Company number 3263464

Telecom Plus PLC

Report and Accounts

Year ended 31 March 2013

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Directors

The Hon. Charles Wigoder, Executive Chairman
Charles, aged 53, qualified as a Chartered Accountant with KPMG in 1984 and was subsequently employed by Kleinwort Securities as an investment analyst in the media and communication sectors. Between 1985 and 1988, he was head of corporate finance and development at Carlton Communications PLC and then Quadrant Group PLC In March 1988 he left Quadrant Group to set up The Peoples Phone Company PLC, which was subsequently purchased by Vodafone in December 1996. He joined the Company in February 1998.

Julian Schild, Deputy Chairman and Senior Non-Executive Director
Julian, aged 53, qualified as a Chartered Accountant in 1986. He joined Huntleigh Technology PLC in 1987 and was promoted to Group Finance Director that year, and to Chairman in 2003 Julian was Chairman of the Association of British Healthcare Industries from 2006 to 2007. Following the sale of Huntleigh in 2007, he set up a company investing in start-ups. Julian actively supports many charitable activities. He is a Director of the Hospital of St. John & Elizabeth in London and is an Advisory Fellow of Pembroke College, Oxford. Julian joined the Company in May 2010 as an independent non-executive director and meets the test of independence under section B 1 1 of the UK Corporate Governance Code.

Andrew Lindsay MBE, Chief Executive Officer
Andrew, aged 36, joined the Company in April 2007 and was appointed to the Board in November 2008. Before joining Telecom Plus, Andrew was Managing Director of Ryness, an electrical retail chain based in London in which he previously held a significant equity stake after performing a Management Buyout in 2006. Prior to buying Ryness, he spent three years as an analyst in the UK Mergers & Acquisitions team at Goldman Sachs. Andrew rowed for Great Britain at the Sydney Olympic Games in 2000, where he won a Gold medal.

Chris Houghton, Finance Director
Chris, aged 34, qualified as a Chartered Accountant with PricewaterhouseCoopers in 2003 Whilst there he gained experience in both their Consumer Products team and also in their Telecoms, Information, Communications, Entertainment and Energy team. Subsequently, he worked within the Corporate Finance department, where he completed a two-year secondment at The Takeover Panel. He joined the Company in September 2008 and was appointed Finance Director in February 2009.

Melvin Lawson, Non-Executive Director
Melvin, aged 54, is the Managing Director of A Beckman PLC, a company formerly listed on the London Stock Exchange which was taken private in 1995 He has interests in a wide range of investments and is a director of Catalyst Media Group PLC and a number of other companies. He joined the Company in September 2006 and meets the test of independence under section B.1.1 of the UK Corporate Governance Code.

Michael Pavia, Non-Executive Director
Michael, aged 66, is a Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW), and has significant experience of the energy industry, having served on the Boards of LASMO, SEEBOARD and London Electricity. He is currently a non-executive director of Thames Water, Wales and West Utilities and Salamander Energy PLC, and non-executive Chairman of PetroGranada Ltd. He joined the Company in December 2006 as an independent non-executive director and meets the test of independence under section B.1.1 of the UK Corporate Governance Code.

Chairman's Statement

I am delighted to report another successful year for the Company, in which we have seen a further improvement in the quality of our customer base combined with strong growth in the number of services we are providing. As a result, revenue and profitability have both reached record levels.

Results

Pre-tax profits increased to £34.6m (2012. £30.7m) on revenue up by 27 6% to £601 5m (2012: £471.5m); earnings per share for the year rose by 14 5% to 38.7p (2012: 33.8p).

The rise in revenue is due to continued strong organic growth in the number of customers using our services, the progressive improvement we are seeing in the quality of our customer base, an industry wide increase in energy prices last autumn, and a significant increase in the amount of energy used by our customers during the year (following the swing from a warm winter last year to an exceptionally cold winter this year).

We remain encouraged by the strong growth in the number of services we are providing, which reached 1,602,060 (2012: 1,381,023) by the year end – a record increase of over 220,000 services during the year and comfortably ahead of the growth achieved during the previous year. This has been driven by a further rise in the proportion of new customers taking at least four of our core services (Gas, Electricity, Home Phone, Mobile and Broadband) to over 55% during the course of the year, and means that the average number of services taken by each residential Club member has now reached 3 80 (2012: 3.63).

The net investment within our Customer Acquisition operating segment increased to £10.1m (2012 £8.9m) reflecting an increase in the proportion of new members taking at least 4 core services combined with the continuing strong levels of organic growth we are achieving.

Cash generation during the year was in line with management expectations, with our net cash position of £0.8m at the year end being broadly unchanged compared with the previous year.

In line with previous guidance, we are proposing a final dividend of 18p (2012. 17p), bringing the total for the year to 31p (2012: 27p); this represents an increase of 14.8% compared with last year We remain committed to our progressive dividend policy, and accordingly expect that dividends will continue to increase broadly in line with earnings growth

We were delighted to receive a number of further endorsements from *Which?* magazine during the year recognising the value we offer and the quality of service provided by our UK based customer service team. This is a reflection of the significant effort and resources we have put into delivering the best possible service to our customers, consistent with our new focus on becoming the Nation's most trusted utility supplier. The impact of this investment is demonstrated by recent surveys carried out amongst our customers, in which we have consistently achieved a Net Promoter Score of +40; this is substantially better than the level reported by any other utility provider.

Energy Supply Arrangements

We continue to enjoy a strong working relationship with npower, who provide the wholesale gas and electricity used by our customers.

As previously reported, the wholesale price we pay under these arrangements will become progressively more competitive as we go through a series of pre-agreed thresholds relating to the size of our customer base. We anticipate that part of the additional margin this generates will be used to make our retail prices even more competitive.

Opus

Our share of the profits from Opus Energy Group Ltd ("Opus"), in which we maintain a 20% stake, increased during the year to £3.4m (2012. £2.7m). This excellent result reflects a continuing strong trading performance, and the successful progress they are making in supplying gas alongside electricity into the small business and corporate sector, for which they are now buying renewable energy from over 500 small UK generators. Opus revenues increased by 32 8% to just over £358m (2012: £270m) and profit before tax increased from £18.0m to £22 4m

We remain encouraged by the resilience of their business model and the strength and experience of their management team, and expect to receive a dividend of approximately £3m in July 2013. Our shareholding in Opus is valued on our balance sheet at £7.2m in line with standard accounting policy, notwithstanding the likelihood that its market value is substantially in excess of this figure; it remains our intention to maintain our stake in this rapidly growing, profitable and highly cash generative business for the foreseeable future.

Working Capital

Our year end balance sheet shows a net cash position broadly unchanged at £0.8m, notwithstanding an increase of £7.5m in our working capital during the year; this is consistent with the growth in our revenues compared with last year, and was largely unaffected by any impact of the exceptionally cold winter weather on budget plan debtors due to our unique wholesale supply arrangements with npower.

Going forward, the strong growth we are seeing in the number of mobile services we supply, particularly amongst customers requesting a 'free' smartphone on a 24 month contract, is expected to absorb increasing amounts of working capital over the next two years.

Dividend

The final dividend of 18p per share (2012: 17p) will be paid on 2 August 2013 to shareholders on the register at the close of business on 19 July 2013 and is subject to approval by shareholders at the Company's Annual General Meeting which will be held on 17 July 2013. This makes a total dividend payable for the year of 31p (2012: 27p).

We anticipate that further growth in earnings from the current level will be reflected in a corresponding rise in the level of distributions to shareholders, subject to any requirement to fund an increase in the working capital as the business continues to grow.

In line with this policy, we expect our total dividend for the current year will rise broadly in line with earnings growth.

Business Development

Over the last few years we have successfully taken a series of steps to improve the quality of our customer base, as a result of which we have seen the overall proportion of 'Gold Status' residential Club members taking at least four of our core services (Gas, Electricity, Mobile, Home Phone and Broadband) rise progressively over the year to 39.5% (2012: 33.8%). As the penetration of Gold Status amongst new residential members has been running consistently above 55% since the range of benefits offered to them was strengthened in March 2012, we anticipate that this encouraging upward trend will continue.

This improving quality has led to a continuation of the downward trend in the level of churn within our residential Club over the last few years, which fell to an average of 1 2% per month during the final quarter. This clearly demonstrates the benefit we are deriving from the significant resources we have invested to attract and retain multi-service Gold Status members. We have also seen an encouraging reduction in our bad debt charge to £9.0m for the year representing 1.5% of revenue (2012: 2.0%).

To build on this progress, we have recently announced a new focus on building trust in every aspect of our business, with a view to establishing ourselves unequivocally as the Nation's most trusted utility supplier; to ensure we deliver what our members both want and expect from us; to provide customer service that is genuinely best in class, to improve the clarity and transparency of the benefits we offer; and to consistently exceed our customers' expectations.

This is an exciting opportunity for us, as utility providers in the UK have generally not historically enjoyed the trust and confidence of their customers. We believe that if we can successfully create a new type of relationship with them, it will generate material long term benefits for all stakeholders.

We are not helped in this mission by the specific requirement to give each new customer a 'personal projection' for how much their energy will cost in the first year after they switch to us, notwithstanding that the information needed to provide this accurately (such as their historical energy consumption, future energy prices, and whether the coming year will be warmer or colder than usual) is in most cases simply not available. We continue to lobby both Ofgem and DECC to remove this obligation, and in the meantime need to explain to customers the significant shortcomings with the figures they are being given.

Distribution Channel

The number of new distributors joining the business between April and December last year averaged around 900 per month. Since then, we have seen a significant increase to around 1,300 per month, taking the total number of registered distributors at the year end to a record high of almost 39,000 (2012: 37,263).

We believe the high level of interest in joining our business is being driven by the combination of increasing pressure on household budgets, growing awareness of our business, and the attractiveness of the secure part-time additional income opportunity we offer We continue to enhance our compensation plan and training programme to help new distributors get started more quickly, and to promote our services more effectively

Confidence and morale within the distribution channel remains extremely high, as reflected by the increase in both customer gathering and distributor recruitment activity we have achieved since the New Year. Our annual sales conference in March was attended by a record number of distributors, and we are delighted with the further boost this has given to the strong momentum we were already seeing.

Premises and Systems

We anticipate starting work this coming autumn on refurbishing the new headquarters office building which we purchased in February 2012. Once this 18-month project has been completed, it will provide sufficient office accommodation to support our growing business needs for the foreseeable future From a systems perspective, we have the capacity to manage a substantial increase in our current customer numbers, without the need for any material further investment.

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

We held our annual sales conference over the weekend of 16 and 17 March, shortly before the year end, with over 6,000 distributors joining us. At this event we announced a number of incremental changes to our range of communications services, making them simpler, more competitive and easier to sell; these received a strong positive reaction from those present. In particular, we have seen an encouraging increase in the number of new customers ordering our mobile service, and in the proportion that are choosing a 'free' smartphone on a 24 month contract.

Our intention is to continue to build upon the momentum which the business has developed over the last few years, to further increase both the quality and quantity of new customers being gathered. We are maintaining our target to grow service numbers within our residential Club at 20% per annum for the next few years, despite falling slightly short of achieving this level of growth last year.

Achievement of this target will require us to continue simplifying our service proposition to make it easier for our distributors to sign up new members (thus improving the average productivity of new distributors), combined with effective direct marketing to both existing and former members.

The steadily improving quality of our customer base gives us good visibility over future revenues and margins on the various services we provide. Notwithstanding the additional investment in customer acquisition costs required to fund this continued rapid growth, we anticipate that earnings growth for the current year should be broadly in line with the growth we have reported in the number of services being taken by our customers for last year.

Within the energy sector as a whole, significant investment is needed over the next decade to renew and extend the distribution network, replace nuclear and coal-fired generating plant that is approaching the end of its useful life, roll out smart meters, and encourage the take up of energy efficiency and renewable energy programmes. The costs associated with delivering these initiatives are likely to put continued upward pressure on retail energy prices over the medium term, irrespective of any movements in wholesale energy commodity costs.

Ofgem is currently considering responses from interested parties to the latest proposed changes under their Retail Market Review ("RMR"). Whilst it is impossible to be certain exactly how these will impact our business model, it would be reasonable to expect their stated objectives of simplifying tariffs, improving transparency and creating a more competitive framework to be broadly positive for us as the only independent residential energy supplier thus far to have successfully achieved significant scale.

We continue to engage constructively with Ofgem on the detailed changes being proposed, to ensure consumers can continue receiving an appropriate range of benefits from us commensurate with our fully integrated multi-utility business model. We also look forward to taking advantage of the opportunities this review should provide to take our unique customer-focussed proposition of consistent value, the convenience of receiving a simple and clear integrated bill each month, and exceptional customer service, to a new and significantly wider consumer audience over the years ahead.

Our distribution channel continues to demonstrate its ability to gather high quality new customers in increasing numbers, and the consistently high proportion of new members joining with Gold Status is particularly encouraging.

Our current market share of around 1.5% of UK households demonstrates the scale of the organic growth opportunity available to us, and the combination of our route to market and unique customer proposition continues to give us a significant competitive advantage. Our management team remains clearly focussed on delivering further significant organic growth; achievement of this goal would create significant shareholder value due to the substantial operating leverage inherent in our business model

It only remains for me to thank my boardroom colleagues for their support and all our staff and distributors for their loyalty and hard work during the past year, and to wish each and every one of them success in the years to come.

Charles Wigoder
Executive Chairman
20 May 2013

Business Review

Performance

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

- Continuing strong organic growth with service numbers up by 221,037 (2012: 209,887)
- Improving customer quality:
    - lower churn
    - lower delinquency
    - lower bad debts
    - growing proportion of Gold Status members
    - increase in the average number of services being supplied
    - higher average revenue per customer
- A significant increase in the number of new distributors

Against the background of a broadly flat economy, and with household incomes remaining under pressure, our value-based customer proposition and part-time earning opportunity are extremely attractive to both new members and new distributors respectively

Our continuing strong organic growth is underpinned by high levels of confidence amongst our distributors in our brand and financial strength, the good value provided by our services, and our commitment to delivering a best-in-class customer service.

Margins

Our overall gross margin during the year was in line with previous guidance at 13 9% (2012: 16.2%). The principal factors behind this reduced margin were the absence of the one-off marketing support payment of £3m received from npower during the previous year, combined with the impact of an exceptionally cold winter which increased energy sales (which are lower margin) as a proportion of our total revenues.

We maintain our previous guidance on gross profit margins, and expect them to stay within a range of 13% to 15% for the foreseeable future.

Our administration expenses fell during the year to 5.9% of revenue (2012. 6.9%), reflecting the impact of the significant increase in average revenue per customer and greater economies of scale, combined with a reduction in bad debts as a percentage of revenue from 2.0% to 1.5% over the year.

Distribution costs increased to £17.8m (2012 £16.0m) broadly in line with the growth in customer numbers during the year. This represents a reduction from 3.4% to 3.0% of revenue, reflecting the impact of the changes we implemented in January 2012 to reduce seasonal fluctuations in group commissions against a background of higher energy prices and record energy consumption during an exceptionally cold winter.

Staff numbers grew in line with service number growth, but below the growth in revenues. We successfully maintained our strong reputation for delivering an exceptionally high standard of customer service during the year, and continue to look for efficiency savings throughout the business to maximise economies of scale as we continue to grow.

Market

Our focus is on supplying a wide range of essential utility services to both domestic and small business customers; these are substantial markets and represent a considerable opportunity for further organic growth

We remain a small operator in a market dominated by former monopoly suppliers and a handful of other new entrants. However, our unique position as the only integrated multi-utility supplier gives us a considerable competitive advantage. We combine a highly efficient cost base, good customer service and competitive pricing with the unique benefit of a single monthly bill for each customer and an attractive range of other membership benefits.

Customers

	2013	2012
Residential Club	373,056	333,497
Business Club	28,313	26,649
Total Club	**401,369**	**360,146**
Non Club	52,062	45,005
Total Telecom Plus	**453,431**	**405,151**
TML	7,601	10,338
Total Group	**461,032**	**415,489**

Our customer base can be split into four groups as set out in the above table, each of which has different characteristics:

(i) Residential customers who are members of the Utility Warehouse Discount Club (81.0% of our customers). On average these customers each take 3.80 services;
(ii) Small businesses who are members of the Utility Warehouse Discount Club for Business (6.1% of our customers) On average these customers each take 2.57 services;
(iii) Residential customers who are not members of our Discount Club (11.3% of our customers). These are typically either households who have moved into a property where we are the incumbent energy supplier and have not yet applied to join the Club, or where we are only providing energy services on a prepayment basis. On average, these customers each take 1.66 services; and
(iv) Small businesses signed up through our wholly-owned TML subsidiary (1.6% of our customers), taking on average 3.23 services, despite remaining profitable this group is expected to continue falling steadily in size going forward, and is no longer considered a core part of the business.

