

Company number 3263464

Telecom Plus PLC
Report and Accounts
Year ended 31 March 2011

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Directors

The Hon. Charles Wigoder, Executive Chairman

Charles, aged 51, 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.

Andrew Lindsay MBE, Chief Executive Officer

Andrew, aged 34, 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 has 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 32, 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 52, 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 A.3.1 of the Combined Code.

Michael Pavia, Non-Executive Director

Michael, aged 64, 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 and Salamander Energy PLC, and is a member of the Council of the ICAEW. He joined the Company in December 2006 as an independent non-executive director and meets the test of independence under section A.3.1 of the Combined Code.

Julian Schild, Deputy Chairman and Senior Non-Executive Director

Julian, aged 51, 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 of the English Concert 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 A.3.1 of the Combined Code.

Chairman's Statement

I am delighted to report a further year of significant achievement for the Company, in which we have seen strong growth in both revenue and profitability

Results

Pre-tax profits increased by over 51% to £27.5m (2010: £18.2m) on revenue up by 13.5% to £418.8m (2010: £369.1m), earnings per share for the year were 30.1p (2010: 19.7p)

The rise in revenue has been driven by the combination of continuing steady organic growth in the number of customers using our services, an improvement in the quality of our customer base, an increase in energy prices over the last few months of the year, and record demand for gas from domestic customers during an exceptionally cold winter. This was partially offset by the impact of the lower retail energy prices which prevailed during the first eight months of the financial year

The significant rise in pre-tax profits and earnings per share resulted from the increase in our gross margin during the year from 15.1% to 15.9%, combined with a significant increase in the number of services being provided. We benefited from continuing strong margins from providing fixed telephony and broadband services, and improved margins from supplying gas and electricity during an extremely cold winter

In line with the guidance we have previously given, we are proposing an unchanged final dividend of 14p (2010: 14p), making a total for the year of 22p (2010: 22p). This reflects the need for us to retain an appropriate proportion of our earnings to fund the working capital requirements of the business as we continue to grow, and to start rebuilding our reserves following our decision last year to pay an uncovered dividend in line with guidance we had provided previously.

Residential Club membership increased by 8.7% during the year to 293,292 (2010: 269,893) and Business Club membership grew by 13.9% to 24,506 (2010: 21,523). These clubs, trading under the Utility Warehouse brand, now account for 85.6% (2010: 84.2%) of our total customer base

We are particularly encouraged by the continuing strong growth of 12% in the number of services we are providing, which reached 1,171,136 (2010: 1,044,516) by the year end – an increase of over 125,000 services during the year. The average number of services taken by each residential Club member has increased to 3.43 (2010: 3.28).

We received a number of further endorsements from *Which?* magazine during the year in relation to the value we offer and the quality of service provided by our UK-based customer service team. Our ability to maintain the current strong focus we place on service should be assisted by the consolidation of substantially all of our staff into our newly refurbished head office building in north-west London over the next few months

New energy supply arrangements

We are pleased to announce that we have today reached agreement with npower to vary the terms of our existing long-term supply arrangements with them, under which they are (and will remain) responsible for providing all the gas and electricity used by our customers. These changes provide the Company with the opportunity to enhance the value we can provide to our

energy customers, whilst giving us the opportunity to improve our net energy margin over the medium term subject to the achievement of certain agreed growth targets

Under these revised arrangements, Telecom Plus will no longer be required to provide a Letter of Credit to npower as security against the cost of the energy it is supplying. The new arrangements also provide protection for Telecom Plus from the seasonal swings in working capital associated with providing gas and/or electricity to those customers who have chosen to pay for their energy using a Budget Plan. Together, these changes will enable us to build a substantially larger energy business with our current balance sheet structure than would otherwise have been possible, and will eliminate the costs we have historically incurred in arranging bank facilities to meet these requirements.

In addition, npower has agreed to provide £3m of marketing support to the Company during the current financial year, which we intend to spend by offering certain new multi-service customers an additional discount on the cost of the energy they have used during their first year as a member and on sales incentives for our Distributors, it is anticipated that these incentives will help to increase the rate of growth and lead to a further improvement in the quality of our customer base.

