

TELECOMPLUSPLC

Embargoed until 0700

20 November 2018

Telecom Plus PLC

Half-Year Results for the Six Months ended 30 September 2018

Telecom Plus PLC (trading as the Utility Warehouse), the UK's only fully integrated provider of a wide range of competitively priced utility services spanning both the communications and energy markets, today announces its half-year results for the six months ended 30 September 2018.

Financial highlights:

- Revenue up 4% to £311m (2017: £299m)
- Adjusted profit before tax up 1.2% to £26.0m (2017: £25.7m)
- Statutory profit before tax up 1.2% to £19.3m (2017: £19.1m)
- Interim dividend increased by 4.2% to 25p per share (2017: 24p)

Operating highlights:

- Organic customer and service growth ahead of expectation, with positive momentum
- Customer numbers for the period up by 10,479 (2017: 5,265) to 621,218
- Total services supplied for the period up by 86,372 (2017: 36,348) to 2,427,091
- Recognised as 'Utility Provider of the Year' at the *Which?* annual awards for 2018

Commenting on today's results, Andrew Lindsay, Chief Executive, said:

"Growth during the first half of the financial year was encouraging at double the level we achieved during the corresponding period last year. We look forward to the introduction of the energy price cap at the end of 2018 which will further improve our competitive position, and the impact we expect this to have on our future growth.

"Revenues and profits are at record levels, and our balance sheet remains robust. In contrast to the majority of other energy suppliers, this puts us in a strong position now that the dynamics of the energy market have started to change in our favour.

"Our unique route to market and integrated multi-utility proposition give us valuable USPs which our competitors show little sign of emulating. We are on track to deliver growth in customer and service numbers that is materially up year on year, and expect adjusted profit before tax for the year to remain in the range previously provided of £55m-£60m. It has been a number of years since the overall outlook has appeared as positive."

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Analyst presentation

Telecom Plus will host an analyst presentation at 9.00 a.m. today at Peel Hunt's offices, Moor House, 120 London Wall, London, EC2Y 5ET. Please contact MHP Communications for details at telecomplus@mhpc.com

About Telecom Plus PLC ('Telecom Plus'):

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.

Customers ('Members') benefit from the convenience of a single monthly bill, consistently good value across all their utilities and exceptional levels of customer service. The Company does not advertise, relying instead on "word of mouth" recommendation by existing satisfied Members and a network of part-time distributors ('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.

Interim Management Report

Financial and Operating Review

Results

Half year to 30 September	Adjusted			Statutory		
	2018	2017	Change	2018	2017	Change
Revenue	310,809	298,915	4.0%	310,809	298,915	4.0%
Profit before tax	25,983	25,683	1.2%	19,300	19,074	1.2%
Basic earnings (per share)	26.9p	26.0p	3.5%	18.5p	17.7p	4.5%
Interim dividend (per share)	25.0p	24.0p	4.2%	25.0p	24.0p	4.2%

In order to provide a clearer understanding of the underlying trading performance of the Group, adjusted profit before tax and adjusted basic EPS exclude: (i) share incentive scheme charges; and (ii) the amortisation of intangible assets arising on entering into the new energy supply arrangements with npower in December 2013. The amortisation of intangible assets has been excluded on the basis that it represents a non-cash accounting charge that does not impact the amount of profits available for distribution to shareholders. Adjusted profit before tax also excludes the share of the loss for the period attributable to the 25% non-controlling interest in Glow Green.

We have seen a strong start to the current year, with revenues and profits in line with expectations, and customer and service numbers both running ahead of forecast.

Adjusted profit before tax increased by £0.3m to £26.0m (2017: £25.7m, including a £1.2m recovery of previously incurred Electricity Market Reform levy costs under our energy supply contract) on higher revenues of £310.8m (2017: £298.9m). Adjusted earnings per share increased by 3.5% to 26.9p (2017: 26.0p). Statutory profit before tax increased by 1.2% to £19.3m (2017: £19.1m), after intangible amortisation of £5.6m (2017: £5.6m) and share incentive scheme charges of £1.0m (2017: £1.0m).

The interim dividend is being increased by 4.2% to 25p per share (2017: 24p) and will be paid on 14 December 2018 to shareholders on the register on 30 November 2018; the Company's shares will go ex-dividend on Thursday 29 November 2018. We maintain our dividend guidance for the full year of 52p per share.

Revenues

The growth in revenue for the period was slightly above the increase in service numbers, with the impact from higher energy prices being largely offset by a continuing decline in average energy usage due to warmer weather and the progressive impact of energy efficiency initiatives.

Gross margin for the period increased to 23.0% (2017: 22.5%). This mainly reflects higher communications margins due to improved commercial terms from our key suppliers, and industry wide energy price increases.

Costs

Distribution expenses increased to £12.7m (2017: £10.7m), reflecting faster growth, rising service numbers, and higher Partner incentive costs. In addition, Partners are seeing an increasing benefit (in cash terms) from our Quick Income Plan, which was launched at the start of 2017.