Within the residential Club, there is a further difference in quality (and therefore in the revenues and profits they will generate over the time they remain a Club member) both between customers who are homeowners and those who are tenants, and also depending on the numbers of services we are providing to them. We are therefore pleased that the proportion of homeowners has remained broadly steady at just under 75%, and the proportion of new members taking at least 4 services (Gold Status members) increased significantly compared with the previous year as can be seen from the graph below:

	Percentage of new residential Club members with Gold Status
Q1 FY12	33.08%
Q2 FY12	41.29%
Q3 FY12	40 97%
Q4 FY12	47.59%
Q1 FY13	56 10%
Q2 FY13	56.73%
Q3 FY13	55.16%
Q4 FY13	56.94%

Although on average it is more expensive to sign up a customer with Gold Status, these members benefit from our most competitive prices, generate higher commission for distributors, and have the greatest lifetime value to the Company.

Overall monthly churn in our residential Club continued to fall during the year, declining to an average of just 1.2% during the final quarter. This improvement illustrates the impact of the steadily improving quality of our customer base:

	Residential Club Churn
Q1 FY10	1.84%
Q2 FY10	1.96%
Q3 FY10	1.82%
Q4 FY10	1.72%
Q1 FY11	1.77%
Q2 FY11	1.81%
Q3 FY11	1.59%
Q4 FY11	1.46%
Q1 FY12	1.52%
Q2 FY12	1.51%
Q3 FY12	1.29%
Q4 FY12	1.32%
Q1 FY13	1 40%
Q2 FY13	1 45%
Q3 FY13	1 33%
Q4 FY13	1.20%

These churn figures include members who move out of a property we are supplying (either because it is sold or they have come to the end of their tenancy), notwithstanding that a proportion of the new occupiers moving into such properties subsequently choose us as their new supplier; this means that if we reported our churn on the basis of the number of services we cease to supply, then our reported churn would be lower than the figures shown above.

The rise in the average number of services being taken under our Utility Warehouse brand to 3.71 (2012: 3.55) combined with higher energy prices and an exceptionally cold winter has led to a significant increase in average revenue per customer during the year:

	Average Revenue per Customer
1999	£190
2000	£286
2001	£316
2002	£329
2003	£459
2004	£482
2005	£505
2006	£634
2007	£801
2008	£824
2009	£1,057
2010	£1,152
2011	£1,162
2012	£1,190
2013	£1,363

(These revenue figures relate to the Customer Management operating segment and exclude our TML subsidiary)

We enjoy high levels of overall customer satisfaction, as evidenced by the positive reviews we receive from *Which?* magazine on a regular basis, and the feedback we receive from the regular customer surveys we are sending out each month to members who have needed to contact our call centre. This feedback is consistently generating a positive Net Promoter Score of around +40; to put this into context, any score above zero in the utility sector would be considered highly acceptable (E.ON have reported a score of -17 and the average in a 2013 Satmetrix industry report on internet service providers was +9).

Our exclusive CashBack card continues to generate significant monthly savings for our members, although average spend has fallen as the recession has increasingly started to bite over the last 12 months. The total value of the CashBack we have credited to customers bills since we launched this programme now exceeds £13m. In addition, we continue to see a positive trend in the number of customers using our online shopping portal and price comparison service to help them find the cheapest online supplier for a wide range of everyday household goods, and to earn additional CashBack.

Services

Our full range of services include Fixed Telephony (calls and line rental), Broadband, Mobile, Gas, Electricity, CashBack card, and Non-Geographic Numbers. At the year end, we supplied a total of 1,602,060 services (2012: 1,381,023), representing a net increase of 221,037 during the year.

	2013	2012
Electricity	403,922	348,629
Gas	334,565	290,057
Fixed Telephony (calls)	250,643	232,890
Fixed Telephony (line rental)	221,692	191,667
Broadband	175,337	140,771
Mobile	89,017	63,724
CashBack card	117,025	101,351
Non-Geographic Numbers	9,859	11,934
Total	**1,602,060**	**1,381,023**
Residential Club	1,418,078	1,211,122
Business Club	72,676	65,683
Total Club	**1,490,754**	**1,276,805**
Non Club	86,724	73,638
Total Telecom Plus	**1,577,478**	**1,350,443**
TML	24,582	30,580
Total Group	**1,602,060**	**1,381,023**

We saw consistent quarterly growth throughout the year in all the core services we provide (Gas, Electricity, Mobile, Home Phone and Broadband), with a particularly pleasing 39.7% rise in the number of mobile services provided. This increase means penetration of Mobile within our residential Club has risen from 9.7% to 17.0% over the last two years as a result of our continuing investment in making this service more attractive to members. With over 30% of new members now taking this service, significant scope remains for further improvement in this level of penetration over the next few years.

CashBack card

Our exclusive CashBack card, which we launched in October 2008, is an important customer acquisition and retention tool. It gives 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 a credit on their next monthly bill from us.

We have seen a 15% increase during the year in the number of cards in issue to 117,025 (2012: 101,351), with the proportion of new residential Club members applying for a card currently running at around 30%. We believe this slightly lower level of take-up principally reflects the current challenging economic climate, where many new customers are finding it difficult to fund the switch from paying in arrears on their credit card, to paying for their purchases in advance with a prepaid card.

We paid over £4 4m (2012: £4.4m) in CashBack to our members during the year (funded entirely by the retailers in the programme), with many customers achieving a reduction of between 20% and 30% on the amount they pay for the utilities we are supplying to them each month, simply by using their CashBack card (instead of an alternative payment card) for most of their regular household shopping.

Customer Service

We pride ourselves on delivering first-class customer service through a single call centre based in the UK. We try to ensure where possible that the first person a customer speaks to is able to resolve any issues with their multi-utility account.

We continue to invest in improving the customer service experience we deliver, and have introduced a range of qualitative and quantitative performance measurement tools into our call centre to enable us to monitor and improve the overall quality of our members' customer service experience We have been delighted at the consistently high customer service ratings we receive in *Which?* magazine, and the overwhelmingly positive feedback we receive from customers in our own surveys.

Employees

We rely on the combined efforts of around 650 employees to manage relationships with both our customers and distributors, and deliver a consistently high quality of service at all times. We pay considerable attention to recruiting, developing and retaining people with appropriate skills.

We have introduced our own Assessment Centre to give the Company greater control over the recruitment process and to ensure we select the very best candidates for our positions. Once they have joined, new starters go through a structured training programme to ensure that they are fully equipped to resolve any customer queries.

The combination of valuing and developing our staff, our service-oriented culture and the day-to-day reinforcement of our core values are key competitive advantages in enabling us to attract and retain a motivated, talented and diverse workforce. Opportunities for employment, training, career progression and promotion are determined on the basis of each individual's ability, attitude and track record, irrespective of their gender, ethnic origin, nationality, age, religion, sexual orientation or disability.

We continue to invest in our people, and have comprehensive manager and supervisor development programmes, which are accompanied by executive coaching. We offer three Advanced Apprenticeship Programmes in Customer Service, Business Administration and Management We promote from within where possible into both specialist and managerial roles

Our monthly Employee Recognition Awards enable the Company to celebrate and reward employees who have performed exceptionally

We keep employees informed on a regular basis of the financial performance of the business and other matters of potential concern to them, through the Company intranet, ad-hoc emails, focus groups, the monthly Company newsletter and quarterly breakfast forums with the CEO

We operate an 'open-door' policy throughout the business, and provide staff with various mechanisms for providing feedback and making suggestions, including an annual staff survey. This year, for the first time, we entered the Best Companies to Work for Survey and were pleased to receive a 'One to Watch' accreditation rating.

We have an active staff social committee which organises a wide range of events, supported by the Company, including the annual Summer and Christmas parties. We also have a 'Fun Fund' set aside for departmental social events.

We promote staff wellbeing, through an Employee Assistance Helpline, subsidised on-site fitness classes, periodic at-desk massages, healthy meal options in the staff restaurant and a cycle to work scheme.

We continue to invest in our premises as necessary, to ensure the working environment is as attractive as possible, consistent with the practical needs of running the business.

With the exception of our warehouse team, all our employees now work together in Network HQ, our Head Office building in London We operate a heavily subsidised staff restaurant, and provide a Recreation Room in both our Head Office and warehouse premises. We provide a wide range of other staff benefits including a significant discount on the services we provide, employee loans at preferential interest rates, a generous Christmas Bonus scheme and recognition for five and 10 years' service.

We are pleased to report that levels of staff absence this year remained at the encouragingly low level we achieved during the preceding year.

The Company operates an HM Revenue and Customs approved employee share option plan, under which employees are granted options to purchase shares in the Company which are exercisable between three and ten years from the date of grant. The exercise price is the market price at the time of granting the option. Our policy is to issue options to all employees after the satisfactory completion of their probationary period, and additional options when 10 years' service has been completed and in other appropriate circumstances (e.g. promotion). As at 31 March 2013 there were outstanding options over 2,243,787 shares which had been granted to staff, representing approximately 3.2% of the issued share capital of the Company

Employees returning from maternity leave with children less than 12 months old are able to benefit from a company contribution towards the cost of an external childcare service provider of their choice. We also provide facilities for staff to purchase childcare vouchers in a tax-efficient manner using a salary sacrifice scheme, in accordance with HM Revenue and Customs guidelines.

We encourage all employees to participate in a stakeholder pension scheme operated by Aviva. Participants can choose their own contribution level, which is matched by the Company within certain limits, depending on length of service.

Distributors

Our Distributors are one of the key strengths of our business. In contrast to other utility suppliers, the alignment of financial interest provided by our revenue-sharing model, the structure of our compensation plan, and the substantial number of distributors who hold equity or share options in the Company, incentivise them to focus their activities on finding creditworthy higher-spending customers who will reap the maximum savings from using our services, and will thus be least likely to churn; by doing so, they maximise their own long-term income. This ensures that cases of mis-selling are generally both inadvertent and extremely rare.

We make available a variety of training courses both online and classroom based, designed to provide both the skills and knowledge they need to gather customers and recruit other distributors effectively and successfully; all of these courses are free to attend.

Our Car Plan, which provides eligible distributors with a subsidised Utility Warehouse branded Mini, remains extremely popular and around 500 vehicles are now in circulation (2012. 370). Owners inform us that they find these helpful in raising their local profile, resulting in enquiries from both potential new customers and distributors.

Environment

We are conscious of the role we have to play in minimising the environmental impact of our activities.

We operate an energy efficiency helpline to provide advice to customers on how they can reduce their energy usage; we enable qualifying customers to access free home insulation; we actively promote Feed-In Tariffs; and we encourage customers to monitor their energy usage by providing regular meter readings.

Our 'online membership' offers customers additional savings in return for not receiving a paper bill each month. This category is attracting around one third of all new members, which has a beneficial impact on the amount of paper we use.

We launched an online application process for distributors in November 2011 This has since been improved, and now accounts for over 80% of customer applications, as a result, the quantity of paper application forms we need to print has reduced significantly

We participate in the 'Shred-it' recycling programme, with a certificated saving of 297 trees during the year; we also recycle all of our cardboard, and use only fsc-certified paper, our office lighting is low-energy, and controlled by motion sensors, which automatically turn off lights in unused areas of the building; our air-conditioning is constantly monitored, and is zonal to small areas, allowing close management of heating and cooling.

We recycle both mobile phones and toner cartridges, within the scope of our annual Charity Partnership.

In the summer of 2012, we started a working group within Head Office looking to minimise our environmental impact and promote energy efficiency; this is chaired by the Energy Director and involves a cross section of 12 employees.

To date this group has:

- set up recycling points within each department for waste;
- introduced a car pooling scheme for employees;
- arranged timer switches on many electronic devices to minimise usage;
- actively promoted our Cycle to Work scheme; and
- rolled out 'print less' campaigns and competitions within the office environment.

Both monetary and carbon savings are being tracked and monitored with savings being passed at the end of each year to our charity partner

Social Engagement

We launched our first annual Charity Partnership in support of the Make-A-Wish foundation in January 2012. With the enthusiastic support of our staff and distributors, we were delighted to raise a total of £200,000 which was presented to them at our annual sales conference in March For the current year, we have chosen Breast Cancer Campaign and Prostate Cancer UK as our joint Charity Partners We look forward to raising a similar sum to help these extremely worthwhile causes over the coming year.

Principal Risks

Background
The Group faces various risk factors, both internal and external, which could have a material impact on long-term performance. However, the Company'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.

As described in the Corporate Governance Statement on page 35, 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.

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, Telephony and Broadband) under the Utility Warehouse and TML brands. As a reseller, the Group does not own any of the network infrastructure required to deliver its services to customer. This means that while the Company 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 distributors, who are paid solely on a commission basis. This means that the Group has minimal fixed costs associated with acquiring new customers.

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 customers, suppliers and independent distributors is fundamental to the future success of the Group. Failure to meet expectations in terms of the services we provide, the way that we do business or in our financial performance could have a material negative impact on the Group's performance.

In relation to customer service, reputational risk is principally mitigated through a focus on closely monitoring staff performance and through the provision of rigorous staff training.

Responsibility for maintaining effective relationships with suppliers and distributors 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 distributor 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 customer 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, long-standing, motivated and experienced individuals

All significant changes which are made to the billing and customer management software are extensively tested before launch and are ultimately approved by the heads of the IT and Billing departments in consultation with the Chief Executive as appropriate.

Back-ups of both the software and underlying billing and customer data are made on a regular basis and securely stored off-site. The Group also has extensive back-up information technology infrastructure in the event of a failure of the main system, ensuring that a near-seamless service to customers can be maintained.

Legislative and regulatory risk

The Group is subject to varying laws and regulations, including possible adverse effects from European regulatory intervention.

The majority of the Group's services are supplied into highly regulated markets, and this could restrict the operational flexibility of the business. In order to mitigate this risk, the Group maintains an appropriate relationship with both Ofgem and Ofcom (the UK regulators for the energy and communications markets respectively). We engage with officials from both these organisations on a periodic basis to ensure they are aware of our views when they are consulting on proposed regulatory changes, or if there are competition issues we need to raise with them; in particular, we have had a number of meetings with Ofgem over the course of the last year to discuss their proposed Retail Market Review, which seems likely to have a significant impact on the way energy has historically been sold. The Group is also exposed to European regulatory intervention, but there is little (if anything) we can do at a practical level to influence any such events

However, it should be noted that the regulatory environment for the various markets in which we operate is generally focussed on promoting competition. As one of the new entrants, it seems reasonable to expect that most such changes will broadly be for the benefit the Group, given our relatively small size compared to the former monopoly incumbents with whom we compete.

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

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

More generally, we are also exposed to payment card fraud, where customers use stolen cards to obtain credit (e.g. on their CashBack card) or goods (e.g. smartphones) from us; we are constantly refining our fraud protection systems to reduce our exposure to such activities

Wholesale prices
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 not exposed to either technological risk, capacity risk or the risk of obsolescence, as it can purchase the exact amount of each service required to meet its customers' needs each month.

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 either regulated (as in the energy market) or subject to significant competitive pressures (as in telephony and broadband). The profile of our customers, the significant quantities of each service they consume in aggregate, and our clearly differentiated route to market has historically proven attractive to potential partners, who compete increasingly aggressively in order to secure a share of our growing business.

The supply of energy, which accounts for an increasing proportion of sales each year, has different risks associated with it. The wholesale price can be extremely volatile, and customer demand can be subject to considerable short term fluctuations depending on the weather. The Company has a long-standing supply relationship with npower under which they assume the substantive risks and rewards of hedging and buying energy for our customers.

As described previously, the main supply agreement with npower was renewed on 24 May 2011 with npower additionally taking on the seasonal working capital obligation associated with supplying customers who use an annual budget plan to pay for their energy.

