(55,195)
Share incentive scheme charges		(1,971)	(1,084)
Amortisation of energy supply contract intangible		(11,228)	(11,228)
Total administrative expenses		(76,421)	(67,507)
Other income		629	449
Operating profit	1	<u>41,904</u>	<u>42,156</u>
Financial income		92	89
Financial expenses		(997)	(1,378)
Net financial expense		<u>(905)</u>	<u>(1,289)</u>
Profit before taxation		<u>40,999</u>	<u>40,867</u>
Taxation		(10,509)	(10,424)
Profit for period		<u>30,490</u>	<u>30,443</u>
<i>Discontinued operations</i>			
Profit for period from associate		-	64,517
Profit and other comprehensive income for the year attributable to owners of the parent		<u>30,490</u>	<u>94,960</u>
Basic earnings per share			
<i>Continuing operations</i>		38.8p	38.0p
<i>Discontinued operations</i>		-	80.6p
	2	<u>38.8p</u>	<u>118.6p</u>
Diluted earnings per share			
<i>Continuing operations</i>		38.6p	37.8p
<i>Discontinued operations</i>		-	80.1p
	2	<u>38.6p</u>	<u>117.9p</u>

Consolidated Balance Sheet

As at 31 March 2018

	2018	2017
	£'000	£'000
Assets		
Non-current assets		
Property, plant and equipment	29,165	31,117
Investment property	8,705	9,089
Intangible assets	181,110	190,575
Goodwill	3,742	3,742
Other non-current assets	16,274	15,593
Total non-current assets	<u>238,996</u>	<u>250,116</u>
Current assets		
Inventories	6,101	2,676
Trade and other receivables	37,788	29,812
Prepayments and accrued income	126,884	98,320
Cash	28,151	18,732
Total current assets	<u>198,924</u>	<u>149,540</u>
Total assets	<u>437,920</u>	<u>399,656</u>
Current liabilities		
Trade and other payables	(30,983)	(24,608)
Current tax payable	(5,210)	(5,407)
Accrued expenses and deferred income	(134,708)	(111,322)
Total current liabilities	<u>(170,901)</u>	<u>(141,337)</u>
Non-current liabilities		
Long term borrowings	(39,369)	-
Deferred tax	(635)	(605)
Total non-current liabilities	<u>(40,004)</u>	<u>(605)</u>
Total assets less total liabilities	<u>227,015</u>	<u>257,714</u>
Equity		
Share capital	3,930	4,024
Share premium	139,055	138,642
Capital redemption reserve	107	-
Treasury shares	(760)	(760)
JSOP reserve	(1,150)	(1,150)
Retained earnings	85,833	116,958
Total equity	<u>227,015</u>	<u>257,714</u>

Consolidated Cash Flow Statement

For the year ended 31 March 2018

	2018 £'000	2017 £'000
Operating activities		
Profit before taxation – continuing operations	40,999	40,867
Adjustments for:		
Net financial expense	905	1,289
Depreciation of property, plant and equipment	3,362	3,203
Profit on disposal of fixed assets	(1)	(21)
Amortisation of intangible assets	12,244	12,088
Amortisation of debt arrangement fees	229	229
(Increase)/decrease in inventories	(3,425)	86
(Increase)/decrease in trade and other receivables	(38,071)	(4,084)
Increase/(decrease) in trade and other payables	29,784	(5,241)
Share incentive scheme charges	2,031	1,185
Corporation tax paid	(10,675)	(6,190)
Net cash flow from operating activities	<u>37,382</u>	<u>43,411</u>
Investing activities		
Purchase of property, plant and equipment	(1,028)	(2,066)
Purchase of intangible assets	(2,779)	(3,406)
Disposal of property, plant and equipment	3	60
Payment of deferred consideration	-	(21,500)
Disposal of associated company	-	71,103
Distribution from associated company	-	5,074
Purchase of shares in associated company	-	(55)
Interest received	81	91
Cash flow from investing activities	<u>(3,723)</u>	<u>49,301</u>
Financing activities		
Dividends paid	(38,273)	(37,633)
Interest paid	(1,020)	(1,370)
Drawdown of long term borrowing facilities	40,000	-
Repayment of long term borrowing facilities	-	(71,241)
Issue of new B shares in subsidiary	7	-
Issue of new ordinary shares	419	921
Purchase of own shares	(25,373)	-
Cash flow from financing activities	<u>(24,240)</u>	<u>(109,323)</u>
Increase/(decrease) in cash and cash equivalents	9,419	(16,611)
Net cash and cash equivalents at the beginning of the year	18,732	35,343
Net cash and cash equivalents at the year end	<u>28,151</u>	<u>18,732</u>