The parties have also agreed to extend the notice period relating to these supply arrangements to three years rolling notice on either side, and also to change the frequency at which the price we pay npower for the energy being provided to our customers is calculated, so that this happens in future on a fixed date each quarter (currently at a variable frequency of up to six months).

Npower has also requested the opportunity to acquire an equity stake in the Company and, subject to shareholder approval, we intend to issue them with shares in Telecom Plus at nominal value; at the closing price on 24 May 2011, the number of shares issued would have been 622,730. On the date of issue, the number of shares will be calculated based on the average price over the 20 working days prior to the date on which they are issued. Further details of these arrangements will be included with notice of the forthcoming AGM which will be sent to shareholders shortly.

These new arrangements are expected to substantially benefit both parties over the medium term. They reflect the strong and mutually beneficial relationship we have developed with npower over the last six years, and the extent to which our rapidly growing customer base is supporting their status as one of the UK's leading energy suppliers.

Opus

Our share of the profits from Opus Energy Group Ltd ("Opus"), in which we maintain a 20% stake, increased during the year to £2.4m (2010: £1.9m) notwithstanding a normalised tax charge this year of 28% (2010: 5%). This excellent result reflects a continuing strong trading performance, and the successful start they have made to supplying gas alongside electricity into the small business and corporate sector. Their revenues increased by around 30% to just under £200m (2010: £151.2m) and profit before tax increased from £10.0m to £16.7m. 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 £2.2m in July 2011. Our shareholding in Opus is valued on our balance sheet at £5.3m in line with standard accounting policy, notwithstanding our belief that its market value is substantially in excess of this figure; in the absence of unforeseen circumstances, it remains our intention to maintain our stake in this exciting business for the foreseeable future.

Working Capital

In line with management expectations and previous guidance, our balance sheet at the year end shows net debt of £13.1m compared with net cash of £2.5m at the end of the previous year. This primarily reflects the impact of another extremely cold winter, with December being the coldest for more than 100 years, and our decision to pay an uncovered final dividend last summer.

The new commercial arrangements with npower referred to above will significantly reduce our future working capital requirements. As a result, we anticipate that we will report a positive cash balance at the end of the current financial year.

In the absence of unforeseen circumstances, we currently consider it is unlikely we will need to issue new equity (other than to npower as part of the new energy supply arrangements referred to above, or to satisfy share options) in order to deliver significant further organic growth over the medium term.

Dividend

The final dividend of 14p per share will be paid on 5 August 2011 to shareholders on the register at the close of business on 15 July 2011 and is subject to approval by shareholders at the Company's Annual General Meeting which will be held on 13 July 2011.

The Company remains committed to a progressive dividend policy over the medium term, and we anticipate that further growth in earnings from their current level will, subject to any retentions required to fund an increase in the working capital requirements of the business as it continues to grow, be reflected in a corresponding rise in the level of distributions to shareholders.

Business Development

Ongoing focus on higher quality customers

Customer quality remains an important issue for the business. I am therefore delighted that the steps we have taken are beginning to deliver solid and measurable results.

Churn within our residential Club fell during the year to around 1.7% per month (2010: 2%), reflecting the higher proportion of homeowners, an increase in the average number of services being taken, and increasing penetration of our CashBack card. Within these figures, the churn amongst members of our residential Club who have taken our CashBack Card (almost 25% compared to 14.6% a year ago), is running significantly below these levels. This indicates that we can expect to see a progressive further reduction in our churn over the course of the current year as the proportion of members using our CashBack card continues to increase.

We continue to invest significant resources installing prepayment meters at properties where the occupiers are unwilling to pay for the energy they are using by any other means, and successfully installed 5,690 of them during the year, this took our installed base of prepayment meters to 15,741 representing approximately 3% of the energy customers we supply. This is expected to lead to a reduction in bad debts going forward as this ongoing programme leads to a lower proportion of delinquent energy customers next winter.

Distribution Channel

The number of new distributors joining the business remained constant at around 600 per month throughout the year, but increased significantly during the final quarter following our decision in mid-February to reduce the joining fee by 50% to £100. We saw an immediate impact from this change, with the number of new distributors joining during Q4 more than doubling to almost 4,000.