Competitive risk

The Group operates in highly competitive markets and significant product innovations or increased price competition could impact future profit margins. In order to maintain its competitive position, there is a constant focus on ways of improving operational efficiency and keeping the cost base as low as possible. New product innovations are monitored closely by senior management and the Group is typically able to respond rapidly by offering any new services through the infrastructure of its existing suppliers

The Group offers a unique multiservice proposition The increasing proportion of customers who are benefiting from a genuine multiservice proposition, that is unavailable from any other supplier, materially reduces any competitive threat.

Andrew Lindsay
Chief Executive Officer
20 May 2013

Financial Review

Overview

Revenues of £601 5m (2012: £471.5m) were 27.6% higher than in the previous financial year, the pre-tax profit was £34.6m (2012: £30 7m)

The increase in revenue reflects the combination of continuing strong organic growth in the number of services we provide, modest energy price inflation, and the swing from a warm winter last year to an exceptionally cold winter this year

The improvement in pre-tax profitability of 12 7% reflects the investment we are making in signing up increasing numbers of Gold Status members, the benefits of which will become increasingly apparent over the coming years.

Our balance sheet at the year end shows a net cash position of £0.8m which was broadly in line with last year, notwithstanding a £7.5m increase in working capital during the year associated with our rapid growth.

The increase in both the quantity and quality of new customers caused a rise of around 13.5% in the net investment of our Customer Acquisition operating segment compared with the previous year. We anticipate a further modest increase this year, as we maintain our current strong focus on growth

Distribution costs increased by £1.8m reflecting higher bonuses and incentive payments to distributors resulting from our continuing strong organic growth, and the progressive implementation of the new compensation plan we announced almost 18 months ago.

Earnings per share increased by 14.5% to a record level of 38.7p (2012: 33.8p). In accordance with previous guidance and our strong cash generation, the Company is proposing to pay a final dividend of 18p (2012: 17p) per share, making a total dividend of 31p (2012: 27p) per share for the year.

Customer Management Business

The rate at which our customer management business is growing remained consistently strong over the year, and we successfully achieved our seventh consecutive quarter in which we delivered net growth of over 50,000 services:

	Net growth in services
Q1 FY11	30,847
Q2 FY11	31,854
Q3 FY11	27,608
Q4 FY11	36,311
Q1 FY12	38,140
Q2 FY12	61,363
Q3 FY12	51,529
Q4 FY12	58,855
Q1 FY13	53,316
Q2 FY13	54,406
Q3 FY13	55,488
Q4 FY13	57,827

This trend reflects the significant further progress we have made in focussing distributor activity on gathering multi-utility home-owners. As a result, all our core services are now seeing consistent strong monthly growth

This progressive improvement in the quality of our customer base, with lower levels of delinquency and a steady increase in the average number of services being taken by each customer, has resulted in a reduction in both churn and bad debts

Revenues increased across all our services during the year, with the exceptionally cold winter increasing gas sales by approximately £27m compared with the level we would have expected to supply at seasonally normal temperatures

Revenue by Service (£m)	**2013**	**2012**
Electricity	235 2	195.7
Gas	256.5	178.6
Fixed Communications (Telephony / Broadband)	71.8	65.7
Mobile	13.7	10 6
Other	15.0	13.9
	592 2	464.5

Customer Acquisition

Our net investment in acquiring new customers increased during the year to £10.1m (2012: £8 9m), reflecting the improvement we have achieved in both the quantity and quality of our new customers.

Although the initial cost of acquiring a customer who takes at least four core services is considerably higher than for a household taking fewer services, our experience shows that the lifetime value of such customers more than compensates for the higher upfront cost we incur.

Distribution and Administrative Expenses

Distribution costs, which primarily represent the share of our revenues that we pay as commission to distributors, increased by £1.8m to £17.8m (2012: £16.0m); this reflects an increase in the amount of residual income we paid, combined with higher bonus and incentive payments resulting from the significant increase in our organic growth compared with the previous year.

The bad debt charge for the year fell to £9.0m representing 1.5% of revenues (2012: 2.0%), reflecting the improvement in the quality of our customer base referred to above. To have achieved this fall against the headwinds of continuing strong growth, energy price inflation and a challenging broader economic climate is particularly encouraging.

Whilst remaining sympathetic to the financial difficulties some households are experiencing in paying for their energy, we continue to manage our bad debt risk by installing prepayment meters at properties where the occupiers are unwilling to pay for the energy they are using by any other means. We installed 6,584 of them during the year (2012 6,842), many of them at the customer's own request, which helped take our base of prepayment meters to 33,563 (2012: 22,477) representing approximately 4.5% of the energy services we supply; this remains significantly below the average level of prepayment meters within the industry of around 15%.

In addition, the further small reduction we have seen in the average number of delinquent customers across the year is, we believe, a useful forward indicator to the level of bad debts we can expect for the current year.

	Delinquent customers
Q2 FY11	2.40%
Q3 FY11	1.95%
Q4 FY11	1.82%
Q1 FY12	1.71%
Q2 FY12	1 53%
Q3 FY12	1.26%
Q4 FY12	1.34%
Q1 FY13	1.33%
Q2 FY13	1.17%
Q3 FY13	1.08%
Q4 FY13	1.32%

The average number of employees increased from 541 to 604, most of which took place in the second half of the year, this increase in headcount of 11.6% is substantially below the increase we saw during the year in the number of services we are providing, as we continue to enhance our systems to manage our growing customer base more effectively. Personnel expenses increased by 17.8% during the year to £20.5m (2012: £17.4m), as we continue to strengthen our management team, and other administration costs remained broadly stable

Share Option Costs

The operating profit is stated after share option expenses of £931,000 (2012: £641,000). These expenses relate to an accounting charge under IFRS 2 Share based payments.

Taxation

A full analysis of the taxation charge for the year is set out in note 4 to the financial statements. The tax charge for the year is £7.6m (2012: £7.3m).

The effective tax rate for the year was 21.8% (2012: 23.7%).

Cash Flow and Balance Sheet

The largest balance sheet movements in the year reflect the increased size of our customer base, recent energy price increases and the impact of the unseasonably cold winter.

Under our wholesale supply arrangements with npower, we are no longer responsible for funding the working capital requirements associated with our energy budget plan customers; as at the year end, this net funding requirement would have been in excess of £55.0m (2012: £26 9m) Due to the impact of these arrangements, the level of working capital employed by the Group only increased from £31.4m as at 31 March 2012 to £38 9m at the year end, which was broadly in line with the growth in revenue.

There was a small net cash outflow of £0.2m during the year, in line with management expectations.

Capital expenditure is expected to increase significantly over the course of the current year, as we start to pay for the £18.0m refurbishment of Merit House (our new headquarters office building), whilst funding growing demand from customers for a 'free' smartphone. Facilities will be arranged with Barclays Bank PLC to enable us to fund this expected increase, without affecting our progressive dividend policy.

The Group does not have a policy with respect to interest rate management, as it has no long-term debt funding requirements. Cash surpluses are placed on deposit with Barclays Bank PLC at money market rates to maximise returns, after allowing for the Company's working capital requirements.

Chris Houghton
Finance Director
20 May 2013

Directors' Report

The directors have pleasure in presenting their report and the audited financial statements for the year to 31 March 2013

Principal Activities and Business Review

The principal activity of the Group is the supply of fixed telephony, mobile telephony, gas, electricity and internet services to residential and small business customers in the UK, who are primarily acquired through a network of independent distributors.

The Group intends to expand its subscriber base and continue to develop the systems which are required to provide its customers with a consistently high standard of service.

A full review of the development of the business is contained in the Chairman's Statement, Business Review and Financial Review. A summary of the financial risk management objectives and policies is contained in note 18 to the financial statements.

This Directors' Report, together with the Chairman's Statement, Business Review and Financial Review form the management report for the purposes of DTR 4.1.8R.

Results and Dividends

The profit for the year after tax of £27,066,000 (2012: £23,453,000) has been transferred to reserves. An interim dividend of 13p per share (2012: 10p) was paid during the year. A final dividend of 18p per share (2012: 17p per share) is proposed.

Directors

The names of directors who served during the year and their interests in the share capital of the Company at the start and end of the year are set out in the table below. Details of the directors' share incentive awards are disclosed in the Directors' Remuneration Report on page 39.

	Ordinary 5p shares held at 31 March 2013	31 March 2012
Charles Wigoder	15,981,041	15,981,041
Julian Schild*	97,624	97,624
Andrew Lindsay	81,465	81,465
Chris Houghton	-	-
Melvin Lawson*	2,050,000	2,050,000
Michael Pavia*	25,000	25,000

* indicates non-executive directors

In respect of the above shareholdings, Mr Wigoder has a non-beneficial interest in 2,900,000 shares (2012: 2,700,000) There have been no movements in any of the directors' interests in the share capital of the Company between 1 April 2013 and 20 May 2013.

The powers of Directors are set out in the Company's Articles of Association (the "Articles") The Articles may be amended by way of a special resolution of the members of the Company. The Board may exercise all powers conferred on it by the Articles and in accordance with the Companies Act 2006, and other applicable legislation.

The Board has established a formal, rigorous and transparent process for the selection and subsequent appointment of new directors to the Board The rules relating to the appointment and replacement of directors are contained within the Articles. The Articles provide that Directors may be appointed by an ordinary resolution of the members or by a resolution of the Directors, provided that, in the latter instance, a director appointed in that way retires at the first Annual General Meeting following their appointment In addition, Mr Wigoder, as he holds in excess of 20% of the Company's shares, is entitled under the Articles to appoint a director and remove any such director appointed.

In accordance with current best practice, all Board directors will be retiring at the forthcoming AGM and will then offer themselves for re-election.

Directors' Conflicts of Interest

The Directors have a statutory duty to avoid situations where they have, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. The Companies Act 2006 and the Company's Articles allow the Board to authorise such conflicts of interest should this be deemed to be appropriate.

The Board has put in place effective procedures for managing and, where appropriate, approving conflicts or potential conflicts of interest Under these procedures, the Directors are required to declare all directorships or other appointments to companies which are not part of the Group, as well as other situations which could give rise to a potential conflict The Board will, where appropriate, authorise a conflict or potential conflict, and will impose all necessary restrictions and/or conditions where it sees fit. The Company maintains a register of directors' conflicts of interest which is reviewed regularly by the Board.

Directors' and Officers' Liability Insurance

The Company maintains appropriate insurance to cover directors' and officers' liability and has provided an indemnity, as permitted by the Companies Act 2006, in respect of all of the Company's directors which was in force throughout the financial year and remains in force. Neither the insurance nor the indemnity provides cover where a director has acted fraudulently or dishonestly.

Creditors' Payment Policy

The Company has signed up to the Institute of Credit Management Prompt Payment Code during the year and its policy remains to pay all suppliers in accordance with mutually agreed terms in each case. At the year end trade creditors were on average 60 days old (2012: 50 days).

Donations

The Group made charitable donations of £126,677 during the year (2012: £27,479). No political donations were made during the year.

Employees

The requirements of the Companies Act 2006 in respect of employees are set out in the Business Review on pages 13 and 14

Substantial Shareholders

As at 20 May 2013, in addition to the directors, the following have notified the Company of their substantial shareholdings as detailed below:

	Number of shares	Percentage of issued share capital
Schroders plc	6,456,479	9.1%
Standard Life Investments Ltd	6,342,774	9.0%
Sheldon Management Ltd	2,209,028	3 1%

Capital Structure

Restrictions on the transfer of shares
The Company only has ordinary shares in issue Other than as set out below, there are no restrictions on the transfer of the ordinary shares, except where a holder refuses to comply with a statutory notice requesting details of those who have an interest and the extent of their interest in a particular holding of shares. In such cases, where the identified shares make up 0.25% or more of the ordinary shares in issue, the directors may refuse to register a transfer of any of the identified shares in certificated form and, so far as permitted by the Uncertificated Securities Regulations 2001, a transfer of any of the identified shares which are held in the electronic share dealing system CREST, unless the directors are satisfied that they have been sold outright to an independent third party.

Other than as set out below and so far as the directors are aware, there were no arrangements at 31 March 2013 by which, with the Company's co-operation, financial rights carried by securities are held by a person other than a holder of securities, or any arrangements between holders of securities that are known to the Company and which may result in restrictions on the transfer of securities or on voting rights.

Certain members of senior management have loans secured against some or all of their shareholdings in the Company which restrict their ability to transfer these shares prior to repayment of the loans

The Company established a Joint Share Ownership Plan ("the JSOP") on 30 March 2011. As part of the JSOP an employee benefit trust was established to jointly hold shares with the participants in the plan ("the JSOP Share Trust") As at 31 March 2013 the JSOP Share Trust jointly held 500,000 shares with Mr Lindsay. Prior to vesting, all voting and dividend rights attached to these shares have been waived.

Takeovers
There are no significant arrangements to which the Company is party that take effect, alter or terminate upon a change of control of the Company following a takeover bid, save in relation to the arrangements with npower and T-mobile for the supply of energy and mobile telephony respectively, or any agreements between the Company and its directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

Authority for purchase of own shares
At the last AGM held on 18 July 2012, the Company obtained authority to purchase up to 7,024,406 ordinary shares representing approximately 10% of the issued ordinary share capital (excluding treasury shares) as at 13 June 2012. The Company intends to renew this authority at this year's AGM.

Treasury shares
The Company had no shares held in treasury during the year.

Disclosure of Information

Each of the directors has confirmed that so far as he is aware, there is no relevant audit information of which the Company's auditor is unaware, and that he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Corporate Governance

The Company's compliance with the requirements of the UK Corporate Governance Code issued by the Financial Reporting Council is set out in the Corporate Governance Statement on pages 29 to 35.

Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 8 to 19. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 20 to 23 and within note 18 to the financial statements. In addition, notes 14 and 18 include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments, and its exposures to credit risk and liquidity risk.

From 1 September 2011, under the revised arrangements agreed with npower on 24 May 2011, the Company was no longer required to procure a letter of credit facility for npower as security against the cost of the energy it was supplying. Also from this date, npower assumed responsibility for funding the seasonal variations in working capital associated with providing gas and/or electricity to those customers who choose to pay for their energy using a budget plan.

The Group has secured from Barclays Bank PLC ("Barclays") total credit facilities of £20 million for the period to 25 August 2013. Prior to this date, the Group will finalise with Barclays the facilities it requires for the following year for the ongoing support of its day to day operations and for the refurbishment of Merit House. Barclays has expressed a strong desire to support the Group's funding requirements and the directors are confident that all necessary facilities can be arranged prior to this date.

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

On this basis the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The annual 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.

By Order of the Board
David Baxter
Company Secretary
20 May 2013

Corporate Governance Statement

The Board is pleased to report that during the year and as at the date of this Annual Report the Company has complied with the main principles and the provisions of the UK Corporate Governance Code ("the Code") issued by the Financial Reporting Council in June 2010 Additionally, the Board has given consideration to the requirements set out in the new UK Corporate Governance Code issued in September 2012 ("the New Code") which applies to accounting periods beginning on or after 1 October 2012. The Board's position in relation to certain new requirements, and in particular the need to tender the external audit every ten years, is set out below. Copies of the Code and the New Code are available at www.frc.org.uk.

This report, together with the Director's Report on pages 24 to 28 and the Directors' Remuneration Report on pages 36 to 42, provides details of how the Company has applied the principles and complied with the provisions of the Code.

The Board of Directors

The Board meets regularly to review the progress of the Company and to discuss the measures required for its future development. Directors are provided in advance with a formal agenda of matters to be discussed at each meeting, and with the detailed information needed to monitor the progress of the Company Records of meetings and the decisions of the Board are maintained by the Company Secretary and are approved by the Board at the following meeting. All directors have access to the advice and services of the Company Secretary and, if required, are able to take independent advice at the Company's expense in the furtherance of their duties. Any question of the removal of the Company Secretary is a matter for the Board as a whole. Whilst the members of the Board are all experienced and well qualified, the opportunity to receive further training at the Company's expense is available to them at all times. The non-executive directors regularly attended formal, externally facilitated courses relevant to their roles and responsibilities during the year.

Board Duties

The matters specifically reserved for decision by the Board are fully documented and include the following principal areas:

- Reviewing and agreeing the Company's strategy and long term objectives
- Assessing performance in the light of the Company's strategy and objectives.
- Ensuring an effective system of risk management and internal controls is in place
- Approving changes to the structure, size and composition of the Board and reviewing its performance on an annual basis.
- Reviewing the Company's overall corporate governance arrangements.
- Approval of the Company's financial statements prior to publication.