Overall administrative expenses before amortisation rose by £2.2m to £32.9m (2017: £30.7m) due to a combination of factors including: (i) growth in the volume and range of services we are providing; (ii) higher technology costs as we accelerate our programme to update our core CRM systems, develop new tools to support our Partner network, and further invest in making our systems more secure; (iii) the costs associated with rolling out smart metering to our Members; (iv) higher regulatory costs; and (iv) annual inflation-linked increases in staff pay.

In addition, we continue to invest in growing head count throughout the Company to ensure we maintain our current high standards of customer service as the business grows, and to further strengthen our senior management team.

Cash Flow

Our operating cash flow increased to £24.0m (2017: £7.1m), broadly reflecting the level of adjusted profit during the period and a small working capital inflow. Capital expenditure of £3.0m (2017: £2.0m) related primarily to our ongoing IT investment programme. Net debt during the period increased to £16.9m (31 March 2018: £11.2m), mainly reflecting the share buyback of £4.7m carried out in July 2018. At this level, the ratio of net debt to EBITDA (on a 12-month rolling basis) remains low at under 0.3x.

Tax

Our effective tax rate for the first half was 25.6% (2017: 26.5%); this remains higher than the underlying rate of corporation tax due to the ongoing amortisation charge on our energy supply contract intangible asset, which is not an allowable deduction for tax purposes.

Our Multi-Service Retail Proposition

We remain the only fully integrated multi-utility provider in the UK, offering consumers the simplicity of having all their core household services on a single bill. Members taking multiple utilities from us receive a differentiated solution that they cannot get from any other provider.

We are committed to being the Nation's most trusted utility supplier; a core component of this is our focus on treating our Members fairly by (for example) not favouring new Members over existing loyal ones, and ensuring that everyone is able to pay exactly the same prices for identical packages. Combined with the steadily improving quality of our membership base, we expect this focus to create significantly greater shareholder value over the medium term through lower churn and longer average customer lifetimes.

The number of Members and services for the period increased by 10,479 (2017: 5,265) and 86,372 (2017: 36,348) respectively, with the majority of this growth being achieved during the second quarter.

	H1 FY 2019	FY2018	H1 FY 2018
Partners	40,116	39,606	39,764
Members			
Residential Club	594,220	583,273	584,909
Business Club	26,998	27,466	28,158
Total	621,218	610,739	613,067
Services			
Electricity	565,463	555,721	557,535
Gas	458,071	449,810	451,053
Fixed Telephony (calls and NGN)	329,186	321,494	321,034
Fixed Telephony (line rental)	316,594	307,742	305,918
Broadband	293,462	283,518	280,393
Mobile	236,698	221,716	214,243
CashBack card	218,913	195,960	193,311
Home Insurance	8,704	4,758	1,779
Total	2,427,091	2,340,719	2,325,266
Residential Club	2,349,630	2,261,680	2,244,311
Business Club	77,461	79,039	80,955
Total	2,427,091	2,340,719	2,325,266

The table above excludes the customer and service numbers of TML.

We saw particularly strong demand for our CashBack card during the period. This was re-launched in March, offering savings to Members wherever they shop, and is proving to be an effective acquisition tool. In conjunction with higher levels of Partner confidence, a more competitive customer proposition (including a narrowing energy price gap), and our ongoing commitment to delivering exceptional service and consistently fair value, it is one of the key drivers of our performance during the first half which was markedly better than the prior period and double the rate of growth we achieved in H1 2018.

The quality of our membership base also improved during the period, with a further rise in the proportion of members taking all five of our core services (gas, electricity, phone, broadband and mobile) at the point of sign up; these high value Members now represent 21.8% (2017: 19.3%) of our total membership base.

Service

We received a number of awards during the period recognising both the value we offer and the quality of service provided by our UK-based membership support teams.

We were particularly pleased to be named 'Utilities Provider of the Year' at the *Which?* 2018 Annual Awards; whilst each of our core services has been recognised individually as amongst the best in the market, this is the first time that our unique and wide-ranging retail proposition has been recognised in this way.

These individual recommendations include being endorsed by *Which?* as 'Recommended Provider' for both Mobile (April 2018) and Broadband (September 2018), and recognised by Moneywise as best value for money and best customer service in relation to Gas and Electricity in their 2018 Home Finances Awards.

Churn

Against a background of record switching levels within the domestic energy market, where industry churn continues to rise and is now in excess of 20%, our own churn has remained low at an annualised rate of just 12%. This pleasing result largely reflects the high quality of our membership base together with our focus on treating customers fairly.

Our Route to Market – our Partners

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

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

Around 4,000 of our Partners joined us on the 8th and 9th September at motivational sales conferences in Harrogate and Cheltenham. Key announcements included simplifications to the compensation plan, new incentives, and enhancements to our broadband service. These initiatives were well received and have driven a further uplift in activity levels amongst our Partners who are feeling increasingly confident in the quality and the competitiveness of the services that they are recommending to their friends and family, and the exciting income opportunity that they can offer. As a result, we have seen a meaningful increase in the number of new Partners signing up this autumn to around 950 per month; this compares favourably to our run-rate of around 700 per month earlier this year.