Consolidated Statement of Changes in Equity

For the year ended 31 March 2018

Consolidated	Share capital	Share premium	Capital redemption reserve	Treasury shares	JSOP reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 2016	4,016	137,729	-	(760)	(1,150)	58,446	198,281
Profit and total comprehensive income	-	-	-	-	-	94,960	94,960
Dividends	-	-	-	-	-	(37,633)	(37,633)
Credit arising on share options	-	-	-	-	-	1,185	1,185
Issue of new ordinary shares	8	913	-	-	-	-	921
Balance at 31 March 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

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 and home insurance 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 – continuing operations

	Year ended 31 March 2018			Year ended 31 March 2017		
	Customer Management	Customer Acquisition	Total	Customer Management	Customer Acquisition	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	776,087	16,785	792,872	722,748	17,542	740,290
Segment result	59,859	(17,955)	41,904	60,445	(18,289)	42,156
Operating profit			41,904			42,156
Net financing expense			(905)			(1,289)
Profit before taxation			40,999			40,867
Taxation			(10,509)			(10,424)
Profit for the year from continuing operations			30,490			30,443
Segment assets	428,447	9,473	437,920	390,639	9,017	399,656
Total assets	428,447	9,473	437,920	390,639	9,017	399,656
Segment liabilities	(207,567)	(3,338)	(210,905)	(138,850)	(3,092)	(141,942)
Net assets			227,015			257,714
Capital expenditure	(3,727)	(80)	(3,807)	(5,343)	(129)	(5,472)
Depreciation	3,291	71	3,362	3,127	76	3,203
Amortisation	12,244	-	12,244	12,088	-	12,088

Statutory operating profit is stated after deducting share incentive scheme charges (£2.0m) and the amortisation of the energy supply contract intangible asset (£11.2m).

Revenue by service

	2018	2017
	£'000	£'000
Customer Management		
- Electricity	337,461	310,370
- Gas	280,293	265,822
- Fixed communications	114,050	106,653
- Mobile	30,828	27,500
- Other	13,455	12,403
	<u>776,087</u>	<u>722,748</u>
Customer Acquisition	16,785	17,542
	<u>792,872</u>	<u>740,290</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:

	2018	2017
	£'000	£'000
Earnings for the purpose of basic and diluted EPS	30,490	94,960
Share of profit related to associate (net of tax)	-	(64,517)
Earnings for the purpose of basic and diluted EPS - continuing operations	<u>30,490</u>	<u>30,443</u>
Share incentive scheme charges (net of tax)	1,657	968
Amortisation of energy supply contract intangible assets	<u>11,228</u>	<u>11,228</u>
Earnings excluding share incentive scheme charges and amortisation of intangibles for the purpose of adjusted basic and diluted EPS	<u>43,375</u>	<u>42,639</u>
	Number	Number
	('000s)	('000s)
Weighted average number of ordinary shares for the purpose of basic EPS	78,659	80,073
Effect of dilutive potential ordinary shares (share incentive awards)	<u>426</u>	<u>438</u>
Weighted average number of ordinary shares for the purpose of diluted EPS	79,085	80,511
<i>Continuing operations</i>		
Adjusted basic EPS ¹	55.1p	53.3p

¹ Adjusted basic and diluted EPS for continuing operations 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.