Matters that are specifically delegated to the committees of the Board are documented in the various Terms of Reference of each committee which are available on the Company's website (www.utilitywarehouse.co.uk).

Table of attendance at formal meetings during the year ended 31 March 2013

Name of Director	Board	Remuneration Committee	Audit Committee	Nomination Committee
Number of meetings	*11*	*4*	*3*	-
Charles Wigoder	11	-	-	-
Julian Schild	11	4	3	-
Andrew Lindsay	11	-	-	-
Chris Houghton	11	-	-	-
Melvin Lawson	11	4	3	-
Michael Pavia	11	4	3	-

In accordance with provision A 4.2 of the Code, the non-executive directors also met without the executives present during the year.

Board Evaluation

The directors recognise that the Code requires an external evaluation of the boards of FTSE 350 companies to be carried out at least every three years. The directors considered the position in relation to the current year, which represents the second reporting year under which this requirement has been in place, and concluded that an external evaluation was not necessary. In reaching this conclusion the directors were mindful of the effective operation of the Board during the year and the strong performance of the Company. As part of its normal review process the Board will re-assess its position in this regard during the coming year

An internal evaluation of the Board for the current year was conducted through the completion of formal detailed board, and board committee evaluation questionnaires by each director. In addition a review involving each director was carried out. This review was conducted by the Deputy Chairman and Company Secretary and principally covered the following areas specific matters of concern arising from the board evaluation questionnaires, individual directors' performances and key objectives for the coming year, and the identification of any specific training and development requirements

The evaluation questionnaires were focussed on assessing effectiveness in the following key areas:

- the size and balance of the Board;
- the quality of board debates and its decision making processes;
- the individual contributions made by each director;
- the Chairman's approach to leadership;
- the non-executive directors' challenge of the executive directors;
- the Board's approach to identifying and mitigating key business risks;
- the quality of the Company's communications with key stakeholders; and
- the induction and training of board members.

In accordance with provision B.6.3 of the Code and building on the results of the evaluation questionnaires, the Deputy Chairman led a separate evaluation of the performance of the Chairman. This evaluation principally comprised a review of the Chairman's leadership style and tone in promoting effective decision-making and ensuring constructive and sufficient debate took place around key issues. The results of this evaluation were entirely satisfactory.

In general the evaluation concluded that the Board and its Committees had operated well during the year and that all the directors had effectively contributed to the Board as appropriate to their experience and varying roles and responsibilities

The prior year board evaluation exercise identified certain areas for improvement as described in the last Annual Report. The board evaluation results for the current year did not reveal any significant new matters of concern and concluded that progress had been made in relation to the issues identified in the prior year as explained below

It had been identified that improvements could be made to the Board's communication with the Company's key stakeholders and in particular with shareholders on governance-related issues. As a result the Deputy Chairman wrote to the Company's six largest shareholders during the year in order formally to open lines of communication and invite meetings if these were desirable. Accordingly, where requested, the Deputy Chairman held discussions on these matters with shareholders during the year. The Company also streamlined the processes for dealing with routine matters at the AGM held in July 2012 affording smaller shareholders the maximum opportunity to engage with the directors and ask questions.

Following the prior year evaluation it had been agreed that the training and development requirements of each director be more regularly reviewed. Whilst no material requirements in this regard were identified during the current year, it remains for the review process to become more formal and regular, particularly in relation to the executive directors

The current year evaluation exercise identified that whilst succession planning for key individuals within the Company was discussed at certain board meetings during the year, it was considered desirable that the matter be formally added to the agenda of board meetings on a more regular basis going forward.

Board Balance and Diversity

The Board has remained unchanged during the year and consists of three executive directors and three independent non-executive directors. Julian Schild acts as the Company's Deputy Chairman and Senior Independent Non-Executive Director.

Membership of each committee of the Board is set out in the table below:

Name of Director	Remuneration Committee	Audit Committee	Nomination Committee
Charles Wigoder	-	-	✓
Julian Schild*	Chairman	✓	✓
Andrew Lindsay	-	-	-
Chris Houghton	-	-	-
Melvin Lawson*	✓	✓	-
Michael Pavia*	✓	Chairman	Chairman

* indicates independent non-executive directors

The Board, in conjunction with the Nomination Committee, regularly reviews whether the composition of the Board and the diversity of its members remain appropriate in the light of the commercial challenges and risks facing the Company.

The members of the Nomination Committee believe that the composition of the Board is currently appropriate for the size of the Company and the nature of its operations which have not materially changed in scope since the prior year. However, the Committee appreciates that should the Company's situation change in future, then the appointment of new directors to the Board may be required.

The main objective of the Nomination Committee when considering the appointment of new directors to the Board remains to ensure that successful candidates are of the highest calibre and offer the optimum set of skills, experience and background. The Committee's Terms of Reference further stipulate that candidates from a wide range of backgrounds shall be considered and that due regard will be given to the benefits of diversity on the Board.

It remains the Committee's position that it would not be appropriate to stipulate the characteristics of any future directors, including gender, ahead of a full assessment of the particular requirements of the role at the time. However, the Committee will ensure that it continues to adhere to the principles set out above in identifying and recruiting the most appropriate candidates to the Board in a non-discriminatory manner.

Further detail regarding the Company's position in relation to encouraging diversity within all layers of the organisation is set out in the "Employees" section of the Business Review on pages 13 and 14.

Executive Chairman and Chief Executive Officer

There is a clear division of responsibilities at the head of the Company with the Executive Chairman responsible for developing the strategic direction of the business and ensuring the effective operation of the Board, including compliance with principles of good corporate governance, and the Chief Executive primarily responsible for implementing strategy and running the Group's operations on a day to day basis. As appropriate, and in order to ensure good corporate governance, the Executive Chairman is assisted by the Company's independent non-executive Deputy Chairman in ensuring the effective operation of the Board

The division of responsibilities between the Executive Chairman and Chief Executive has been set out in writing and agreed by the Board in accordance with the Code (provision A.2.1).

Supply of Information

Information is supplied to the Board in a timely manner with board papers and accounts being provided in advance of meetings. When the Board requests additional information it is provided.

Re-election

The Company's Articles stipulate that one third of all directors are required to retire by rotation at each Annual General Meeting and all newly appointed directors are required to offer themselves for election by the shareholders at the next Annual General Meeting.

However, the Code requires that all directors of FTSE 350 companies be subject to annual re-election by shareholders. Therefore all the directors will be submitted for re-election at the forthcoming Annual General Meeting in July. Acknowledging the Code requirement for a particularly rigorous review in circumstances where non-executive directors' terms are being extended beyond six years, the Board has determined that all directors continue to make a valuable contribution to the commercial success of the Company, with each bringing a complementary range of skills to the team.

Remuneration Committee

The Board has a Remuneration Committee whose responsibility is to ensure that the remuneration of executive directors is sufficient to attract, retain and motivate people of the highest calibre. The Remuneration Committee comprises three independent non-executive directors, namely Julian Schild (Chairman of the Committee), Melvin Lawson and Michael Pavia The Directors' Remuneration Report, giving the details of the emoluments of each director, may be found on pages 36 to 42.

The Remuneration Committee has written terms of reference, available on the Company's website (www.utilitywarehouse.co.uk), which describe the authority and duties which have been delegated to it by the Board.

Audit Committee

The Audit Committee comprises three independent non-executive directors, Michael Pavia (Chairman of the Committee), Melvin Lawson and Julian Schild in compliance with the Code (provision C.3.1). The activities of the Audit Committee are set out on pages 44 and 45.

The Audit Committee has written terms of reference, available on the Company's website (www.utilitywarehouse.co.uk), which describe the authority and duties which have been delegated to it by the Board.

External Auditor

The Audit Committee is mindful of the New Code's requirement for FTSE 350 companies to put external audit contracts out to tender at least every ten years. On 28 March 2013, the Company's auditor PKF (UK) LLP ("PKF"), which had been in place for over ten years, announced that its merger with fellow accountancy firm, BDO LLP ("BDO"), had completed. During PKF's tenure, and in accordance with internal procedures and best practice, audit partners rotated every five years. The current year represents the fifth and final year for the Company's current audit partner, Jason Homewood. Therefore in the light of the requirements of the New Code and the associated guidance, the Committee would ordinarily propose that the external audit contract for the coming year be put out to tender

However, the Committee believes that the merger of PKF and BDO has increased the breadth of resources available to the Company for the conduct of the audit. Discussions with the combined firm regarding the audit for the coming year indicate that at partner level members of the audit team would likely be drawn from the BDO side. In practice the Committee therefore feels that the coming year's audit will effectively be led by a new audit firm, whilst continuing to benefit from the enhanced audit effectiveness inherent in audit team continuity at levels below partner

Nonetheless, the Committee is conscious of the principles behind the requirement in the New Code to tender the external audit and will therefore closely monitor the performance, objectivity and independence of BDO in the short term. Should any concerns arise in these areas then it is likely the Committee will reconsider its position in relation to tendering the audit contract within the ten year period set out in the New Code.

Nomination Committee

The Nomination Committee comprises Michael Pavia (Chairman of Committee), Julian Schild and Charles Wigoder and therefore has a majority of independent non-executive directors in compliance with the Code (provision B.2.1). The main purpose of the Nomination Committee is to make recommendations to the Board on the appointment of new directors.

The Nomination Committee has written terms of reference, available on the Company's website (www.utilitywarehouse.co.uk), which describe the authority and duties which have been delegated to it by the Board.

The activities of the Nomination Committee are set out on page 43.

Relations with Shareholders

It is the policy of the Company to maintain a dialogue with institutional shareholders and to keep them informed about the objectives of the business. The Board considers that it is appropriate for the executive directors to discuss any relevant matters regarding company performance with major shareholders and that this is undertaken primarily by the Chief Executive and Finance Director. The Chief Executive provides feedback from major shareholders to the other directors, in order to ensure that Board members, and in particular non-executive directors, develop a balanced understanding of the views of major investors. The executive directors met with a number of the Company's main shareholders during the year.

The Executive Chairman, Chief Executive and Finance Director also have periodic discussions with the Company's brokers and issues are fed back to the Board as appropriate Reports are also received from the Company's brokers following investor presentations. These reports are submitted to the Board for review. Additionally the non-executive directors have the opportunity to meet with the Company's brokers to discuss any issues at the Company's Express Day sales conference in March each year.

Responsibility for communication with key shareholders in relation to corporate governance and Board remuneration matters lies primarily with the Deputy Chairman who is assisted in this regard by the Company Secretary Individual invitations to engage with the Deputy Chairman were sent out to key shareholders during the year and, where requested, meetings were held to discuss matters in more detail.

Annual General Meeting

Notice of the Annual General Meeting and related papers are sent to all shareholders at least 20 working days before the meeting Separate resolutions are proposed for each matter including the adoption of the Report and Accounts, the Directors' Remuneration Report and the appointment of the Group's auditor. Proxy votes are counted and the meeting is advised of the number of proxies lodged for and against each resolution The Chairmen of the Audit, Remuneration and Nomination Committees and the remaining non-executive directors are available to answer questions. Shareholders who attend are invited to ask questions and take part in the meeting.

Internal Control

The Board acknowledges its responsibility for the Group's systems of internal control and risk management. However it recognises that any system can only provide reasonable, and not absolute, assurance against material misstatement or loss.

In conjunction with the Company's senior management team, the executive directors regularly identify, review and evaluate the key risks faced by the Group and the effectiveness of the internal controls in place to mitigate these risks. The results of these reviews are recorded in a formal document which sets out a detailed evaluation of each risk and the associated internal control in place to mitigate that risk. The document is reported to the Audit Committee and the Company's external auditor for review at least once per year.

The Board of directors has continued to review the internal controls of the Company (including financial, operational and compliance controls and risk management) and the principal risks which the Company faces during the year No material weaknesses in internal controls were identified during the year. The principal risks faced by the Company and the measures taken to address these risks are set out in the Business Review on pages 16 to 19

Share Capital and Voting Rights

Details of the Company's share capital and substantial shareholdings can be found in the Directors' Report under the capital structure and substantial shareholders sections on pages 26 and 27.

Directors' Remuneration Report

This report, which has been prepared in accordance with the provisions of the UK Corporate Governance Code ("the Code") issued by the Financial Reporting Council in June 2010, has been approved by the Board of directors for submission to shareholders for approval at the forthcoming Annual General Meeting. The sections under the headings "Directors' Remuneration", parts of "Share Incentive Schemes" and "Pension Schemes" have been subject to external audit.

Remuneration Committee

The Remuneration Committee ("the Committee") is responsible for reviewing and making recommendations to the Board regarding the broad policy relating to the total remuneration paid to the executive directors and members of senior management of the Company; it meets regularly to review and set all elements of the remuneration paid to the executive directors of the Company, including pension rights, and monitors the level and structure of remuneration for other senior management of the Company. It also exercises all the powers of the Board in relation to the operation of the Company's share incentive schemes, including the grant of options and the terms of those grants.

The Committee met formally four times during the year and details of attendance at this meeting are provided in the Corporate Governance Statement on page 30.

The Committee's principal activities during the year included:

- Reviewing and approving executive remuneration packages;
- Monitoring senior management remuneration packages;
- Reviewing and approving the issue of share options to the Finance Director, certain employees and independent distributors of the Company;
- Determining the performance conditions attached to the issue of share options; and
- Approval of a minor change to the rules of the distributor share option scheme to allow options to be issued with performance conditions attached to vesting.

Remuneration Policy

The overall remuneration policy remains, as previously, to ensure that the executive directors of the Company and other senior managers in the Company are fairly and responsibly rewarded for their individual contribution to the overall long term performance of the Company, in a manner that ensures that the Company is able to attract, motivate, and retain executives of the quality necessary to ensure the successful management of the Company. In setting the overall remuneration packages of the executive directors the Committee is mindful of the remuneration levels at comparable companies in the FTSE 250.

The Company's remuneration policy is based on the principle that the fortunes of the directors and senior management should be directly aligned with those of external shareholders, and this is achieved (in the case of the Executive Chairman) as a result of his significant shareholding in the Company and (in the case of the Chief Executive Officer, Finance Director and all other members of the senior management team) through the use of share incentive plans. The Committee continues to believe that share incentive plans granted at market value provide a far more transparent method by which to align each director's interests with all shareholders when compared to the payment of annual cash bonuses based on short-term performance measures

The Committee's key objective in relation to share incentive plans is to ensure that the executive directors' interests are aligned with all shareholders in the medium to long term. This has resulted in a policy of granting slightly larger than normal individual awards, however these awards are made less frequently than average and have longer overall vesting periods.

Changes in the remuneration of the executive directors are decided by the Committee having taken into account all relevant information available at the time. In particular the Committee takes into account the Company's performance and the responsibilities, individual performance and experience of each executive director. The Committee also takes into account pay levels across the organisation when setting the remuneration payable to all directors (both executives and non-executives)

The Business Review contained on pages 13 to 14 explains how the Company is reliant on the combined efforts of all its employees to manage relationships with both customers and distributors and to deliver a consistently high quality of service, and that it is key to the overall success of the Company and to its future long term profitability that the Company is able to attract and retain a motivated, talented and diverse workforce.

All employees are accordingly given the opportunity to benefit from share options after a qualifying period of employment, and those in customer facing roles are eligible to receive a regular bonus based on the quality of the service they provide.

Components of Remuneration

Each of the three executive directors of the Company, Mr Wigoder as Executive Chairman, Mr Lindsay as Chief Executive Officer and Mr Houghton as Finance Director, receives a base salary, but no bonus.

Whilst many executive directors in similarly sized companies earn significant cash bonuses in addition to their base salaries, the Committee continues to believe that the most effective method by which to incorporate performance-related remuneration for the executive directors is through the granting of awards under share ownership incentive plans rather than through the payment of cash-based bonuses. This method has the benefit of directly aligning the interests of executive directors with all the Company's shareholders in a clear and transparent manner.

Each of Mr Wigoder's, Mr Lindsay's and Mr Houghton's service contracts provides for pension contributions equal to 10% of basic salary to be paid by the Company into defined contribution pension schemes. The executive directors were also provided with private health insurance during the year.