Our Car Plan remains extremely popular, with 23 new vehicles supplied during the period; since introducing the scheme, over 1,000 Partners have now taken delivery of a Utility Warehouse branded BMW Mini or X5.

Energy

Since 2013 the energy retail markets have undergone a period of unprecedented change, with a rapid increase in the number of similar, sub-scale, undercapitalised and unprofitable independent energy suppliers, whose business model seems to have consisted of acquiring new customers by offering cheap introductory deals through price comparison websites; it is no surprise that in many cases they have struggled to retain them, with a large proportion of such customers subsequently switching again once their tariff is no longer the cheapest.

The sustainability of these businesses has been further challenged this year by a rapidly changing competitive environment, in which rising commodity, distribution and regulatory costs have led to a significant narrowing of the gap between 'Big 6' SVTs and the bottom of the market; this has reduced from a peak of £330 earlier this year, to £220 a few weeks ago, and is expected to narrow further once the Ofgem price cap takes effect on 1 January 2019.

In spite of this reducing gap, customer switching has reached record levels, with average industry churn now exceeding 20% per annum, with significant variation between suppliers; our own churn of c.12% is at the bottom end of the range, but this can extend up to 30% (or more) for some independent suppliers.

As a result, many independent suppliers are now struggling to meet their ongoing regulatory and financial obligations, with a number having withdrawn from the market so far this year and with more likely to follow suit over the coming months.

In contrast to the uncertain futures of other independent energy suppliers, our balance sheet is strong and the significant headwinds that we have faced since 2013 are steadily abating. The current energy market dynamics appear increasingly favourable for us and create an environment in which our clearly differentiated business model and unique route to market can be expected to thrive. This is supported by our recent encouraging performance, with net growth in energy services during H1 up 70% on the same period last year.

Smart Meter rollout programme

During the period we continued to make good progress with our smart meter rollout programme, taking our total installed base to over 279,000; this represents 29.3% of our residential meter portfolio, and keeps us slightly ahead of the average for the industry as a whole. However, this is below where we had planned to be, due to challenges with getting our third-party Meter Operators ('MOPs') to deliver the agreed rollout schedule.

As a result, we have taken the strategic decision to establish our own licensed Meter Operator under the 'Utility Warehouse Home Services' brand to implement our smart meter rollout programme more efficiently, whilst delivering a better customer experience. This new venture is on track to install its first smart meters before Christmas, with a rapid ramp-up in volumes over the course of the next 12 months.

The rollout of second generation (Smets II) smart meters has been subject to further delay; volume installations are expected to start during the first quarter of next year.

Glow Green

Since acquiring Glow Green in May 2018 we have secured improved commercial terms with a number of their main suppliers, supported their move to a larger warehouse, and started work on improving the effectiveness of their online customer acquisition process. In addition, they have recently introduced a new CRM platform.

These were all prerequisites to supplying boilers directly to our Members, being able to maintain/service them, and to launching an integrated Boiler Care product, all of which have significant business potential. Our detailed plans for moving into these markets are progressing well, and we look forward to launching these new services during the course of next year.

Project Daffodil

This initiative continues to support our Partners in gathering high quality customers in significant quantities, with an increase in expected customer lifetime that more than compensates for the additional cost of providing this benefit. It enables Members switching all their services to us, to have all their light bulbs replaced with the latest LED equivalent, reducing their energy bills and generating a significant environmental benefit. We have now installed over three million light bulbs in over 100,000 homes throughout the UK.

Telecoms

We made the strategic decision to put Mobile telephony at the core of our multi-service proposition a number of years ago, and are pleased that penetration of this service amongst our membership base has more than doubled over the past six years to 38%.

As a result of a number of improvements we made to our tariffs in the Spring, over 70% of new Members applied for a Mobile service from us during the first half. As average fixed line call revenues follow a gentle downward trend (albeit partially offset by higher line rental charges), we continue to ensure that growing our Mobile base remains an important priority.

The broadband market is increasingly focussed on fibre penetration, driven by the Government's stated objective of ensuring fibre broadband is available to all UK households by 2033. In a broadly flat overall market, we were pleased to achieve a net increase of c.10,000 broadband services, taking our installed base to over 293,000. Of these, around 33% are currently taking one of our fibre options, compared with over 60% amongst new Members.

We were pleased to receive further recognition from *Which?* as 'Recommended Provider' for Mobile (in April) and for Broadband (in September) as well as receiving their 'best buy' recommendation for the performance and value of our premium broadband router.

Insurance

We remain encouraged by the continuing high level of interest in our Home Insurance service, with over 100,000 members having now provided us with their renewal date; this enables us to remind them to obtain a quote from us during their next renewal window.

We have developed and deployed a bespoke fully automated marketing and 'quote & buy' system, which is successfully delivering conversion rates approaching 30% amongst those completing the quote journey, with a high level of operational efficiency. As a result, we have now issued approaching 10,000 policies, with recent sales running at an annualised rate that will see this total double over the next 12 months.