We are consequently experiencing record demand for places on the training courses we run throughout the UK, with around 2,000 distributors attending during April, and a similar number expected to attend during May. As these new distributors gain confidence and experience, we expect to see a progressive increase in the number of new customer applications we receive over the coming months.

Systems

Our IT systems are designed to manage a significantly larger number of customers than are currently using our services, and our new office headquarters provides significant additional physical space to support our future growth. Delivering the benefits of the substantial economies of scale which are available, combined with a tight continuing focus on customer quality, remains a key business objective.

Outlook

We held our annual sales conference over the weekend of 2nd and 3rd April, shortly after the year end, with more than 5,000 distributors attending. At this event, we announced a number of wide ranging initiatives aimed at further improving both the quality and quantity of new customers being gathered. These changes received a positive reaction from those present and, while it is still too soon to assess the full impact they will have on our future rate of growth, we believe that the initial signs are encouraging.

We have already seen a 50% increase in the proportion of new customers applying for at least four services, an increase in the average number of services being taken, increased take-up of our CashBack card, and a continuing high rate of new distributor recruitment, which continues to run at more than twice the level we were seeing during the first 10 months of last year, with over 1,300 signing-up during April alone. The marketing support being provided by npower gives us significant flexibility to extend the current initiatives and /or to introduce further sales incentives over the remainder of the current financial year.

Within the energy sector as a whole, significant investment is needed over the next decade in renewing and extending the distribution network, replacing nuclear and coal-fired generating plant that is approaching the end of its useful life, rolling out smart meters, and encouraging the take up of energy efficiency and renewable energy programmes. It is therefore reasonable to expect that the cost of these initiatives, combined with rising wholesale energy commodity costs, will lead to a progressive increase in retail energy prices over this period.

In the mobile market, the underlying trend is in the opposite direction with intense competition leading to lower retail pricing. However, broadband margins have remained stable, and landline margins have improved (although the benefit of this has been partially offset by a reduction in average call spend due to the tendency of customers to use their mobiles to make an ever increasing proportion of their calls).

Taken together, these trends mean that energy revenues are likely to represent a steadily increasing proportion of our turnover in future and, notwithstanding the anticipated rise in penetration of mobile services into our customer base, our gross margins are now expected to be within a range of 14% to 16% (slightly below the 15% to 17% range we had previously indicated) for the foreseeable future

We remain the UK's only fully integrated multi-utility provider, offering customers consistent value across a wide range of services with the added convenience of receiving a clear and concise integrated bill each month. Our distribution channel has demonstrated its ability to gather high quality new customers, both cost-effectively and in substantial volumes, which gives us a continuing competitive advantage.

Our current market share of slightly over 1% of UK households demonstrates the scale of the organic growth opportunity available to us, and the operating leverage of the business means that significant shareholder value would be created if we were able to harness just a small proportion of it. For example, our financial modelling shows that in the absence of any unforeseen circumstances and based on current trends, if we could double the size of our customer base, this could deliver a threefold increase in our pre-tax profits. This represents an exciting medium term goal for our senior management team to focus on.

In the meantime, we retain considerable visibility over future revenues and margins on the various services we provide. This gives us confidence that our financial performance for the current year will be comfortably ahead of the figures we have just reported, and in line with current market expectations.

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
24 May 2011

Business Review

Performance

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

- consistent organic growth with revenue up by 13.5% to £418.8m;
- continuing focus on quality multi-service homeowners,
- recent increase in new distributor numbers,
- improvement in gross margin,
- 12.1% rise in the number of services provided to 1,171,136; and
- higher take-up of CashBack card

Our organic growth has been driven by continuing high levels of confidence amongst our distributors in our financial strength, the good value provided by our services, and our commitment to delivering a consistently first class customer service experience

We are also benefiting from the continuing difficult economic climate, which makes both our value-based customer proposition and part-time earning opportunity look increasingly attractive against the background of a broader economy where working hours are being cut, wages are being frozen, part-time jobs are less readily available and disposable incomes are under pressure

Margins

Our overall gross margin improved during the year to 15.9% (2010: 15.1%).