Basic EPS	38.8p	38.0p
<i>Continuing operations</i>		
Adjusted diluted EPS ¹	54.8p	53.0p
Diluted EPS	38.6p	37.8p

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

	2018	2017
	£'000	£'000
Prior year final paid 25p (2017: 24p) per share	19,523	19,205
Interim paid 24p (2017: 23p) per share	<u>18,750</u>	<u>18,428</u>

The Directors have proposed a final dividend of 26p per ordinary share totalling approximately £20.3 million, payable on 3 August 2018, to shareholders on the register at the close of business on 13 July 2018. In accordance with the Group's accounting policies the dividend has not been included as a liability as at 31 March 2018. 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, formerly its associate until disposal on 10 February 2017 and with its directors and executive officers.

Transactions with key management personnel

Directors of the Company and their immediate relatives control approximately 23.3% 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.

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

	2018	2017
	£'000	£'000
Short-term employee benefits	1,639	1,475
Social security costs	219	196
Post-employment benefits	40	80
	<u>1,898</u>	<u>1,751</u>
Share incentive scheme charges	294	186
	<u>2,192</u>	<u>1,937</u>

During the year, the Company acquired goods and services worth approximately £22,000 (2017: £130,000) from companies in which directors have a beneficial interest. No

amounts were owed to these companies by the Company as at 31 March 2018. During the year, the Company sold goods and services worth approximately £12,000 (2017: £12,000) to companies in which directors have a beneficial interest.

During the year directors purchased goods and services on behalf of the Company worth approximately £75,000 (2017: £118,000). The directors were fully reimbursed for the purchases and no amounts were owing to the directors by the Company as at 31 March 2018. During the year the directors purchased goods and services from the Company worth approximately £32,000 (2017: £29,000) and persons closely connected with the directors earned commissions as Partners for the Company of approximately £13,000 (2017: £14,000).

Associates

During the year ended 31 March 2017 up to the date of disposal on 10 February 2017, the associate supplied goods to the Group which amounted to £1,304,000. Transactions with the associate were priced on an arm's length basis.

Subsidiary companies

During the year ended 31 March 2018, the Company purchased goods and services from the subsidiaries in the amount of £239,000 (2017: £61,235,000 purchased by the subsidiaries from the Company). At 31 March 2018 the Company owed the subsidiaries £63,626,000 which is recognised within trade payables (2017: £34,023,000 owed by the Company to the subsidiaries).

5. Basis of preparation

The financial information set out above does not constitute the Group's statutory information for the years ended 31 March 2018 or 2017, 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 2017. Statutory accounts for 2017 have been delivered to the Registrar of Companies and those for 2018 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).

IFRS 9: Financial instruments

The Group will adopt IFRS 9 *Financial Instruments* from 1 April 2018. IFRS 9 sets out guidance on the classification and measurement of financial assets, including impairment, and supplements the hedge accounting principles published in 2013. The standard replaces IAS 39 *Financial Instruments: Recognition and measurement*.

IFRS 9 establishes 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.

IFRS 9 allows the use of practical expedients when measuring expected credit losses, and states that a provision matrix is an example of such an expedient for trade receivables. The standard considers that an entity applying a provision matrix might, for example, consider whether it is appropriate to segment trade receivables for different customer segments based on a variety of criteria.

The Group is not required to use hedge accounting and therefore the key areas of the Group accounts that have been identified as applicable to IFRS 9 are trade receivables, accrued income, contract assets and loans made.

In relation to trade receivables and accrued income the Group already makes a day one provision for losses on initial recognition and is therefore applying the principles of IFRS 9. In relation to certain contract assets and loans made, under IFRS 9 it is likely that the Group will need to recognise a provision on day one to reflect the level of recoverability of such balances as they are invoiced/demanded. The impact of recognising such provisions on day one will require an adjustment to opening reserves but this is not expected to be material.

IFRS 15: Revenue from contracts with customers

The Group will adopt IFRS 15 *Revenue from Contracts with Customers* from 1 April 2018. IFRS 15 establishes a comprehensive framework for determining whether, how much, and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

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 will adopt IFRS 15 using the modified retrospective approach. Consequently comparatives for the year ended 31 March 2018 will not be restated.