Early indications show that the book we are building is of an exceptionally high quality, with a loss ratio well below the industry average. This should enable us to expand our insurance panel and further increase the current conversion ratio, whilst maintaining the robust margins we are currently generating from this new business area.

It is also encouraging that around 97% of policy holders are subsequently renewing their insurance at expiry, an unprecedented level within the sector; this reflects our philosophy of providing 'everyday low prices' rather than discounted introductory deals, and gives us confidence that over time this new service will generate significant shareholder value.

Our focus in 2019 is to continue building scale for our Home Insurance product, whilst working towards launching other complementary insurance products, starting with boiler cover, over the short to medium term.

Outlook

The last five years have been challenging, with growth levels consistently below the double-digit percentage growth rates we had historically achieved. Whilst frustrating and disappointing for our Partners, management and shareholders alike, we remained confident that the headwinds we faced were of a temporary rather than permanent nature, and that our business model remained capable of delivering both exciting growth and attractive returns over the medium term.

Uniquely amongst larger energy suppliers, we continued to grow both profits and customer numbers throughout this period (albeit at a slower pace than we would have liked), whilst a plethora of new suppliers have entered (and in many cases already left) the market, having grown their customer numbers rapidly but with high churn and escalating financial losses.

This year, the long bear market in wholesale gas and electricity has reversed, with commodity prices up by around 20%, accompanied by a narrowing of the gap between standard variable tariffs and introductory fixed price deals. Together, these have significantly improved our competitive position.

We are pleased that the encouraging trends in the number and quality of new Members being gathered that we reported in June have continued; there has been an acceleration in growth during the second quarter, accompanied by a further improvement in quality, with a record level (over 55%) of new Members switching all five of their core services to us.

It is particularly encouraging that this momentum has been building ahead of the Ofgem price cap, which will come into effect at the end of 2018; we anticipate this will improve our competitive position and lead to a further increase in our growth.

In the meantime, confidence amongst our Partners is high (with rising recruitment and activity levels), and morale throughout the business is strong. Whilst there will always be challenges, it has been a number of years since the overall outlook has appeared as positive.

We are on track to deliver growth in customer and service numbers that is materially up year on year, and expect adjusted profit before tax for the year to remain within the range previously provided of £55m-£60m.

Principal Risks and Uncertainties

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

The Group continues to develop and operate a consistent and systematic risk management process, which involves risk ranking, prioritisation and subsequent evaluation, with a view to ensuring all significant risks have been identified, prioritised and (where possible) eliminated, and that systems of control are in place to manage any remaining risks.

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

Business model

The principal risks outlined below should be viewed in the context of the Group's business model as a reseller of utility services (gas, electricity, fixed line telephony, mobile telephony, broadband and insurance services) under the Utility Warehouse and TML brands. As a reseller, the Group does not own any of the network infrastructure required to deliver these services to its membership base. This means

that while the Group is heavily reliant on third party providers, it is insulated from all the direct risks associated with owning and/or operating such capital-intensive infrastructure itself.

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

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

Reputational risk

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

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

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

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

Information technology risk

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

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

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

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

Data security risk

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

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

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

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

Legislative and regulatory risk

The Group is subject to varying laws and regulations, including possible adverse effects from European regulatory intervention. The energy and communications markets in the UK and Continental Europe are subject to comprehensive operating requirements as defined by the relevant sector regulators and/or government departments. Amendments to the regulatory regime could have an impact on the Group's ability to achieve its financial goals and any failure to comply may result in the Group being fined and lead to reputational damage which could impact the Group's brand. Furthermore, the Group is obliged to comply with retail supply procedures, amendments to which could have an impact on operating costs.

The Group is a 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.

Going concern

Recent developments in the Group's business activities, together with the factors likely to affect its future development, performance and financial position are set out above.

Under the Group's energy supply arrangements, npower continues to be responsible for funding the principal working capital requirements relating to the supply of energy to the Group's Members. This includes funding the Budget Plans of Members who pay for their energy in equal monthly installments and pre-funding the payment of certain energy network charges.

The Group has from Barclays Bank PLC and Lloyds Bank PLC total revolving credit facilities of £150m for the period to 14 December 2020, of which only £50m was drawn down at the period end.

The Group has considerable financial resources together with a large and diverse retail and small business membership base and long term contracts with a number of key suppliers. As a consequence, the directors believe that the Group is well placed to manage its business risks.

On this basis the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The interim financial statements have therefore been prepared on a going concern basis in accordance with the FRC's Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009 issued in October 2009.

Directors' responsibilities

The Directors are responsible for the preparation of the condensed set of financial statements and interim management report comprising this set of Half-Yearly Results for the six months ended 30 September 2018, each of whom accordingly confirms that to the best of his knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting" and provides a true and fair view of the assets, liabilities, financial position and profit of the Group as a whole;
- the interim management report includes a fair review of the information required by the Financial Statements Disclosure Guidance and Transparency Rules (DTR) 4.2.7R (indication of important events during the first six months and their impact on the financial statements and description of principal risks and uncertainties for the remaining six months of the year); and
- the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosures of related party transactions and changes therein).