The Committee recommended increases to the annual base salaries of each of the executive directors. Messrs Wigoder and Lindsay received an increase of 9.1% to £360,000 while Mr Houghton received a slightly larger percentage increase of approximately 12.5% to £225,000 in recognition of his increasing experience and contribution to the Board. The Committee believes that these salary increases are fully justified by reference to the individual performances of the directors concerned, their total remuneration packages (which exclude cash bonuses but include participation in the Company's share incentive plans) and current market rates. Whilst not simply aiming to follow the market median, in determining its remuneration policy, the Committee remains mindful of the current position of directors' salaries relative to other FTSE 250 companies and the need to retain and motivate key individuals given the Company's continued strong performance.

In addition, share options with performance conditions attached were issued to Mr Houghton during the year, details of which are set out below in this report.

The non-executive directors receive fees for their services, the details of which are described below. The level of these fees was unchanged during the year. The policy with regard to fee structure is to reflect time commitment and responsibility of the various roles

Directors' Remuneration (audited)

Audited details of directors' remuneration for the year are as follows:

	Salary & Fees £'000	Healthcare £'000	Pension Contributions £'000	2013 Total £'000	2012 Total £'000
Charles Wigoder	360	5	36	401	367
Julian Schild	35	-	-	35	35
Andrew Lindsay	360	3	36	399	366
Chris Houghton	225	3	23	251	222
Melvin Lawson	12	-	-	12	12
Michael Pavia	21	-	-	21	20
	1,013	11	95	1,119	1,022

Share Incentive Schemes

The Company has two share option plans and a Joint Share Ownership Plan (the "JSOP") The first share option plan and the JSOP are available to employees, and the second share option plan is available to the Company's independent distributors.

The Employee Share Option Plan

Subject to serving the requisite probationary period, all employees are eligible to participate in the Company's employee share option plan and be issued with options over shares in the Company, the number of shares being related to their seniority and length of service.

It is the policy of the Committee, mindful of the requirements of the Code, to ensure that save in exceptional circumstances performance conditions are imposed on any awards made under share incentive plans to either executive directors of the Company or to those senior executives who are not Board members but whose status and role can reasonably be regarded as giving them a significant influence over the Company's ability to meet its strategic objectives. When imposed, the performance conditions are determined having regard to the Company's circumstances and its prospects, and prevailing market practice and trends.

It continues to be the view of the Committee and of the Board that it would not be in the interests of the Company to seek to impose performance conditions on awards made to other, more junior, employees whose individual performance is unlikely to have a direct impact on the long term success or strategic direction of the Company. However, the Committee recognises that the collective contribution of all employees is critical to the success of the Company and continues to believe that the granting of share options at all levels within the organisation generates employee loyalty and helps to ensure that staff turnover is kept to a minimum and below the levels seen across the industry for employees passing their probationary periods.

The Joint Share Ownership Plan

Awards made through the JSOP provide participants with a joint interest in tranches of shares which are held until vesting by an independent employee benefit trust (the "JSOP Share Trust"). The trustee of the JSOP Share Trust is Barclays Wealth Trustees (Guernsey) Limited. The value to participants of awards made under the JSOP is based upon the growth in the value of the Company's shares from the date of grant in a similar manner to the value achieved through participation in the conventional share option scheme. However, participants in the JSOP only receive value to the extent that the share price increase exceeds a compound annual growth rate of at least five per cent (the "Hurdle Rate") On vesting, participants receive any gain over the Hurdle Rate on the tranche of shares in which they hold a joint interest, with all the gain below the Hurdle Rate being retained by the JSOP Share Trust. In addition, awards made under the JSOP to executive directors will only vest to the extent applicable performance conditions relating to the financial and trading performance of the Company are met.

The Networkers and Consultants Share Option Plan

The Networkers and Consultants Share Option Plan exists to provide incentives and rewards to those distributors who have been most successful in gathering new customers for the Company These distributors, whilst not being employees of the Company, are nevertheless essential to its future growth, and it is the opinion of the Committee that this plan can in some cases be an important factor in their motivation.

During the year options were issued in two tranches to approximately 700 distributors under a new share option promotion scheme which requires the participants to achieve performance conditions in order for the options to vest. These performance conditions will involve distributors consistently gathering customers each month during the three-year vesting periods of the options.

Details of awards granted to directors (audited)

Details of the share awards held or granted to directors during the year are set out in the table below (further details on the estimated cost of these awards are set out in note 17 to the financial statements):

	1 April 2012	Granted	Exercised	31 March 2013	Exercise price per share	Exercisable from	Expiry date
Andrew Lindsay							
Share options							
12 Jun 2008	217,400	-	-	217,400	330.5p	12 Jun 11	11 Jun 18
JSOP interest							
31 March 2011[1]	500,000	-	-	500,000	n/a	1 Apr 15	n/a
Chris Houghton							
10 Dec 2008	50,000	-	-	50,000	340p	10 Dec 11	9 Dec 18
26 June 2009	50,000	-	-	50,000	278p	26 Jun 12	25 Jun 19
26 June 2012	-	25,000	-	25,000	828p	26 Jun 15	26 Jun 22
26 June 2012	-	25,000	-	25,000	828p	26 Jun 17	26 Jun 22

[1] Shares held jointly with the JSOP Share Trust

The share options held by Andrew Lindsay during the year were granted on 12 June 2008 pursuant to contractual promises made when he originally joined the Company, prior to his appointment to the Board, and on terms that performance conditions would not be imposed in respect of these grants. Accordingly, these options do not have performance conditions attaching to them. However, the award of a joint interest in 500,000 shares made to him on 31 March 2011 under the JSOP ("the JSOP Share Award") was made subject to performance conditions which were described in detail in the annual report for the year ended 31 March 2011

The JSOP interest allows Mr Lindsay, subject to the achievement of the performance conditions summarised below, to receive any increase in the value of the 500,000 shares over the share price on the date of grant (£4.55), plus an annual compound growth rate of five per cent. This means that if Mr Lindsay were to exercise his award on the first date of vesting, 1 April 2015, he would receive any value over £5.53 per share.

The table below sets out the compound annual growth rates required during the vesting period across the three performance conditions which will determine the percentage of the 500,000 shares that will be used to calculate the total gain attributable to Mr Lindsay, e.g. if the Company were to achieve compound annual EPS and TSR growth of exactly 5% over the vesting period the gain attributable to Mr Lindsay would be calculated based on the total value of 250,000 shares over the annual compound 5% Hurdle Rate. The number of shares used to calculate the gain which Mr Lindsay will be entitled to receive on vesting will depend on the average growth achieved across the two highest performance conditions.

Percentage of 500,000 shares	**EPS growth**	**TSR growth**[1]	**Service number growth**
100%	7.5%	7.5%	7.5%
50%	5.0%	5.0%	5.0%
50%-100%[2]	5.0%-7.5%	5.0%-7.5%	5.0%-7.5%
Nil	<5%	<5%	<5%

[1] compound annual share price growth assuming 22p annual dividend
[2] percentage of shares to be calculated on a straight line basis

The 50,000 options granted to Mr Houghton on 10 December 2008 were granted to him prior to his appointment to the Board on terms that performance conditions would not be imposed in respect of this grant. However, the 50,000 options granted to him on 26 June 2009 after his appointment to the Board were made subject to performance conditions which were described in detail in the annual report for the year ended 31 March 2010. The performance conditions in relation to these options were all met and the options have vested.

During the year a further 50,000 options were awarded to Mr Houghton on 26 June 2012. These options will vest in two tranches of 25,000, each representing shares with a value of approximately 100% of Mr Houghton's annual base salary. In determining the quantum and structure of the award the Committee was mindful of a number of key factors including the fact that, unlike the remuneration packages of most other FTSE 250 executive directors, Mr

Houghton's does not include an annual cash bonus element. The Committee was also firmly of the view that the vesting structure of the award was designed to strongly align Mr Houghton's interests with those of other shareholders over the medium to longer term.

The options were made subject to performance conditions as described in detail below. In determining the nature of these performance conditions, the Committee was mindful of views expressed by investors in relation to performance conditions previously used by the Company for share incentive awards. The Committee therefore decided to incorporate an inflationary factor in the EPS growth condition and made the measure of TSR growth measure relative to the FTSE 350 Index (excluding Investment Trusts) rather than an absolute target.

The extent to which these options will vest will depend on the average growth achieved across the two highest annual growth performance measures summarised in the table below:

Percentage of options vesting	EPS growth	Relative TSR growth[1]	Service number growth
100%	CPI + 7.5%	Upper quartile	10%
50%	CPI + 5.0%	Median	5.0%
50%-100%[2]	CPI + 5 0%-7.5%	Median – Upper quartile	5.0%-10.0%
Nil	<CPI + 5.0%	Below median	<5.0%

[1] Company TSR performance relative to the FTSE 350 (excluding Investment Trusts)
[2] percentage of shares to be calculated on a straight line basis

At the year end the Company's share price was 1001p and the range during the financial year was 677p to 1017p

Directors' Contracts of Service

There are Service Contracts or Letters of Appointment for Charles Wigoder (5 May 2011), Andrew Lindsay (5 May 2011), Chris Houghton (16 February 2009), Julian Schild (25 May 2010), Melvin Lawson (27 September 2006), and Michael Pavia (13 December 2006) These provide notice periods of three months on either side for the non-executive directors and the following notice periods for the executive directors: Mr Wigoder twelve months on either side and Mr Lindsay and Mr Houghton each with six months on either side. No contract provides for compensation for loss of office.

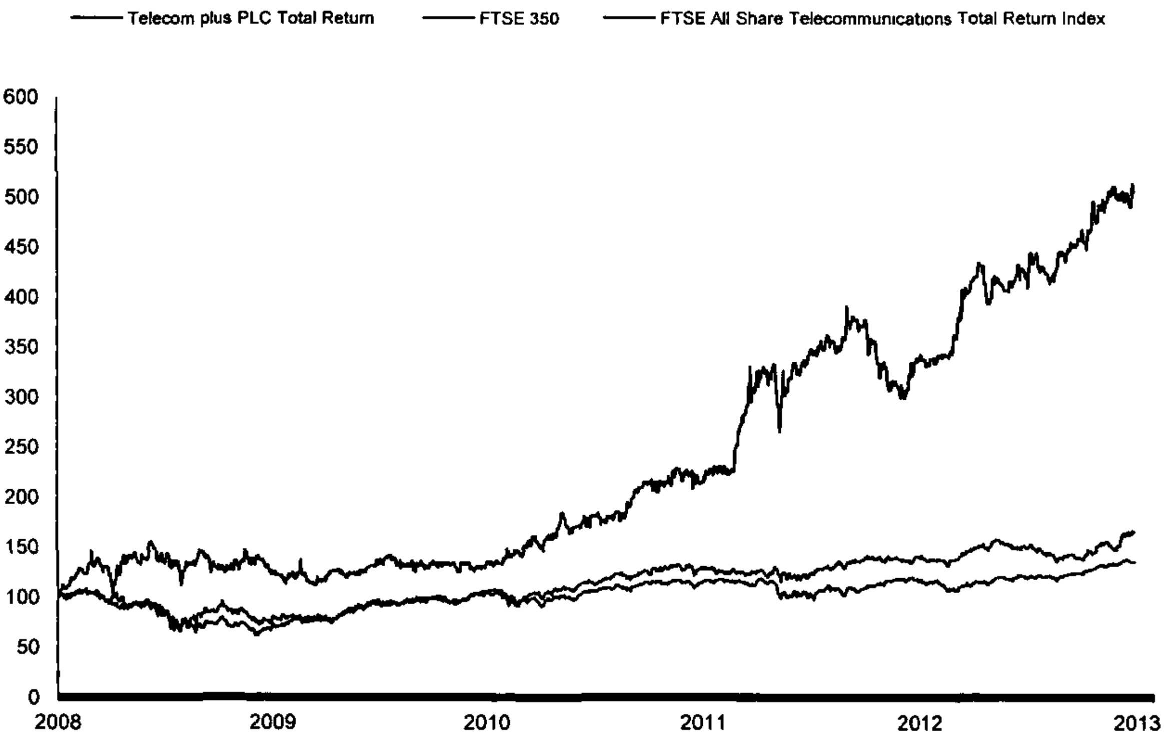
Pension Schemes (audited)

The Company makes no contributions to the pensions of any current directors except to Mr Wigoder, Mr Lindsay and Mr Houghton, details of which are shown within the table on page 38.

Performance Graph showing Total Shareholder Return

The following graph shows the Company's performance measured by total shareholder return compared with the performance of the FTSE All Share Fixed Line Telecommunications Index and the FTSE 350 for the period 1 April 2008 to 28 March 2013. As noted in previous years, the FTSE All Share Fixed Line Telecommunications Index was initially selected at a time when a larger proportion of the Company's revenues related to the supply of telephony services; only approximately 15% of the Company's revenues are now generated from such telephony services.

The FTSE 350 Index is included as a further comparator in the light of the fact that there are no sector specific indices containing directly comparable quoted companies supplying a broad range of services similar to that provided by the Company.



Source: Thomson Datastream

Julian Schild
Chairman of the Remuneration Committee
On behalf of the Board
20 May 2013

Nomination Committee Report

The Nomination Committee comprises Michael Pavia (Chairman of the Committee), Julian Schild and Charles Wigoder and therefore has a majority of independent non-executive directors in compliance with the UK Corporate Governance Code (provision B 2.1)

The key responsibilities of the Nomination Committee include:

- making recommendations to the Board on the appointment of new non-executive and executive directors, including making recommendations as to the composition of the Board generally and the balance between executive and non-executive directors;
- giving consideration to succession planning for directors and other senior executives;
- reviewing on an annual basis the time required from non-executive directors and assessing whether the non-executive directors are spending enough time to fulfil their duties,
- reviewing the re-election by shareholders of directors under the annual re-election provisions of the Code; and
- evaluating any matters relating to the continuation in office of any director including the suspension or termination of service of an executive director.

Although no new directors were appointed to the Board during the year, other Committee matters were periodically discussed as part of full Board meetings These discussions principally concerned the appropriateness of the composition of the Board in the light of the Company's existing operations and medium-term strategic objectives, and succession planning for directors and senior management No changes to the Board were deemed necessary during the year.

Michael Pavia
Chairman of the Nomination Committee
On behalf of the Board
20 May 2013

Audit Committee Report

The Audit Committee comprises three independent non-executive directors, Michael Pavia (Chairman of the Committee), Julian Schild and Melvin Lawson in accordance with the UK Corporate Governance Code (the "Code") (provision C 3.1) Michael Pavia is also identified as having recent and relevant financial experience

Attendance at Audit Committee meetings during the current year by Audit Committee members is set out in the Corporate Governance Report on page 30 of this document. In accordance with best practice, the Audit Committee has the opportunity, as required, to meet with the external auditor of the Company without the presence of any executive directors and has done so during the current year.

The key responsibilities of the Audit Committee include·

- reviewing the appointment, re-appointment and removal of the external auditor and the direction of the external auditor to investigate any matters of particular concern;
- assessing the effectiveness of the Company's external auditor, including considering the scope and results of the annual audit;
- reviewing the independence and objectivity of the external auditor and assessing any potential impact on objectivity resulting from the provision of non-audit services by the external auditor;
- monitoring the integrity of the financial statements of the Company and any formal announcements relating to the Company's performance; and
- reviewing the Company's internal financial controls and other internal control and risk management processes.

The senior management team and executive directors periodically review the effectiveness of key internal control and risk management processes within the Company and report any changes in such activities to the Audit Committee and the external auditor for consideration. The review covers all material controls, including financial, operational and compliance controls.

During the year the Audit Committee reviewed and approved the Company's half year and annual financial statements, including a detailed evaluation of the key accounting estimates contained therein. The Committee concluded that the accounting treatment applied in these instances was appropriate Also, in conjunction with the Company's external auditor, the Audit Committee has considered, among other matters, compliance with the provisions of the Code and accounting developments, the Company's financial control environment and its risk management and control processes. As part of this process the Audit Committee has also considered the need for any special projects or internal investigations and concluded that no such projects or investigations have been required. Going forward the Committee is mindful of the increasing need for the disclosure of information regarding the Company's environmental impact and will be working to introduce appropriate procedures for the verification of the required disclosures.

In accordance with the Code (provision C.3.5), the Audit Committee has also considered the need for an internal audit function at the Company and has concluded that, in the light of its regular review of the internal controls in place and the report of the external auditor, no such function is currently required.

The external auditor presents a detailed audit report to the Audit Committee following a review of the annual financial statements. Having regard to its review of the work performed by the external auditor during the year, the Audit Committee remained satisfied with the effectiveness of the external auditor.