Impact of adoption

The process of implementing the new requirements requires changes to certain processes and controls within the revenue cycle. Such changes entail a high degree of complexity due to various factors including the high volume of contracts, numerous data sources and the requirement to make complex estimates.

From the analysis performed on contracts existing at the financial year ended 31 March 2018, the Group estimates that adoption of IFRS 15 will have a limited impact on the results of the Group, estimated at less than 0.5% of Group revenue, with the main change relating to the requirement to attribute revenue to the provision of Daffodil lightbulbs (see below).

As part of its assessment on the impact of adopting IFRS 15, the Group has specifically considered the following contractual matters.

Areas of identified change

<p>Sale of goods <i>Daffodil lightbulbs</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 lightbulbs throughout their homes (the ‘Daffodil’ scheme). Under IAS 18, no up-front revenue is separately recognised for the provision of lightbulbs, and the associated costs are recognised as incurred.</p> <p>The Group’s assessment indicates that the provision of Daffodil lightbulbs is distinct from the provision of the other bundled goods and services. This will result in an allocation of revenue to the lightbulbs, which will be recognised as control of the lightbulbs is passed to the customer – i.e. at the point of installation by a Utility Warehouse fitter.</p> <p>Whilst quantification of the impact is ongoing, due to the position in the Daffodil lifecycle, it is expected that this will lead to a one-off increase in the Group’s retained earnings at 1 April 2018 as revenue</p>
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	<p>will be brought forward on installation of the Daffodil lightbulbs. As the Daffodil lifecycle comes to an end and the number of installations falls away, the overall effect will be lower revenues and profit in periods thereafter compared to the current accounting method.</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 is separately recognised for the provision of routers, and the associated costs are 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 will result in an allocation of revenue to the broadband routers, which will be recognised as control of the routers is passed to the customer – i.e. on receipt of the router. There will be a corresponding reduction compared to current accounting in revenues from broadband services over the remaining contractual term.</p> <p>Whilst quantification of the impact is ongoing, due to the value of most routers provided and the maturity of the business, it is expected that this will not have a material effect on either the Group’s revenue or retained earnings at 1 April 2018.</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’). Currently, upfront commissions and trailing commissions are recognised as an expense as they are incurred.</p> <p>Under IFRS 15, it is anticipated that upfront commissions will need to be capitalised and amortised over the expected life of the customer, however the Group’s current assessment indicates that this will not have a significant impact on the Group’s profits.</p>
<p>CashBack card scheme</p>	<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 will be recognised over the anticipated future services, being the average customer tenure.</p> <p>Whilst quantification of the impact is ongoing, due to the low value of initial application fees and the maturity of the business, it is currently expected that this will not have a material effect on either the Group’s revenue or retained earnings at 1 April 2018.</p>

Specific areas of consideration with no identified change

Rendering of services <i>Principal vs Agent</i>	In providing energy services, the Group has considered the updated principal versus agent guidance introduced by IFRS 15 and specifically whether the Group controls the service prior to transfer to the customer. Whilst the Group is not a generator of energy, in supplying energy to the customer it is considered to be primarily responsible for fulfilment of the service and in doing so has discretion in establishing the price of the service. Consequently the Group considers that continuing to recognise revenue as principal under IFRS 15 is appropriate.
Sale of goods <i>Mobile handsets</i>	Under IFRS 15, where services and goods are transferred to the customer, any embedded discount within the total consideration is allocated to each distinct good and service based on their stand-alone selling prices. To the extent that mobile contracts do not include a discount on either the handset or service, and handset revenues are already recognised on transfer of the asset to the customer, no adjustment to the existing accounting treatment has been identified on transition to IFRS 15.
Significant financing	The Group considers, in most instances, the contract term for contracts including the rendering of services and sale of goods to be one month. However, where the contract term is considered to be over twelve months, the Group has assessed that the majority of contracts issued do not include a significant financing component.

6. Directors' responsibility statement

The directors confirm, to the best of their knowledge:

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

(b) the 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