The Directors of Telecom Plus PLC are:

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

Given on behalf of the Board

ANDREW LINDSAY

Chief Executive

NICK SCHOENFELD

Chief Financial Officer

19 November 2018

Independent Review Report to Telecom Plus PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2018 which comprises the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim statement of financial position, the condensed consolidated interim statement of cash flows, the condensed consolidated interim statement of changes in shareholders' equity and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2018 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA. The annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

David Neale

for and on behalf of KPMG LLP

Chartered Accountants

15 Canada Square

Canary Wharf

London EC14 5GL

United Kingdom

19 November 2018

Condensed Consolidated Interim Statement of Comprehensive Income

	Note	6 months ended 30 September 2018 (unaudited) £'000	6 months ended 30 September 2017 (unaudited) £'000	Year ended 31 March 2018 (audited) £'000
Revenue		310,809	298,915	792,872
Cost of sales		(239,240)	(231,729)	(653,237)
Gross profit		71,569	67,186	139,635
Distribution expenses		(12,741)	(10,730)	(21,879)
Share incentive scheme charges		(6)	(38)	(60)
Total distribution expenses		(12,747)	(10,768)	(21,939)
Administrative expenses		(32,890)	(30,668)	(63,222)
Share incentive scheme charges		(957)	(957)	(1,971)
Amortisation of energy supply contract intangible	5	(5,614)	(5,614)	(11,228)
Total administrative expenses		(39,461)	(37,239)	(76,421)
Other income		524	302	629
Operating profit		19,885	19,481	41,904
Financial income		79	31	92
Financial expenses		(664)	(438)	(997)
Net financial expense		(585)	(407)	(905)
Profit before taxation		19,300	19,074	40,999
Taxation		(4,945)	(5,052)	(10,509)
Profit for the period		14,355	14,022	30,490
Profit and other comprehensive income for the period attributable to owners of the parent		14,461	14,022	30,490
Loss for the period attributable to non-controlling interest		(106)	-	-
Profit for the period		14,355	14,022	30,490
Basic earnings per share	9	18.5p	17.7p	38.8p
Diluted earnings per share	9	18.5p	17.6p	38.6p
Interim dividend per share		25.0p	24.0p	

Condensed Consolidated Interim Balance Sheet

	Note	As at 30 September 2018 (unaudited) £'000	As at 30 September 2017 (unaudited) £'000	As at 31 March 2018 (audited) £'000
Assets				
Non-current assets				
Property, plant and equipment		28,726	30,144	29,165
Investment property	4	8,649	8,880	8,705
Intangible assets	5	177,351	185,936	181,110
Goodwill	11	5,245	3,742	3,742
Other non-current assets		16,069	15,611	16,274
Total non-current assets		<u>236,040</u>	<u>244,313</u>	<u>238,996</u>
Current assets				
Inventories		3,928	4,977	6,101
Trade and other receivables		42,236	31,011	37,788
Prepayments and accrued income		79,367	67,532	126,884
Cash		32,771	23,858	28,151
Total current assets		<u>158,302</u>	<u>127,378</u>	<u>198,924</u>
Total assets		<u>394,342</u>	<u>371,691</u>	<u>437,920</u>
Current liabilities				
Trade and other payables		(31,399)	(25,674)	(30,983)
Current tax payable		(6,085)	(4,737)	(5,210)
Accrued expenses and deferred income		(83,873)	(68,059)	(134,708)
Total current liabilities		<u>(121,357)</u>	<u>(98,470)</u>	<u>(170,901)</u>
Non-current liabilities				
Long term borrowings	6	(49,484)	(44,255)	(39,369)
Finance leases		(188)	-	-
Deferred tax		(797)	(870)	(635)
Total non-current liabilities		<u>(50,469)</u>	<u>(45,125)</u>	<u>(40,004)</u>
Total assets less total liabilities		<u>222,516</u>	<u>228,096</u>	<u>227,015</u>
Equity				
Share capital		3,934	3,928	3,930
Share premium		139,165	138,892	139,055
Capital redemption reserve		107	107	107
Treasury shares		(5,502)	(760)	(760)
JSOP reserve		(1,150)	(1,150)	(1,150)
Retained earnings		86,068	87,079	85,833
Non-controlling interest		(106)	-	-
Total equity		<u>222,516</u>	<u>228,096</u>	<u>227,015</u>