The principal factors behind this were a small increase in energy margins (mainly resulting from the timing of last winter's retail price rises), continuing strong margins from supplying landline telephony services (reflecting rising retail prices across the industry), a broadly stable margin from providing broadband services. As expected, our mobile margin reduced, reflecting the decision we took during the year to price these services more aggressively in order to grow our share of this key market segment

We anticipate that our gross energy margin will rise over the next few years as we progressively achieve the growth targets we have agreed with npower, while the margins on all our communications services are expected to remain broadly stable at recent levels. We expect to see increased take-up by customers of our higher margin telephony services consistent with the higher number of services being taken (on average) by each new customer, although counter-intuitively, our reported overall gross margin is expected to fall slightly. This is due to the increasing proportion of turnover which we anticipate will relate to supplying energy, the only one of our business activities where prices are expected to continue rising faster than RPI.

We maintain a strong focus on controlling our cost base, and are therefore pleased to report that administration expenses (which include bad debts) saw a further reduction this year to 6.8% of revenue (2010: 7.3%)

Distribution costs fell from 3.5% to 3.2% of turnover due to the inclusion of a full year's impact from reducing the rate of commission payable under the compensation plan on customers living in tenanted properties, although the total commission paid increased to £13.3m (2010: £13.0m) reflecting the growth in turnover. The amount of commission we pay is expected to increase significantly during the current year, tracking the improving quality of our customer

base, rising energy prices and increased activity by distributors following the new incentives we announced at our sales conference.

Staff numbers grew reflecting the rise in customer numbers, as we focus on maintaining our excellent reputation for delivering the highest possible standards of customer service. We continue to look for efficiency savings throughout the business, with a view to taking full advantage of the economies of scale that should be available as we continue to grow.

The 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 the 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 increasingly attractive range of other membership benefits.

Our Customers

	2011	2010
Residential Club	293,292	269,893
Business Club	24,506	21,523
Total Club	317,798	291,416
Non Club	43,156	42,276
Total Telecom Plus	360,954	333,692
TML	10,396	12,070
Total Group	371,350	345,762

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 (79% of our customers). On average these customers each take 3.43 services;
- (ii) Small businesses who are members of the Utility Warehouse Discount Club for Business (6.6% of our customers). On average these customers each take 2.44 services;
- (iii) Residential customers who are not members of our Discount Club (11.6% of our customers). These are typically either households who became telephony customers before the Club concept was launched in October 2003, or who have moved into a property where we are the incumbent energy supplier and have not yet applied to join the Club. On average, these customers each take 1.63 services;
- (iv) Small businesses signed up through our wholly-owned TML subsidiary (2.8% of our customers). On average these customers each take 3.26 services.

Within the residential Club, there is a further important difference in quality (and therefore in the revenues and profits they will generate over the time they remain a Club member) between customers who are homeowners and those who are tenants. We have therefore been extremely pleased to see the proportion of homeowners improve from 67.9% to 73.9% during the course of the year, reflecting the emphasis we have placed on attracting this type of customer since July 2009.

Monthly churn in our residential Club for our core target market (homeowners) has recently fallen to around 1.3% per month, which represents a substantial reduction compared with the 1.5% we reported for the same time last year. This improvement illustrates the impact of the increasing penetration of our CashBack card amongst this segment of our customer base.

The rise in the average number of services being taken under our Utility Warehouse brand to 3.36 (2010: 3.21) and continued growth in our Business Club has led to a further small increase in average revenue per customer during the year, notwithstanding lower retail energy prices during the first eight months and the impact of our new mobile tariffs:

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

(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, the relatively low churn we experience, and the growing confidence of our distribution channel.

We continue to look for ways to strengthen the benefits of Club membership, including the imminent launch of several exciting new Smart Phone applications. Our exclusive CashBack card generates ever increasing savings for our members, who are also making increasing use of our online shopping portal and new 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 range of utility services includes Fixed Telephony (calls and line rental), Mobile, Non-Geographic Numbers, CashBack card, Gas, Electricity and Broadband. At the year end we supplied a total of 1,171,136 services (2010 1,044,516), representing a net overall increase of 12.1% during the course of the year.