In relation to the appointment of an external auditor for the coming year, as explained in the Corporate Governance Statement on page 33, PKF completed its merger with fellow accountancy firm BDO on 28 March 2013. Following an assessment of independent industry reports on BDO, the qualifications, experience and resources of BDO, the Committee has recommended to the Board, for approval by the shareholders at the AGM, the reappointment of BDO as the Company's external auditor for the coming year.

In order to guard against the objectivity and independence of the external auditor being compromised, the provision of any significant additional services aside from audit and tax compliance remains subject to the prior approval of the Audit Committee. The Committee would be likely to prohibit the provision of the following types of non-audit related work by the Company's external auditor

- book-keeping and work relating to the preparation of accounting records and financial statements that will ultimately be subject to external audit;
- financial information system design and implementation,
- appraisal or valuation services in respect of material assets;
- internal auditing;
- investment advice or corporate broking; and
- any other work where mutual interests exist that could compromise the independence of the external auditor.

The Audit Committee pre-approved the provision of certain tax and other services to the Company by the external auditor during the year. The Committee reviewed the services to be provided, and in the light of the nature of the work proposed and the level of the associated fees (as set out in note 2 of the financial statements on page 61 of this document), considered that the external auditor's objectivity and independence would not be compromised and that the external auditor was best placed to provide these services.

The Chairman of the Audit Committee, Michael Pavia, is the primary point of contact for staff of the Company to raise, in confidence, concerns they may have over possible improprieties, financial or otherwise All employees have been notified of this arrangement on the Company's intranet site which sets out Michael Pavia's contact details (Code provision C.3 4). No such matters were raised by employees during the current year.

Michael Pavia
Chairman of the Audit Committee
On behalf of the Board
20 May 2013

Directors' Responsibilities Statement

The directors are responsible for preparing the Directors' Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss for the group for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent; and
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions The maintenance and integrity of the Company's website is the responsibility of the directors The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' responsibilities pursuant to DTR4

The directors confirm to the best of their knowledge:

- The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group.
- The annual report includes a fair review of the development and performance of the business and the financial position of the Group and the parent company, together with a description or the principal risks and uncertainties that they face.

Independent Auditor's Report to the Members of Telecom Plus PLC

We have audited the financial statements of Telecom Plus PLC for the year ended 31 March 2013 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statements of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 March 2013 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006,
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 29 to 35 of the annual report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on pages 27 and 28; in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

BDO LLP

Jason Homewood (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London, UK
20 May 2013

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2013

	Note	**2013** £'000	**2012** £'000
Revenue	1	601,505	471,458
Cost of sales		(517,950)	(395,085)
Gross profit		83,555	76,373
Distribution expenses		(17,753)	(16,017)
Administrative expenses		(35,449)	(32,563)
Other income		907	370
Operating profit	1, 2	31,260	28,163
Financial income		49	49
Financial expenses		(82)	(132)
Net financial expense		(33)	(83)
Share of profit of associates	8	3,404	2,663
Profit before taxation		34,631	30,743
Taxation	4	(7,565)	(7,290)
Profit and total comprehensive income for the year attributable to owners of the parent		27,066	23,453
Basic earnings per share	15	38.7p	33.8p
Diluted earnings per share	15	38.1p	33 4p

Company number: 3263464

Consolidated and Company Balance Sheets

As at 31 March 2013

	Note	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Assets					
Non-current assets					
Property, plant and equipment	5	18,950	19,256	18,950	19,256
Intangible assets	6	2,969	2,969	2,969	2,969
Goodwill	7	3,742	3,742	-	-
Investments in associates	8	7,216	6,159	1,497	1,479
Deferred tax	9	1,646	1,321	1,644	1,318
Non-current receivables	10	10,300	7,711	12,575	9,986
Total non-current assets		44,823	41,158	37,635	35,008
Current assets					
Inventories		491	452	491	452
Trade and other receivables	11	16,541	15,563	16,499	15,336
Prepayments and accrued income	11	115,947	79,148	115,510	78,245
Cash		3,378	3,846	3,137	3,605
Total current assets		136,357	99,009	135,637	97,638
Total assets		181,180	140,167	173,272	132,646
Current liabilities					
Short term borrowings		(2,605)	(2,900)	(2,605)	(2,900)
Trade and other payables	12	(7,504)	(5,317)	(10,512)	(7,417)
Current tax payable		(2,815)	(2,981)	(2,760)	(2,805)
Accrued expenses and deferred income	13	(96,829)	(66,158)	(96,418)	(65,697)
Total current liabilities		(109,753)	(77,356)	(112,295)	(78,819)
Non-current liabilities					
JSOP creditor	12	(685)	-	(685)	-
Total assets less total liabilities		70,742	62,811	60,292	53,827
Equity					
Share capital	14	3,530	3,510	3,530	3,510
Share premium		8,508	7,716	8,508	7,716
JSOP reserve		(2,275)	(2,275)	-	-
Retained earnings		60,979	53,860	48,254	42,601
Total equity		70,742	62,811	60,292	53,827

These accounts were approved and authorised for issue by the Board on 20 May 2013

Charles Wigoder Director

Chris Houghton Director

Consolidated and Company Cash Flow Statements

For the year ended 31 March 2013

	Group		Company	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Operating activities				
Operating profit	31,260	28,163	30,702	26,797
Depreciation of property, plant and equipment	1,254	1,286	1,254	1,286
Distribution from associated company	2,365	1,817	2,365	1,817
Increase in inventories	(39)	(105)	(39)	(105)
Increase in trade and other receivables	(40,366)	(2,248)	(41,017)	(2,506)
Increase in trade and other payables	32,858	15,686	32,976	15,933
Increase in inter-company payable	-	-	840	940
Costs attributed to the issue of share options	931	641	931	641
Corporation tax paid	(7,284)	(6,656)	(7,033)	(6,224)
Net cash flow from operating activities	20,979	38,584	20,979	38,579
Investing activities				
Purchase of property, plant and equipment	(948)	(8,074)	(948)	(8,074)
Purchase of shares in associated company	(18)	-	(18)	-
Cash flow from investing activities	(966)	(8,074)	(966)	(8,074)
Financing activities				
Dividends paid	(20,965)	(16,636)	(20,965)	(16,636)
Interest received	49	49	49	49
Interest paid	(82)	(132)	(82)	(132)
Issue of new ordinary shares	812	483	812	483
Purchase of own shares	-	(444)	-	(444)
Sale of treasury shares	-	222	-	222
Cash flow from financing activities	(20,186)	(16,458)	(20,186)	(16,458)
(Decrease)/increase in cash and cash equivalents	(173)	14,052	(173)	14,047
Net cash and cash equivalents at the beginning of the year	946	(13,106)	705	(13,342)
Net cash and cash equivalents at the end of the year	773	946	532	705
Cash	3,378	3,846	3,137	3,605
Short term borrowings	(2,605)	(2,900)	(2,605)	(2,900)
Net cash and cash equivalents at the end of the year	773	946	532	705

Consolidated Statement of Changes in Equity

For the year ended 31 March 2013

Consolidated	Share capital £'000	Share premium £'000	JSOP reserve £'000	Treasury shares £'000	Retained earnings £'000	Total £'000
Balance at 1 April 2011	3,477	4,298	(2,275)	-	46,202	51,702
Profit and total comprehensive income for the year					23,453	23,453
Deferred tax on share options					422	422
Dividends	-	-	-	-	(16,636)	(16,636)
Purchase of treasury shares	-	-	-	(444)	-	(444)
Sale of treasury shares	-	-	-	444	(222)	222
Credit arising on share options	-	-	-	-	641	641
Issue of new ordinary shares	33	3,418	-	-	-	3,451
Balance at 31 March 2012	3,510	7,716	(2,275)	-	53,860	62,811
Profit and total comprehensive income for the year					27,066	27,066
Deferred tax on share options					776	776
Dividends	-	-	-	-	(20,965)	(20,965)
Credit arising on share options	-	-	-	-	242	242
Issue of new ordinary shares	20	792	-	-	-	812
Balance at 31 March 2013	3,530	8,508	(2,275)	-	60,979	70,742

Company Statement of Changes in Equity
For the year ended 31 March 2013

Company	Share capital £'000	Share premium £'000	Treasury shares £'000	Retained earnings £'000	Total £'000
Balance at 1 April 2011	3,477	4,298	-	36,799	44,574
Profit and total comprehensive income for the year				21,597	21,597
Deferred tax on share options				422	422
Dividends	-	-	-	(16,636)	(16,636)
Purchase of treasury shares	-	-	(444)	-	(444)
Sale of treasury shares	-	-	444	(222)	222
Credit arising on share options	-	-	-	641	641
Issue of new ordinary shares	33	3,418	-	-	3,451
Balance at 31 March 2012	3,510	7,716	-	42,601	53,827
Profit and total comprehensive income for the year				25,600	25,600
Deferred tax on share options				776	776
Dividends	-	-	-	(20,965)	(20,965)
Credit arising on share options	-	-	-	242	242
Issue of new ordinary shares	20	792	-	-	812
Balance at 31 March 2013	3,530	8,508	-	48,254	60,292

Notes to the consolidated financial statements

Significant accounting policies

Telecom Plus PLC (the "Company") is a company domiciled in the United Kingdom. The consolidated financial statements of the Company for the year ended 31 March 2013 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The financial statements were authorised for issue by the directors on 20 May 2013.

(a) Statement of compliance
The financial statements of the Group and the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as endorsed by the EU and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS

(b) Basis of preparation
The accounts are prepared on a going concern and historical cost basis. The fair value basis is adopted for relevant assets and liabilities as required under IFRS.

The preparation of financial statements in conformity with IFRSs 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 the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources Actual results may differ from these estimates.

The most significant assumptions in the financial statements relate to the recoverability of customer receivables, which are referred to in the Business Review under principal risks.

By virtue of section 408 of the Companies Act 2006 the Company is exempt from presenting a statement of comprehensive income. The Company made a profit for the year of £25,600,000 (2012: £21,597,000).

The following standards and interpretations have become mandatory for the Company during the current accounting period, but where relevant to the Company they have not had a material impact on the financial statements

- IAS 1 Presentation of Financial Statements (amended);
- IAS 19 Employee Benefits (amended);
- IAS 27 Separate Financial Statements;
- IAS 28 Investments in Associates and Joint Ventures;
- IFRS 1 First time adoption of IFRS: Government loans (amended),
- IFRS 7 Financial instruments: Disclosure,
- IFRS 10 Consolidated Financial Statements;
- IFRS 11 Joint Arrangements;
- IFRS 12 Disclosure of Interests in Other Entities,
- IFRS 13 Fair Value measurement; and
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine.

Notes to the consolidated financial statements

Significant accounting policies (continued)

(c) Basis of consolidation
(i) Subsidiaries
The Group's financial statements consolidate the financial statements of Telecom Plus PLC and its subsidiary. Subsidiaries are consolidated from the date on which control transfers to the Group and are included until the date on which the Group ceases to control them. Transactions between Group companies are eliminated on consolidation.

(ii) Associates
An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost and adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments Losses of an associate in excess of the Group's interest in that associate are not recognised

(d) Business combinations
The acquisition of subsidiaries is accounted for using the purchase method. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair value at the date of acquisition Any excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill Goodwill is reviewed for impairment at least annually and any impairment is recognised immediately in the Statement of Comprehensive Income. Any deficiency of the cost of acquisition below the fair value of the identifiable net assets acquired is credited to the Statement of Comprehensive Income on acquisition.

(e) Revenue
Revenue is the value of goods and services supplied to external customers and independent distributors excluding value added tax and other sales related taxes. For each of the Company's main income streams from the provision of fixed line telephony, broadband, mobile telephony, gas and electricity services, transactions are recorded as sales in the month when the provision of those services takes place. The Company's customers are invoiced in the month following that in which the services are provided. The Company also generates revenue as a result of joining fees paid by new distributors and in relation to vehicles supplied to distributors on hire purchase agreements. These transactions are recorded as sales in the month the distributor joins the Company or is supplied with the vehicle. The recognition of revenue associated with the provision of gas and electricity services to customers by the Company relies on estimates of actual usage where meter readings are not available. These estimates are based on historical usage information as adjusted for known factors such as variations in weather.

(f) Interest income
Interest income is recognised in the Statement of Comprehensive Income as it accrues, using the effective interest rate method.

Notes to the consolidated financial statements

Significant accounting policies (continued)

(g) Leases
Payments on operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

(h) Hire purchase agreements
Hire purchase agreements relate to leases of assets where the Group has passed on substantially all the risks and rewards of ownership and are therefore classified as finance leases. When assets are leased out under finance leases, the present value of the minimum lease payments is recognised as a receivable.

(i) Taxation
The tax charge for the year comprises current and deferred tax. Taxation is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised, based on the balance sheet liability method, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(j) Property, plant and equipment
Property, plant and equipment is stated at cost less a provision for depreciation Depreciation is calculated so as to write off the cost less estimated residual value of the assets in equal instalments over their expected useful lives. No depreciation is provided on freehold land Depreciation is provided on other assets at the following rates:

Freehold buildings	50 years
Plant and machinery	15 years
Fixtures and fittings	7 years
Leasehold improvements	3 years
Computer and office equipment	3 to 5 years
Motor vehicles	4 years

The carrying amounts of property, plant and equipment are reviewed for impairment when there is an indication that they may be impaired.

Notes to the consolidated financial statements

Significant accounting policies (continued)

(k) Intangible assets
Intangible assets which arise (e.g. on the entering into of significant commercial contractual arrangements) are capitalised and amortised over their useful life or, where appropriate and an indefinite life is chosen, made subject to an annual impairment review

(l) Goodwill
Goodwill arising on the acquisition of a business, representing the difference between the cost of acquisition and the fair value of the separable net assets acquired is capitalised and is subject to impairment review, both annually and when there are indications that the carrying amount may not be recoverable.

(m) Impairment
The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated The recoverable amount of assets is the greater of their fair value less costs to sell and value in use.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised

(n) Investments
In the Company's accounts, investments in subsidiary and associated undertakings are initially stated at cost. Provision is made for any impairment in the value of these investments. In the Group accounts investments in associated undertakings are shown at cost plus accumulated profits less any dividends received from the associated undertakings.

(o) Inventories
Inventories are valued at the lower of cost, including related overheads, and net realisable value. Cost is measured on a first in, first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(p) Financial instruments
The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are recognised on trade date when the Group becomes a party to the contractual provisions of the instrument Financial instruments are recognised initially at fair

Notes to the consolidated financial statements

Significant accounting policies (continued)

value plus, in the case of a financial instrument not at fair value through profit and loss, transactions costs that are directly attributable to the acquisition or issue of the financial instrument.

Financial instruments are derecognised on trade date when the Group is no longer a party to the contractual provisions of the instrument.

(q) Trade receivables
Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. The interest that would be recognised from discounting future cash receipts over the short credit period is not considered to be material.

(r) Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and deposits with banks and short term borrowings which comprise bank loans and overdrafts repayable on demand.

(s) Trade payables
Trade payables are stated at their nominal value, as the interest that would be recognised from discounting future cash payments over the short payment period is not considered to be material

(t) Share based payments
The fair value at the date of grant of share based remuneration, principally share options, is calculated using a binomial pricing model and is charged to the Statement of Comprehensive Income on a straight line basis over the vesting period of the award. The charge to the Statement of Comprehensive Income takes account of the estimated number of shares that will vest. All share option based remuneration is equity settled, except as set out below.

The Company established a Joint Share Ownership Plan (the "JSOP") on 30 March 2011. On vesting, any gains made on awards granted under the JSOP may be settled either through· (i) a cash payment to the participant equal to the gain, or (ii) the transfer of legal and beneficial ownership to the participant of such number of shares as have full value equal to the gain.

JSOP awards are considered to be cash-settled and therefore a fair value liability is calculated using a binomial pricing model. The fair value is charged to the Statement of Comprehensive Income on a straight line basis over the vesting period of the award At each balance sheet date until the liability is settled, and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognised in the Statement of Comprehensive Income.

(u) Segmental reporting
Financial information on operating segments that corresponds with information regularly reviewed by the chief operating decision maker, Mr Andrew Lindsay, is disclosed in note 1 to the accounts.