Condensed Consolidated Interim Cash Flow Statement

	Note	6 months ended 30 September 2018 (unaudited) £'000	6 months ended 30 September 2017 (unaudited) £'000	Year ended 31 March 2018 (audited) £'000
Operating activities				
Profit before taxation		19,300	19,074	40,999
Adjustments for:				
Net financial expense		585	407	905
Depreciation of property, plant and equipment		1,497	1,685	3,362
Profit on disposal of fixed assets		-	-	(1)
Amortisation of intangible assets		6,175	6,101	12,244
Amortisation of debt arrangement fees		114	114	229
Decrease / (increase) in inventories		2,173	(2,301)	(3,425)
Decrease / (increase) in trade and other receivables		43,269	28,711	(38,071)
(Decrease) / increase in trade and other payables		(50,348)	(42,194)	29,784
Non-cash adjustments arising from IFRS 9 and IFRS 15		6,348	-	-
Non-cash adjustments arising from acquisitions		(859)	-	-
Share incentive scheme charges		963	995	2,031
Corporation tax paid		(5,197)	(5,456)	(10,675)
Net cash flow from operating activities		<u>24,020</u>	<u>7,136</u>	<u>37,382</u>
Investing activities				
Purchase of property, plant and equipment		(619)	(503)	(1,028)
Purchase of intangible assets		(2,416)	(1,462)	(2,779)
Disposal of property, plant and equipment		-	-	3
Purchase of shares in subsidiaries acquired		(1,508)	-	-
Cash held in entities acquired		845	-	-
Interest received		61	31	81
Cash flow from investing activities		<u>(3,637)</u>	<u>(1,934)</u>	<u>(3,723)</u>
Financing activities				
Dividends paid	7	(20,257)	(19,523)	(38,273)
Interest paid		(735)	(441)	(1,020)
Drawdown of long term borrowing facilities		10,000	45,000	40,000
Repayment of other borrowings		(143)	-	-
Issue of new B shares in subsidiary		1	7	7
Issue of new ordinary shares	8	113	254	419
Purchase of own shares	8	(4,742)	(25,373)	(25,373)
Cash flow from financing activities		<u>(15,763)</u>	<u>(76)</u>	<u>(24,240)</u>
Increase in cash and cash equivalents		4,620	5,126	9,419
Net cash and cash equivalents at the beginning of the period		<u>28,151</u>	<u>18,732</u>	<u>18,732</u>
Net cash and cash equivalents at the end of the period		<u>32,771</u>	<u>23,858</u>	<u>28,151</u>

Condensed Consolidated Interim Statement of Changes in Equity

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Treasury shares £'000	JSOP reserve £'000	Retained earnings £'000	Non- controlling interest £'000	Total £'000
Balance at 1 April 2017	4,024	138,642	-	(760)	(1,150)	116,958	-	257,714
Profit and total comprehensive income for the period	-	-	-	-	-	14,022	-	14,022
Dividends	-	-	-	-	-	(19,523)	-	(19,523)
Credit arising on share options	-	-	-	-	-	995	-	995
Issue of new ordinary shares	4	250	-	-	-	-	-	254
Issue of B shares in subsidiary	7	-	-	-	-	-	-	7
Purchase of cancelled shares	(107)	-	107	-	-	(25,373)	-	(25,373)
Balance at 30 September 2017	3,928	138,892	107	(760)	(1,150)	87,079	-	228,096
Balance at 1 October 2017	3,928	138,892	107	(760)	(1,150)	87,079	-	228,096
Profit and total comprehensive income for the period	-	-	-	-	-	16,468	-	16,468
Dividends	-	-	-	-	-	(18,750)	-	(18,750)
Credit arising on share options	-	-	-	-	-	1,036	-	1,036
Issue of new ordinary shares	2	163	-	-	-	-	-	165
Balance at 31 March 2018	3,930	139,055	107	(760)	(1,150)	85,833	-	227,015
Balance at 1 April 2018	3,930	139,055	107	(760)	(1,150)	85,833	-	227,015
Opening balance adjustments	-	-	-	-	-	5,068	-	5,068
Revised opening balances	3,930	139,055	107	(760)	(1,150)	90,901	-	232,083
Profit and total comprehensive income	-	-	-	-	-	14,461	(106)	14,355
Dividends	-	-	-	-	-	(20,257)	-	(20,257)
Purchase of treasury shares	-	-	-	(4,742)	-	-	-	(4,742)
Credit arising on share options	-	-	-	-	-	963	-	963
Issue of new ordinary shares	3	110	-	-	-	-	-	113
Issue of B shares in subsidiary	1	-	-	-	-	-	-	1
Balance at 30 September 2018	3,934	139,165	107	(5,502)	(1,150)	86,068	(106)	222,516

Notes to the condensed interim financial statements

1. General information

The condensed consolidated interim financial statements presented in this half-year report (“the Half-Year Results”) have been prepared in accordance with IAS 34. The principal accounting policies adopted in the preparation of the condensed consolidated financial statements are unchanged from those used in the annual report for the year ended 31 March 2018, other than the first time adoption of new accounting standards IFRS 9 and IFRS 15 as detailed in Note 10, and are consistent with those that the Company expects to apply in its financial statements for the year ended 31 March 2019.