	2011	2010
Electricity	296,412	267,186
Gas	249,482	224,256
Fixed Telephony (calls)	215,059	211,565
Fixed Telephony (line rental)	166,194	153,074
Broadband	113,411	98,595
Mobile	42,151	34,067
CashBack card	72,611	39,433
Non-Geographic Numbers	15,816	16,340
Total	1,171,136	1,044,516
Residential Club	1,007,185	883,904
Business Club	59,781	52,949
Total Club	1,066,966	936,853
Non Club	70,240	69,855
Total Telecom Plus	1,137,206	1,006,708
TML	33,930	37,808
Total Group	1,171,136	1,044,516

We saw double digit percentage growth in the number of customers to whom we supply Gas, Electricity, Broadband and Mobile services, with a near doubling in the number of CashBack cards. Within Fixed Telephony, the proportion of customers taking our line rental as well as using us for their calls increased from 72% to 77% during the year. However, we saw a small reduction in the number of Non-Geographic Numbers we supply.

Included within the above figures are 34,902 (2010 33,593) business customers (within our Business Club and in TML), who are taking 93,711 (2010 90,757) services and contributing revenues of £50.3m (2010 £46.3m). We are pleased with the steady progress we are making in building our market share within this highly fragmented segment.

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 significant increase in customer take-up during the year, and now have over 72,600 cardholders; the proportion of new residential Club members applying for a card is now approaching 50% as our distributors gain a better understanding of this innovative product and the unique benefits it provides, and as further retailers join the programme.

We paid over £3.5m (2010 £1.6m) in CashBack to our members during the year (funded entirely by the retailers in the programme), with many 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 account, irrespective of how many different services we are providing to them.

We continue to invest in improving our customer service resources, with specialist teams focussed on managing delinquent customers and resolving issues which have arisen from the inefficiencies in the standard industry processes for switching energy customers between suppliers. We have also developed a range of qualitative and quantitative performance measurement tools which we have introduced into our call centre, so that we can further improve the overall quality of our members' customer service experience, and will shortly be giving customers the ability to provide feedback on their customer service experience immediately after each call by completing a short survey.

Our People

We rely on the combined efforts of over 500 employees to manage relationships with both our customers and distributors, and deliver a consistently high quality of service at all times. We pay considerable attention to recruiting and retaining people with appropriate skills.

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

Employees are kept informed on a regular basis of the financial performance of the business and other matters of potential concern to them through internal communication channels including email, the Company Newsletter and the Company's intranet.

We also have an active staff social committee which organise a wide range of events supported by the Company and a Fun Fund set aside for departmental social events.

We continue to invest in our premises as necessary, to ensure the working environment is as attractive as possible, and is consistent with the practical needs of running the business. We will shortly be bringing virtually all of our staff together into our new Network HQ office building, and will be opening a heavily subsidised staff restaurant and Recreation Room; this is intended to strengthen the community culture, enhance morale and reduce staff turnover. We provide a wide range of other staff benefits including a significant discount on the services we provide, employee loans at preferential interest rates and a generous Christmas Bonus scheme. We introduced a Cycle to Work Scheme during the course of last year.

The Company operates an HM Revenue and Customs approved employee share option plan, under which employees are granted an option to purchase shares in the Company which is 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. As at 31 March 2011 there were outstanding options over 1,379,315 shares which had been granted to staff, representing approximately 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 Legal & General. Participants can choose their own contribution level which is matched by the Company within certain limits, depending on length of service.

Our Distributors

Our distributors remain one of our key strengths. In contrast to other utility suppliers, the alignment of financial interest provided by our revenue-sharing model and the structure of our compensation plan incentivises our distributors to focus their activities on finding credit-worthy 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; virtually all of these courses are free to attend. We anticipate that our investment in this area will increase significantly over the course of the current year reflecting the recent increase in the number of new distributors joining each month and the initiatives we announced at the start of April.

We have put significant resources into developing a new web-based application process, which is expected to be launched shortly. To enable distributors to take advantage of this and sign up their new customers online instead of using paper application forms, we have recently given them the opportunity to obtain a laptop from us on preferential terms.

Our Car Plan, which provides eligible distributors with a subsidised Utility Warehouse branded Mini, remains extremely popular. We supplied 56 new cars during the year, taking the total number in use to over 300 (2010: 253). Users inform us that they find these helpful in raising their local profile, resulting in enquiries from both potential new customers and distributors.

The Environment

The environment is becoming an increasingly important concern and we participate in programmes to help reduce the environmental impact of our activities.