Notes to the consolidated financial statements

Significant accounting policies (continued)

(v) Provisions
Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

(w) Pensions
The Group makes contributions to certain employees' personal pension plans. These are charged to the Statement of Comprehensive Income in the year in which they become payable

(x) Dividends
Final dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid.

(y) New standards issued but not yet effective
The Group has not adopted any standards or interpretations in advance of the required implementation dates. It is not expected that adoption of the majority of standards or interpretations which have been issued by the International Accounting Standards Board and endorsed by the EU, but have not been adopted, will have a material impact on the financial statements.

The following standards have been issued but are not yet effective:

- IAS 32 Financial instruments: Presentation (amended);
- IFRS 10, IFRS 12 and IAS 27 Investment Entities (amended); and
- IFRS 9 Financial Instruments.

Notes to the consolidated financial statements

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 represent joining fees from the Group's distributors, the sale of marketing materials and sales of equipment including mobile phone handsets and wireless internet routers. Customer Management revenues are principally derived from the supply of fixed telephony, mobile telephony, gas, electricity and internet services to residential and small business customers

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

Operating segments

	Year ended 31 March 2013			Year ended 31 March 2012		
	Customer Management	Customer Acquisition	Total	Customer Management	Customer Acquisition	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue						
External sales	592,182	9,323	601,505	464,469	6,989	471,458
Segment result	41,403	(10,143)	31,260	37,096	(8,933)	28,163
Operating profit			31,260			28,163
Net financing expense			(33)			(83)
Share of profit of associates			3,404			2,663
Profit before taxation			34,631			30,743
Taxation			(7,565)			(7,290)
Profit for the year			27,066			23,453
Segment assets	170,433	3,531	173,964	131,036	2,972	134,008
Investment in associates	7,216	-	7,216	6,159	-	6,159
Total assets	177,649	3,531	181,180	137,195	2,972	140,167
Segment liabilities	(108,835)	(1,603)	(110,438)	(76,313)	(1,043)	(77,356)
Net assets			70,742			62,811
Capital expenditure	(933)	(15)	(948)	(7,954)	(120)	(8,074)
Depreciation	1,235	19	1,254	1,267	19	1,286

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

Notes to the consolidated financial statements

1. Segment reporting (continued)

Revenue by service

		2013	2012
		£'000	£'000
Customer Management			
	- Electricity	235,222	195,730
	- Gas	256,500	178,615
	- Fixed communications	71,767	65,659
	- Mobile	13,673	10,620
	- Other	15,020	13,845
		592,182	464,469
Customer Acquisition		9,323	6,989
		601,505	471,458

As the Group has a large customer base and no undue reliance on any one major customer, no such related revenue is required to be disclosed by IFRS 8 Operating Segments Similarly, as the Group operates solely in the United Kingdom, a geographical analysis is not considered appropriate.

2. Operating profit

Operating profit is stated after charging/(crediting):

		2013	2012
		£'000	£'000
Depreciation and amortisation		1,254	1,286
Operating lease rentals	- land and buildings	307	314
Auditor's remuneration	- audit of Company and consolidated accounts	85	73
	- audit of the subsidiary of the Company	15	13
	- other services pursuant to legislation	14	13
	- taxation services	39	99
	- other services	5	2
Inventories expensed		6,080	4,118
Inventory write-down release		(2)	(29)
Receivables and accrued income impairment cost		9,027	9,295
Rental income		(907)	(219)

Notes to the consolidated financial statements

3. Personnel expenses

	2013	2012
	£'000	£'000
The total charge in the Statement of Comprehensive Income comprised the following		
Wages and salaries	17,536	15,077
Social security costs	1,786	1,480
Pension contributions	342	291
Share based payments	813	552
	20,477	17,400

Average number employed by the Group during the year (excluding directors):		
Customer Acquisition	84	91
Customer Management	520	450
	604	541

	2013	2012
	£'000	£'000
The aggregate remuneration of the directors (included above) was as follows:		
Salaries, fees and other benefits	1,024	936
Pension contributions	95	86
	1,119	1,022
Share based payments	469	280
	1,588	1,302

The emoluments of the highest paid director were £364,957 (2012: £334,020) and pension costs were £36,000 (2012: £33,000). Three (2012: three) directors had contributions paid to their personal pension schemes.

Notes to the consolidated financial statements

4. Taxation

(i) Recognised in the Statement of Comprehensive Income

	2013 £'000	2012 £'000
Current tax charge		
Current year	7,430	7,266
Adjustments for prior years	(316)	(195)
	7,114	7,071
Deferred tax charge		
(Decelerated)/accelerated capital allowances	(28)	17
Other temporary differences	1	79
Increase/(deduction) in respect of share options	124	(175)
Reduction in rate of future taxes	70	110
Adjustment for prior years	284	188
	451	219
Total tax charge	7,565	7,290

(ii) Reconciliation of total tax charge

	2013 £'000	2012 £'000
Profit before tax	34,631	30,743
Corporation tax using the UK corporation tax rate of 24% (2012: 26%)	8,311	7,993
Expenses not deductible for taxation purposes	71	90
Adjustment in respect of share options exercised	(38)	(204)
Reduction in rate of future taxes	70	110
Share of associate's tax charge	(817)	(692)
Adjustments in respect of prior years - current tax	(316)	(195)
- deferred tax	284	188
Total tax charge	7,565	7,290

(iii) Tax on items credited directly to equity

	2013 £'000	2012 £'000
Deferred tax on share options	776	422

Notes to the consolidated financial statements

5. Property, plant and equipment

	Freehold land and buildings	Plant and machinery	Fixtures and fittings	Freehold & Leasehold improvements	Computer and office equipment	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Group and Company							
2013							
Cost							
At 1 April 2012	15,774	1,043	2,526	608	5,568	210	25,729
Additions	-	-	23	160	635	130	948
Disposals	-	-	-	-	(2,235)	(56)	(2,291)
At 31 March 2013	15,774	1,043	2,549	768	3,968	284	24,386
Depreciation							
At 1 April 2012	(466)	(197)	(644)	(466)	(4,490)	(210)	(6,473)
Depreciation charge for the year	(158)	(69)	(363)	(23)	(613)	(28)	(1,254)
Disposals	-	-	-	-	2,235	56	2,291
At 31 March 2013	(624)	(266)	(1,007)	(489)	(2,868)	(182)	(5,436)
Net book amounts							
At 31 March 2013	15,150	777	1,542	279	1,100	102	18,950
2012							
Cost							
At 1 April 2011	9,169	1,032	1,623	594	5,027	210	17,655
Additions	6,605	11	903	14	541	-	8,074
At 31 March 2012	15,774	1,043	2,526	608	5,568	210	25,729
Depreciation							
At 1 April 2011	(338)	(128)	(301)	(440)	(3,773)	(207)	(5,187)
Depreciation charge for the year	(128)	(69)	(343)	(26)	(717)	(3)	(1,286)
At 31 March 2012	(466)	(197)	(644)	(466)	(4,490)	(210)	(6,473)
Net book amounts							
At 31 March 2012	15,308	846	1,882	142	1,078	-	19,256
At 31 March 2011	8,831	904	1,322	154	1,254	3	12,468

The Company's new head office building, Merit House, acquired in February 2012, has been classified as a fixed asset rather than an investment property as it is the Company's intention to immediately occupy the building for its own purposes once refurbishment work has been completed.

Notes to the consolidated financial statements

6. Intangible assets

	Intangible asset £'000
Group and Company	
2013	
Cost	
At 1 April 2012 and 31 March 2013	2,969
Carrying amount	
At 31 March 2013	2,969
2012	
Cost	
At 1 April 2011 and 31 March 2012	2,969
Carrying amount	
At 31 March 2012	2,969

The intangible asset is attributable wholly to the Customer Management operating segment and relates to the issue of 426,989 shares at nominal value to npower in two tranches on 19 August 2011 and 9 January 2012 as part of the Company's revised energy supply agreement with npower entered into on 24 May 2011.

The intangible asset is not being amortised as it is considered to have an indefinite life given the npower energy supply agreement does not have an end date and no notice of termination has been issued. Accordingly, the asset was reviewed for impairment at 31 March 2013 by considering the future cash flows derived from the supply of energy under the agreement. In light of the overall profitability of this arrangement, it was not necessary to consider more than one year of cash flows in determining that the asset was not impaired

Notes to the consolidated financial statements

7. Goodwill

	Goodwill
	£'000
Group	
2013	
Cost	
At 1 April 2012 and 31 March 2013	4,558
Amortisation	
At 1 April 2012 and 31 March 2013	816
Carrying amounts	
At 31 March 2013	3,742
2012	
Cost	
At 1 April 2011 and 31 March 2012	4,558
Amortisation	
At 1 April 2012 and 31 March 2012	816
Carrying amounts	
At 31 March 2012	3,742
At 31 March 2011	3,742

Goodwill is attributable wholly to the Customer Management operating segment and comprises assets relating to the Company's subsidiary Telecommunications Management Limited ("TML").

In accordance with IAS 36 Impairment of Assets, the Group regularly monitors the carrying amount of its goodwill. A review was undertaken at 31 March 2013 to assess whether the carrying amount of assets was supported by their value in use determined by the net present value of the future cash flows derived from the assets using cash flow projections based on current levels of profitability. A pre-tax discount rate of 20% into perpetuity was used which was considered appropriate given the expectation that, for the foreseeable future, TML will continue to operate as a going concern. The result of the review undertaken at 31 March 2013 indicated that no impairment was necessary.

Notes to the consolidated financial statements

8. Investments

Fixed asset investments

The investment in the associate represents the cost of purchasing a 20% (2012 20%) equity interest in the ordinary share capital of Opus Energy Group Limited ("Opus"), together with the Group's share of retained reserves During the year the Group exercised its anti-dilution rights and invested a further £18,000 in Opus shares in order to maintain a 20% shareholding.

	2013	2012
	£'000	£'000
Associated undertaking		
Cost		
At 1 April	1,479	1,479
Additions	18	-
At 31 March	1,497	1,479
Share of profit		
At 1 April	4,680	3,834
Share of profit after taxation for the year	3,404	2,663
Dividends in the year	(2,365)	(1,817)
At 31 March	5,719	4,680
Carrying amounts		
At 31 March	7,216	6,159

Associated undertaking

A summary of the balance sheet and income statement for Opus is as follows.

	2013	2012
	£'000	£'000
Total assets	82,205	60,567
Total liabilities	(50,179)	(33,652)
Net assets	32,026	26,915
Income	358,476	270,017
Expenses	(336,100)	(251,987)
Profit before tax	22,376	18,030

Investment in subsidiary companies

The Company owns 100% of the ordinary share capital of Telecommunications Management Limited ("TML"), being two £1 shares. TML is incorporated in England and Wales. The principal activity of TML is the supply of fixed wire and mobile telecommunication services to business and public sector customers.

Notes to the consolidated financial statements

9. Deferred tax asset

The deferred tax asset recognised in the financial statements is as follows:

	Group		Company	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Tax effect of temporary differences:				
Accelerated capital allowances	(48)	(76)	(50)	(78)
Other short term temporary differences	24	307	24	306
Employee benefits expected in excess of amount expensed	1,670	1,090	1,670	1,090
	1,646	1,321	1,644	1,318

	Group		Company	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
At 1 April	1,321	1,118	1,318	1,106
Charged to the Statement of Comprehensive Income	(451)	(219)	(450)	(210)
Taken to equity	776	422	776	422
At 31 March	1,646	1,321	1,644	1,318

The Group and Company have recognised a deferred tax asset, in the expectation of profitability in the coming years.

10. Non-current receivables

	Group		Company	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Hire purchase agreements receivable	2,471	2,073	2,471	2,073
Loan to JSOP share trust	-	-	2,275	2,275
Prepayment meter debt	6,210	4,962	6,210	4,962
Other non-current receivables	1,619	676	1,619	676
	10,300	7,711	12,575	9,986

No amounts receivable under hire purchase agreements are due after five years. In accordance with note (q) of the Significant Accounting Policies, non-current receivables are stated at their nominal value as reduced by any appropriate allowances, as interest that would be recognised from discounting future cash receipts over the credit period is not currently considered material.

Notes to the consolidated financial statements

11. Receivables and accrued income

	Group 2013	Group 2012	Company 2013	Company 2012
	£'000	£'000	£'000	£'000
Trade receivables	9,653	8,674	9,600	8,542
Other receivables	6,888	6,889	6,899	6,794
Trade and other receivables	16,541	15,563	16,499	15,336
Accrued income	114,348	77,281	114,120	76,954
Prepayments	1,599	1,867	1,390	1,291
Prepayments and accrued income	115,947	79,148	115,510	78,245
Trade and other receivables	16,541	15,563	16,499	15,336
Accrued income	114,348	77,281	114,120	76,954
Receivables and accrued income (net)	130,889	92,844	130,619	92,290

Gross accrued income of £115,823,000, (2012. £78,454,000) includes March revenue invoiced in April of £51,684,000 (2012: £41,811,000), unbilled energy debtors of £64,120,000 (2012· £36,560,000) and accrued income relating to property of £19,000 (2012: £83,000). Offset against this figure is an allowance for future credit losses of £1,475,000 (2012: £1,173,000), which is included in the allowance for credit losses of £14,295,000 (2012: £13,519,000). Other receivables include amounts due within one year relating to hire purchase agreements of £846,000 (2012: £581,000).

Allowance for credit losses on receivables and accrued income

	Group 2013	Group 2012	Company 2013	Company 2012
	£'000	£'000	£'000	£'000
Allowances as at 1 April	13,519	13,554	12,342	12,375
Additions – charged to Statement of Comprehensive Income	9,027	9,295	8,681	8,861
Allowances used on fully written down receivables	(8,251)	(9,330)	(8,020)	(8,894)
Allowances as at 31 March	14,295	13,519	13,003	12,342

Analysis of receivables and accrued income

	Group 2013	Group 2012	Company 2013	Company 2012
	£'000	£'000	£'000	£'000
Receivables and accrued income (gross)	145,184	106,363	143,622	104,632
Allowance for credit losses	(14,295)	(13,519)	(13,003)	(12,342)
Receivables and accrued income (net)	130,889	92,844	130,619	92,290

Notes to the consolidated financial statements

11. Receivables and accrued income (continued)

Aged analysis of trade receivables

	Not impaired but past due by the following amounts					Total
	30 days or less	Between 31 and 60 days	Between 61 and 90 days	Between 91 and 120 days	More than 120 days	carrying amount
	£'000	£'000	£'000	£'000	£'000	£'000
2013 Trade receivables	3,229	1,925	1,194	913	8,602	15,863
2012 Trade receivables	2,857	1,790	1,137	757	7,095	13,636

Trade receivables due after more than 120 days predominantly relates to amounts due from customers for energy consumption that have been loaded onto prepayment meters, of which approximately £6,210,000 (2012: £4,962,000) is due after one year.

In accordance with note (q) of the Significant Accounting Policies, trade receivables are stated at their nominal value as reduced by appropriate allowances. Interest that would be recognised from discounting future cash receipts over the short credit period is not currently considered material.

12. Trade and other payables

	Group		Company	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Current				
Trade payables	4,434	2,454	7,493	4,639
Other taxation and social security	3,070	2,863	3,019	2,778
	7,504	5,317	10,512	7,417
Non-current				
JSOP creditor	685	-	685	-
	685	-	685	-

The JSOP creditor represents amounts accrued in respect of cash settled, share-based payments (see note 17).

Notes to the consolidated financial statements

13. Accrued expenses and deferred income

	Group		Company	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Accrued expenses	94,923	63,828	94,804	63,690
Deferred income	1,906	2,330	1,614	2,007
	96,829	66,158	96,418	65,697

All accrued expenses are payable within one year.

14. Capital and reserves

Issued share capital – ordinary shares of 5p each

	2013		2012	
	Number ('000)	£'000	Number ('000)	£'000
Authorised share capital	80,000	4,000	80,000	4,000
Allotted, called up and fully paid share capital:				
At 1 April	70,208	3,510	69,540	3,477
Issue of new ordinary shares	394	20	668	33
At 31 March	70,602	3,530	70,208	3,510

At the year end the Company's share price was 1001p and the range during the financial year was 677p to 1017p.