The condensed consolidated financial statements for the year ended 31 March 2018 presented in this half-year report do not constitute the Company’s statutory accounts for that period. The condensed consolidated financial statements for that period have been derived from the Annual Report and Accounts of Telecom Plus PLC. The Annual Report and Accounts of Telecom Plus PLC for the year ended 31 March 2018 were audited and have been filed with the Registrar of Companies.

The Independent Auditor’s Report on the Annual Report and Accounts of Telecom Plus PLC for the year ended 31 March 2018 was unqualified and did not draw attention to any matters by way of emphasis and did not contain statements under s498(2) or (3) of the Companies Act 2006. The financial information for the periods ended 30 September 2018 and 30 September 2017 is unaudited but has been subject to a review by the Company’s auditors.

In relation to the comparative balance sheet position as at 30 September 2017, the impact of the £25m share buyback carried out through a tender offer to shareholders in July 2017 has been reclassified from the share premium account to retained earnings. This reclassification has not impacted the total assets, net assets or statement of comprehensive income for the period.

Seasonality of business: in respect of the energy supplied by the Group, approximately two thirds is consumed by customers in the second half of the financial year.

The Half-Year Results were approved for issue by the Board of Directors on 19 November 2018.

2. Judgements and estimates

The preparation of the condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in future periods if applicable.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 March 2018.

3. Operating segments

	6 months ended 30 September 2018 (unaudited)		6 months ended 30 September 2017 (unaudited)		Year ended 31 March 2018 (audited)	
	Revenue £'000	Segment Result £'000	Revenue £'000	Segment Result £'000	Revenue £'000	Segment Result £'000
Customer Management	302,346	30,464	291,043	28,710	776,087	59,859
Customer Acquisition	8,463	(10,579)	7,872	(9,229)	16,785	(17,955)
Total	310,809	19,885	298,915	19,481	792,872	41,904

	As at 30 September 2017 (unaudited) £'000		As at 30 September 2016 (unaudited) £'000		As at 31 March 2017 (audited) £'000	
	Customer Management	386,949	364,770	428,447		
Customer Acquisition	7,393	6,921	9,473			
Total Assets	394,342	371,691	437,920			
Customer Management	(168,768)	(141,100)	(207,567)			
Customer Acquisition	(3,058)	(2,495)	(3,338)			
Total Liabilities	(171,826)	(143,595)	(210,905)			

4. Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at cost less accumulated depreciation. Rental income from investment properties is accounted for on an accruals basis. The Company vacated its former head office, Southon House, in 2015 and the property is now held as an investment property.

An independent valuation of Southon House was conducted at 30 September 2015 in accordance with RICS Valuation – Professional Standards UK January 2014 (revised April 2015) guidelines. The independent market value of Southon House was determined to be £10.2 million. The directors believe that there have not been any material changes in circumstances that would lead to a significant change in the market valuation of Southon House since 30 September 2015.

5. Intangible assets

	Energy Supply Contract £'000	IT Software & Web Development £'000	Total £'000
Cost			
At 31 March 2018	224,563	8,350	232,913
Additions	-	2,416	2,416
At 30 September 2018	<u>224,563</u>	<u>10,766</u>	<u>235,329</u>
Amortisation			
At 31 March 2018	(48,655)	(3,148)	(51,803)
Charge for the period	(5,614)	(561)	(6,175)
At 30 September 2018	<u>(54,269)</u>	<u>(3,709)</u>	<u>(57,978)</u>
Net book amount at 30 September 2018 (unaudited)	<u>170,294</u>	<u>7,057</u>	<u>177,351</u>
Net book amount at 31 March 2018 (audited)	<u>175,908</u>	<u>5,202</u>	<u>181,110</u>
Net book amount at 30 September 2017 (unaudited)	<u>181,522</u>	<u>4,414</u>	<u>185,936</u>

The Energy Supply Contract intangible asset relates to the entering into of the energy supply arrangements with npower on improved commercial terms through the acquisition of Electricity Plus Supply Limited and Gas Plus Supply Limited from Npower Limited having effect from 1 December 2013. The intangible asset is being amortised evenly over the 20 year life of the energy supply agreement.

The IT Software & Web Development intangible asset relates to the capitalisation of certain costs associated with the development of new IT systems.

6. Interest bearing loans and borrowings

	6 months ended 30 September 2018 (unaudited) £'000	6 months ended 30 September 2017 (unaudited) £'000	Year ended 31 March 2018 (audited) £'000
Bank loans	50,000	45,000	40,000
Unamortised loan arrangement fees	(516)	(745)	(631)
	<u>49,484</u>	<u>44,255</u>	<u>39,369</u>
Due within one year	-	-	-
Due after one year	50,000	45,000	40,000
	<u>50,000</u>	<u>45,000</u>	<u>40,000</u>

7. Dividends

	6 months ended 30 September 2018 (unaudited) £'000	6 months ended 30 September 2017 (unaudited) £'000	Year ended 31 March 2018 (audited) £'000
Final dividend for the year ended 31 March 2018 of 26p per share	20,257	-	-
Final dividend for the year ended 31 March 2017 of 25p per share	-	19,523	19,523
Interim dividend for the year ended 31 March 2018 of 24p per share (2017: 23p)	-	-	18,750

An interim dividend of 25.0p per share will be paid on 14 December 2018 to shareholders on the register at close of business on 30 November 2018. The estimated amount of this dividend to be paid is approximately £19.5m and, in accordance with IFRS accounting requirements, has not been recognised in these accounts.