We operate an energy efficiency helpline to provide advice on how customers can reduce their energy usage, and we also participate actively in the "Shred-It" recycling programme, with a certificated saving of 476 trees during the year. We also participate in a mobile phone recycling

scheme which sends old handsets to less developed parts of the world for re-use, rather than disposing of them in landfill sites

Our 'online membership' which we launched around 12 months ago, 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 will have a progressive beneficial impact on the amount of paper we use.

Principal Risks

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

Reputation risk

The Company's reputation amongst our business partners, suppliers, shareholders and customers is fundamental to the future success of the Group. Failure to meet expectations in terms of the services we provide, the way that we do business or in our financial performance could have a material effect on the Group. These risks are mitigated through our focus on quality customer service, the training of our staff and our systems of internal control and risk management.

Wholesale prices

The Company does not currently own or operate any network infrastructure itself, choosing instead to purchase the capacity needed from third parties. The advantage of this approach is that the Company is not exposed to either technological risk, capacity risk or the risk of obsolescence, as it can purchase each month the exact amount of each service required to meet its customers' needs.

Whilst there is a theoretical risk that in some of the areas in which the Company operates it may be unable to secure access to the necessary infrastructure on commercially attractive terms, in practice the pricing of access to such infrastructure is either regulated (as in the energy market) or subject to significant competitive pressures (as in telephony). The profile of our customers, the significant quantities of each service they consume in aggregate, and our clearly differentiated route to market has historically proven attractive to potential partners, who compete aggressively in order to secure a share of our business.

The supply of energy, which has been accounting for an increasing proportion of our sales each year, has different risks associated with it. The wholesale price can be extremely volatile, and customer demand can be subject to considerable short term fluctuations depending on the weather. In March 2006, the Company entered into a relationship with npower under which they assumed the substantive risks and rewards of hedging and buying energy for our customers; this has enabled the Company to earn a positive contribution from providing energy since that date.

Bad debt risk on energy customers

The Company has a universal supply obligation in relation to the provision of energy to domestic customers. This means that although the Company is entitled to request a reasonable deposit from potential new customers who are not considered credit worthy, 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 recoverable.

Bad debt risk on telephony customers

There is regular fraud within the telephony industry which arises from customers using the services without intending to pay their supplier. Although the amounts involved are generally small, larger-scale fraud is sometimes attempted involving calls to premium rate and/or international destinations. The Company has sophisticated systems to prevent material losses arising as a result of such fraud by processing all call traffic on an hourly or daily basis, and promptly disconnecting any number whose usage profile appears to be suspicious, although short delays are sometimes experienced in receiving information from our network partners.

Information technology risk

The Company is dependent on its proprietary billing and customer management software for the successful implementation of its business strategy. This software is developed and maintained in accordance with the changing needs of the business by a small team of highly skilled, motivated and experienced individuals. Back-ups of both the software and data are made on a regular basis and securely stored off-site.

Competitive risk

The Group operates in highly competitive markets and significant product innovations or increased price competition could affect our margins. In order to maintain our competitive position, we constantly focus on ways of improving our operating efficiency and keeping our cost base as low as possible.

Legislation and regulatory risk

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

Risk management

The business continues to develop and operate a consistent and systematic risk management process, which involves risk ranking, prioritisation and subsequent evaluation, with a view to ensuring all significant risks have been identified and prioritised, and systems of control are in place to manage such risks.

Andrew Lindsay
Chief Executive Officer
24 May 2011

Financial Review

Overview

Revenues of £418.8m (2010: £369.1m) were 13.5% higher than in the previous financial year to 31 March 2010. The pre-tax profit was £27.5m (2010: £18.2m) and our balance sheet at the year-end shows we had short-term borrowings of £13.1m. This net debt position was in line with management expectations, and was due to a number of factors which are explained in detail below.

The increase in revenue was achieved against a background of lower retail energy prices during the first eight months of the year, and was primarily due to the increase in the average number of services we provided compared with the previous year, combined with higher energy prices and record gas consumption by customers in December.

The significant improvement in pre-tax profitability resulted mainly from an increase in the overall gross profit margin to 15.9% for the year (2010: 15.1%), together with continued organic growth in the number of services we supply.