At 31 March 2013, the Company had 70,602,262 (2012: 70,207,963) shares in issue; there were no shares held in treasury (2012: Nil). The total number of voting rights of 5p ordinary shares in the Company was 70,602,262 (2012: 70,207,963). Since the year end, a further 5,000 shares have been issued to satisfy the exercise of distributor share options, increasing the total number of voting rights of 5p ordinary shares in the Company to 70,607,262.

There are 500,000 ordinary shares held in the JSOP Share Trust, representing approximately 0 7% of issued share capital, on which voting and dividend rights have been waived. These shares are included in the above total voting rights figure of 70,607,262.

Notes to the consolidated financial statements

14. Capital and reserves (continued)

Capital management

The Group's objective when managing capital is to continue to provide attractive returns to shareholders.

Total shareholder equity at 31 March 2013 was £70.7 million (2012 £62.8 million).

The Group's current capital management strategy is to retain sufficient working capital for day to day operating requirements. From 1 September 2011, npower assumed responsibility for funding the seasonal variations in working capital associated with providing gas and/or electricity to those customers who pay for their energy using a budget plan.

Dividends

	2013	**2012**
	£'000	£'000
Prior year final paid 17p (2012: 14p) per share	11,876	9,693
Interim paid 13p (2012: 10p) per share	9,089	6,943

The Directors have proposed a final dividend of 18p per ordinary share totalling approximately £12.6 million, payable on 2 August 2013, to shareholders on the register at the close of business on 19 July 2013. In accordance with the Group's accounting policies the dividend has not been included as a liability as at 31 March 2013.

Notes to the consolidated financial statements

15. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 March 2013 was based on the profit attributable to owners of the parent of £27,066,000 (2012 £23,453,000) and a weighted average number of ordinary shares outstanding during the year ended 31 March 2013 of 69,886,967 (2012: 69,365,391).

	2013	2012
Basic earnings per share	38.7p	33.8p
Diluted earnings per share	38.1p	33 4p

Diluted earnings per share

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

	2013		2012	
	Profit £'000	Number of shares '000	Profit £'000	Number of shares '000
Basic earnings	27,066	69,887	23,453	69,365
Dilutive effects - Options	-	1,120	-	940
Diluted earnings	27,066	71,007	23,453	70,305

The share options may be dilutive in future periods.

16. Commitments

Operating lease commitments

The Group is committed to make payments in respect of operating leases for land and buildings as follows:

Company and Group

	2013	2012
Amounts payable:	£'000	£'000
Less than one year	310	307
Between one and five years	251	542
	561	849

The principal lease arrangements relate to office premises, most of which terminate in 2014.

Capital commitments

At 31 March 2013 the Company had capital commitments of £364,000 relating mainly to new computer servers and items in respect of the refurbishment of Merit House, the Group's new head office building (2012: £Nil).

Notes to the consolidated financial statements

17. Share-based payments

The Company has two share option plans, one of which is available to employees, the other to distributors of the Company

All new employees who have passed the requisite probationary period are issued with options over shares in the Company, further options are also granted to existing employees depending on their seniority and length of service ("The Telecom Plus PLC 2007 Employee Share Option Plan").

The distributor scheme ("The Telecom Plus PLC 2007 Networkers and Consultants Share Option Plan") exists to provide incentives to the people who are most successful in gathering new customers for the Company. As it is not possible to measure directly the benefit received from these activities, the fair value of the benefit received has been measured by reference to the fair value of the equity instruments granted.

On 30 March 2011 the Company established a new Joint Share Ownership Plan ("The Telecom Plus PLC Joint Share Ownership Plan 2011" or "the JSOP") Under the terms of the JSOP 500,000 shares were issued to an Employee Benefit Trust ("the JSOP Share Trust") administered by Barclays Wealth (Guernsey) Limited, which holds the shares jointly with the only current participant, Mr Lindsay The JSOP Share Trust was provided with an interest free loan from the Company to subscribe for the 500,000 shares, and therefore the transaction was cash flow neutral for the Company

As set out in note (t) of the Significant Accounting Policies, JSOP awards are considered to be cash-settled and therefore a fair value liability is calculated using a binomial pricing model The fair value liability is charged to the Statement of Comprehensive Income on a straight line basis over the vesting period of the award. At each balance sheet date until the liability is settled, and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognised in the amortisation charge in the Statement of Comprehensive Income.

The following key assumptions were used to determine the fair value liability of the JSOP award of 304.1p per share as at 31 March 2013: a strike price of 553p per share, a share price of 1001p as at 28 March 2013 (the last trading date before calculation), expected volatility of 24.9%, an expected life of 2 years, a risk free rate of 0.18% and an expected dividend yield of 3.1%.

Notes to the consolidated financial statements

17. Share-based payments (continued)

Share based expenses have been charged in the consolidated Statement of Comprehensive Income as follows

	2013 £'000	2012 £'000
Distribution expenses	118	89
Administrative expenses	813	552
Total charge	931	641

A reconciliation of movements in the numbers of share options for the Group can be summarised as follows.

	2013		2012	
	Number	**Weighted average exercise price**	**Number**	**Weighted average exercise price**
At 1 April	2,014,652	356p	2,121,019	289p
Options granted	1,030,800	790p	340,500	656p
Options exercised	(417,850)	242p	(351,582)	246p
Options lapsed/expired	(383,815)	718p	(95,285)	356p
At 31 March	2,243,787	514p	2,014,652	356p

The weighted average share price at the date of exercise for the options exercised during the year was 882.5p (2012: 660.0p).

Notes to the consolidated financial statements

17. Share-based payments (continued)

During the year ended 31 March 2013, the Group issued share options to employees and distributors on four occasions as set out below. The options issued to distributors on 1 June 2012 and 20 November 2012 have performance conditions attached which relate to customer gathering activity to be achieved during the vesting period.

	2007 Networkers and Consultants Share Option Plan	2007 Employee Share Option Plan	2007 Networkers and Consultants Share Option Plan
Date of grant	01/06/2012	26/06/2012	26/06/2012
Number of options originally granted	472,000	204,200	11,000
Contractual life	10 years	10 years	10 years
Exercise price (pence)	721p	828p	828p
Share price at date of grant (pence)	735p	833p	833p
Number of distributors/employees	472	113	9
Expected volatility	38.90%	36 78%	36 78%
Expected option life	10 years	10 years	10 years
Risk free rate	0.36%	0.36%	0.36%
Expected dividend yield	3.74%	3.26%	3.26%
Fair value per option (pence)	183p	214p	214p

	2007 Networkers and Consultants Share Option Plan	2007 Employee Share Option Plan	2007 Networkers and Consultants Share Option Plan
Date of grant	20/11/2012	10/12/2012	10/12/2012
Number of options originally granted	227,000	99,600	17,000
Contractual life	10 years	10 years	10 years
Exercise price (pence)	854.5p	878p	878p
Share price at date of grant (pence)	864.1p	884p	884p
Number of distributors/employees	227	71	3
Expected volatility	29.15%	28.24%	28.24%
Expected option life	10 years	10 years	10 years
Risk free rate	0.34%	0.34%	0.34%
Expected dividend yield	3.63%	3.53%	3.53%
Fair value per option (pence)	151p	151p	151p

Notes to the consolidated financial statements

17. Share-based payments (continued)

During the previous year ended 31 March 2012, the Group issued share options to employees and distributors on two occasions as set out below.

	2007 Employee Share Option Plan	2007 Networkers and Consultants Share Option Plan	2007 Employee Share Option Plan	2007 Networkers and Consultants Share Option Plan
Date of grant	14/06/2011	14/06/2011	15/12/2011	15/12/2011
Number of options originally granted	226,600	8,000	90,900	15,000
Contractual life	10 years	10 years	10 years	10 years
Exercise price (pence)	603p	603p	774p	774p
Share price at date of grant (pence)	617p	617p	773p	773p
Number of employees/distributors	91	8	78	15
Expected volatility	40 69%	40.69%	43.82%	43 82%
Expected option life	10 years	10 years	10 years	10 years
Risk free rate	1 08%	1 08%	0 53%	0.53%
Expected dividend yield	3.65%	3.65%	3.49%	3.49%
Fair value per option (pence)	173p	173p	239p	239p

The Group has used a binomial model to value its share options, with account being taken of vesting conditions where these were considered material. The expected volatility for the share option arrangements is based on historical volatility determined by the analysis of daily share price movements over the past 12 months.

Notes to the consolidated financial statements

17. Share-based payments (continued)

The options outstanding at the end of the year are as follows

	Number 1 April 2012	Number 31 March 2013	Exercise price per share	Exercisable from	Expiry date
2007 Networkers and Consultants Share Option Plan					
17 Feb 2006	104,883	-	162p	17 Feb 2009	16 Feb 2013
30 Aug 2007	24,850	12,000	171p	30 Aug 2010	29 Aug 2017
10 Dec 2008	62,000	39,500	340p	10 Dec 2011	9 Dec 2018
26 Jun 2009	42,000	15,000	278p	26 Jun 2012	25 Jun 2019
9 Dec 2009	36,000	28,000	305p	9 Dec 2012	8 Dec 2019
5 Jul 2010	298,301	297,275	338p	5 Jul 2013	3 Jul 2020
17 Dec 2010	11,898	11,882	442p	17 Dec 2013	16 Dec 2020
14 Jun 2011	8,000	7,000	603p	14 Jun 2014	11 Jun 2021
15 Dec 2011	15,000	15,000	774p	15 Dec 2014	14 Dec 2021
1 Jun 2012	-	237,000	721p	1 Jun 2015	31 May 2022
26 Jun 2012	-	11,000	828p	26 Jun 2015	25 Jun 2022
20 Nov 2012	-	134,000	854.5p	20 Nov 2015	19 Nov 2022
10 Dec 2012	-	17,000	878p	10 Dec 2015	9 Dec 2022
	602,932	824,657			
2007 Employee Share Option Plan					
17 Feb 2006	35,000	-	162p	17 Feb 2009	16 Feb 2013
12 Jul 2006	12,500	9,850	127p	12 Jul 2009	11 Jul 2013
4 Jan 2007	3,485	495	199.25p	4 Jan 2010	3 Jan 2014
30 Aug 2007	140,020	109,050	171p	30 Aug 2010	29 Aug 2017
17 Jan 2008	29,350	24,000	198p	17 Jan 2011	16 Jan 2018
12 Jun 2008	279,800	272,850	330.5p	12 Jun 2011	11 Jun 2018
10 Dec 2008	104,165	69,065	340p	10 Dec 2011	9 Dec 2018
26 Jun 2009	200,500	104,470	278p	26 Jun 2012	25 Jun 2019
9 Dec 2009	70,000	20,850	305p	9 Dec 2012	8 Dec 2019
5 Jul 2010	149,500	149,500	338p	5 Jul 2013	3 Jul 2020
17 Dec 2010	83,500	74,500	442p	17 Dec 2013	16 Dec 2020
14 Jun 2011	213,800	209,000	603p	14 Jun 2014	11 Jun 2021
15 Dec 2011	90,100	82,900	774p	15 Dec 2014	14 Dec 2021
26 Jun 2012	-	196,200	828p	26 Jun 2015	25 Jun 2022
10 Dec 2012	-	96,400	878p	10 Dec 2015	9 Dec 2022
	1,411,720	1,419,130			
	2,014,652	2,243,787			
Weighted average exercise price	355 5p	514.2p			

Notes to the consolidated financial statements

17. Share-based payments (continued)

At 31 March 2013, 705,130 share options were exercisable (2012: 796,053) at a weighted average exercise price of 286.5p (2012: 261.2p). The average remaining contractual life of the outstanding options was 7.5 years (2012: 7.1 years).

18. Derivatives and financial instruments

Treasury activities take place under procedures and policies approved and monitored by the Board They are designed to minimise the financial risks faced by the Group which primarily arise from credit, interest rate and liquidity risks

Carrying amounts of financial instruments
All financial assets, which include cash, trade and other receivables and accrued income, are classified as loans and receivables with a total value for the Group of £144,567,000 (2012: £104,401,000) and for the Company of £146,331,000 (2012: £105,881,000). All financial liabilities, which include trade and other payables and accrued expenditure, are held at amortised cost with a total value for the Group of £105,316,000 (2012. £72,635,000) and for the Company £108,193,000 (2012: £74,497,000).

Credit risk
All customers are invoiced monthly and approximately 90% pay by direct debit, accordingly credit risk in respect of trade receivables is considered low due to the large number of customers supplied, each of whom represents an insignificant proportion of total revenue.

The Company has a universal supply obligation in relation to the provision of energy to domestic customers. This means that although the Company is entitled to request a reasonable deposit from a potential new customer who is not considered creditworthy, the Company is obliged to supply domestic energy to anyone who submits a properly completed application form. Where such customers subsequently fail to pay for the energy they have used ("delinquent customers"), there is likely to be a delay before the Company is able to eliminate its exposure to future bad debt from them by either installing a pre-payment meter or disconnecting their supply, and the costs associated with preventing such delinquent customers from increasing their indebtedness are not always fully recoverable. Historically the Company made a provision for delinquent customers which was included in accrued expenses and deferred income. However, in the light of the proportionate reduction in the level of delinquent customers in recent years, it has been concluded that a provision for such customers is no longer required. As at 31 March 2012 the provision for delinquent customers was £0.98m.

The maximum credit risk for the Group is £144,567,000 (2012: £104,401,000) and for the Company £146,331,000 (2012 £105,881,000).

Interest rate risk
The Group finances its operations primarily through the issue of equity shares and from cash generated and retained within the business Cash surpluses are placed on deposit with Barclays Bank PLC at money market rates to maximise returns.

Notes to the consolidated financial statements

18. Derivatives and financial instruments (continued)

The Group's profit and equity for the current year will not be significantly affected by changes in the UK base rate of +/- 1% from current levels, due to the policy of placing funds on fixed rate deposit for terms of up to 1 year.

Commodity price risk
The Group is not exposed to any fluctuations in commodity prices due to the nature of the agreements with wholesale providers of telephony and energy services and its ability to pass the effect of any such fluctuations through to its customers.

Liquidity risk
The Group's treasury management policies are designed to ensure continuity of funding.

Foreign currency risk
The Group does not have any foreign currency exposure

Interest rate and currency profile of financial assets and liabilities
All financial assets and liabilities are denominated in Sterling. Receivables due after one year include £3,215,000 (2012: £2,750,000) due from employees and distributors which earns interest at variable rates above Base Rate.

Borrowing facilities
At 31 March 2013, the Group had an available overdraft facility of £5,000,000 (2012: £5,000,000) and an available money market loan facility of £15,000,000 (2012. £6,000,000). These facilities are available to the Group until 25 August 2013.

The facilities are secured by fixed and floating charges over the assets of the Company and through a cross guarantee with the Company's subsidiary TML.

Prior to 25 August 2013, the Group intends to finalise with Barclays Bank PLC ("Barclays") the facilities it requires for the following year for the ongoing support of its day to day operations and for the refurbishment of Merit House. Barclays has expressed a strong desire to support the Group's funding requirements and the directors are confident that all necessary facilities can be arranged prior to this date.

Fair values
There is not considered to be any material difference between the fair value of any financial instruments and their net book amount due to the short term maturity of the instruments.

Notes to the consolidated financial statements

19. Related parties

Identity of related parties
The Company has a related party relationship with its subsidiary (see note 8), associate (see note 8) and with its directors and executive officers.

Transactions with key management personnel
Directors of the Company and their immediate relatives control 26.5% of the voting shares of the Company.

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

	2013	2012
	£'000	£'000
Short term employee benefits	1,157	1,060
Post employment benefits	95	86
	1,252	1,146
Share based payments	469	280
	1,721	1,426

During the year, the Company acquired goods and services worth approximately £17,000 (2012: £26,000) from companies in which directors have a beneficial interest. No amounts were owed to these companies by the Group as at 31 March 2013.

Other related party transactions

Associates
During the year ended 31 March 2013, the associate supplied goods to the Group which amounted to £877,000 (2012: £749,000) and at 31 March 2013 the associate was owed £66,000 by the Group which is recognised within trade payables (2012: £60,000). Transactions with the associate are priced on an arm's length basis. Dividends received during the year from the associate amounted to £2,365,000 (2012: £1,817,000) relating to the financial year to 31 March 2012.

Subsidiary company
During the year ended 31 March 2013, the subsidiary purchased goods and services from the Company in the amount of £5,816,000 (2012· £6,709,000) At 31 March 2013 the subsidiary was owed £3,558,000 by the Company which is recognised within trade payables (2012 £2,718,000).