8. Share capital

During the period the Company issued 64,805 new ordinary shares to satisfy the exercise of employee and distributor share options.

During the period the Company repurchased 422,276 ordinary shares at prices ranging between 1065.08p and 1160.84p per share through market purchases conducted through the Company's broker.

9. Earnings per share

	6 months ended 30 September 2018 (unaudited)	6 months ended 30 September 2017 (unaudited)	Year ended 31 March 2018 (audited)
	£'000	£'000	£'000
The calculation of basic and diluted EPS is based on the following data:			
Earnings for the purpose of basic and diluted EPS	14,461	14,022	30,490
Share incentive scheme charges (net of tax)	890	918	1,657
Amortisation of energy supply contract intangible assets	5,614	5,614	11,228
	<hr/>	<hr/>	<hr/>
Earnings excluding share incentive scheme charges for the purpose of adjusted basic and diluted EPS	20,965	20,554	43,375
	<hr/>	<hr/>	<hr/>
	Number (‘000s)	Number (‘000s)	Number (‘000s)
Weighted average number of ordinary shares for the purpose of basic EPS	77,988	79,188	78,659
Effect of dilutive potential ordinary shares (share incentive awards)	252	441	426
	<hr/>	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of diluted EPS	78,240	79,629	79,085
	<hr/>	<hr/>	<hr/>
Adjusted basic EPS ¹	26.9p	26.0p	55.1p
Basic earnings per share	18.5p	17.7p	38.8p
	<hr/>	<hr/>	<hr/>
Adjusted diluted earnings per share ¹	26.8p	25.8p	54.8p
Diluted earnings per share	18.5p	17.6p	38.6p
	<hr/>	<hr/>	<hr/>

¹ In order to provide a clearer understanding of the underlying trading performance of the Group, adjusted basic EPS excludes: (i) share incentive scheme charges; and (ii) the amortisation of intangible assets arising on entering into the energy supply arrangements with npower in December 2013. The amortisation of intangible assets and share incentive scheme charges have been excluded on the basis that they represent non-cash accounting charges. These balances can be derived directly from amounts shown separately on the face of the condensed consolidated interim statement of comprehensive income.

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

Background

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

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

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

Retained earnings reconciliation IFRS 9 and IFRS 15

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

Impact of IFRS 15 on the Balance Sheet as at 30 September 2018

	As at 30 September 2018 (unaudited) Before accounting changes	Changes of timing in recognition	As at 30 September 2018 (unaudited) After accounting changes
	£'000	£'000	£'000
Trade and other receivables	42,347	(111)	42,236
Prepayments and accrued income	79,296	71	79,367
Current tax payable	(6,111)	26	(6,085)
Accrued expenses and deferred income	(83,779)	(94)	(83,873)
Retained earnings	86,177	(109)	86,068

The impact of IFRS 9 on the Balance Sheet as at 30 September 2018 is not significant.

Impact of IFRS 15 on the Statement of Comprehensive Income for the period ended 30 September 2018

	6 months ended 30 September 2018 (unaudited) Before accounting changes	Changes of timing in recognition	6 months ended 30 September 2018 (unaudited) After accounting changes
	£'000	£'000	£'000
Revenue	311,015	(206)	310,809
Distribution expenses	(12,812)	71	(12,741)
Taxation	(4,971)	26	(4,945)

The impact of IFRS 9 on the Statement of Comprehensive Income for the period ended 30 September 2018 is not significant.

Summary of accounting policy changes – IFRS 9

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

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

The Group has adopted IFRS 9 using the modified retrospective approach. Consequently, comparatives for the period ended 30 September 2017, and the year-end position as at 31 March 2018, have not been restated.

Summary of accounting policy changes – IFRS 15

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

The Group has adopted IFRS 15 using the modified retrospective approach. Consequently, comparatives for the period ended 30 September 2017, and the year-end position as at 31 March 2018, have not been restated.

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

11. Acquisition of Glow Green Limited and Cofield Limited

On 31 May 2018 the Group acquired 75% of the ordinary share capital of Glow Green Limited, a small, fast-growing supplier/installer of domestic gas boilers and warranty/care plans for consideration of £1.5 million, plus a £0.5 million repayable working capital loan facility ("the Transaction"). The Group also acquired 75% of the share capital of Cofield Limited as part of the Transaction. Cofield Limited was under the same ownership as Glow Green Limited and is a small online retailer of central heating equipment to the plumbing industry. The fair value accounting in relation to the Transaction remains provisional and has not been finalised, however this is not expected to result in any significant changes to the Group accounts as currently presented, with the majority of the purchase price remaining allocated to goodwill.