Distribution costs remained broadly stable as the impact of increasing revenues was largely offset by the changes we made to the distributor compensation plan in the second half of the previous year, which reduced the commission payable on tenants in line with the higher costs associated with managing this category of customer.

Earnings per share increased by 53% to a record level of 30.1p (2010: 19.7p) and, in line with previous guidance, the Company is proposing to pay a final dividend of 14p (2010: 14p) per share, making a total dividend of 22p (2010: 22p) per share for the year.

Customer Management Business

Our customer management business experienced significant growth during the year:

	<u>Net growth in number of services provided</u>
Quarter to 30/06/10	30,847
Quarter to 30/09/10	31,854
Quarter to 31/12/10	27,608
Quarter to 31/03/11	36,311

As can be seen from the above table, the rate of growth increased during the final quarter of the year (primarily reflecting the success of our new range of mobile tariffs). This is extremely encouraging, as they do not yet include any material contribution from the considerably higher numbers of new distributors who have been joining the business each week since the middle of February.

Lower energy prices during the first 8 months were offset by higher prices during the remainder of the year and record gas demand during December, which was the coldest for more than 100 years. Mobile revenues were lower despite the increase in the number of mobile customers, following the decision to cut our prices significantly in December. Revenues from landline telephony and broadband increased slightly with higher customer numbers being partially offset

by a reduction in average call spend. Taken together, these factors account for an overall increase in revenues of 13.5%.

Revenue by Service (£m)	2011	2010
Electricity	169.1	146.5
Gas	161.9	143.2
Fixed Communications (Telephony/Broadband)	64.5	60.9
Mobile	7.3	8.1
Other	10.7	6.2
Total	413.5	364.9

Customer Acquisition

The net cost in respect of our Customer Acquisition business fell slightly during the year to £5.1m (2010: £5.5m). This is mainly due to a slighter lower volume of new customers gathered during the year, a reduction in the cost of providing third party hardware (e.g. mobile handsets and broadband routers), and lower training costs reflecting the introduction of our online training programme and more effective utilisation of our training venues.

Distribution and Administrative Expenses

Distribution costs, which primarily represent the share of our revenues that we pay as commission to distributors, increased by £0.3m to £13.3m (2010: £13.0m); this reflects a combination of lower energy prices during the first eight months of the year, a full year contribution from the changes made to the compensation plan in August 2009 when we focussed the channel on gathering multi-utility homeowners rather than tenants, and the strong organic growth we have seen over the course of the year.

Despite the increase in our bad debt for the year to £8.2m (2010: £7.4m) resulting from the exceptionally cold winter weather, administrative expenses fell to 6.8% of revenue (2010: 7.3%). This reflects the significant operational leverage that we have achieved within the business during the year, and the progress we have made in reducing the proportion of delinquent energy customers by installing prepayment meters.

The average number of employees increased from 451 to 479, most of which took place in the second-half of the year; this increase in headcount of 6.2% is significantly 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. Reflecting these factors, personnel expenses increased by 5.7% to £15.0m (2010: £14.2m) during the year.

We are currently carrying surplus property costs amounting to a few hundred thousand pounds a year, resulting from the consolidation of our administration and customer service staff into our new headquarters office building, which we intend to resolve as soon as possible.

Share Option Costs

The operating profit is stated after share option expenses of £436,000 (2010: £459,000). 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 amount of corporation tax payable is £6.8m (2010: £4.8m).

The effective tax rate for the year was 24.6% (2010: 26.1%).

Treasury Shares

At the start of the year, the Company held 651,525 shares in treasury.

During the year all of these were used to satisfy exercises under the Company's two share option plans. There were therefore no shares remaining in treasury as at 31 March 2011.

Cash Flow and Balance Sheet

There was a net cash outflow of £15.6m during the year, which was in line with management expectations. The main factors behind this were the impact of another extremely cold winter (which led to an increase of £10.4m in our unbilled energy debtors), a reduction in our trade and other payables of £4.9m, an increase in trade and other receivables of £4.9m (mainly reflecting the increasing number of delinquent energy customers for whom we have installed, or are in the process of installing, prepayment meters), an increase in non-current receivables of £2.8m mainly relating to pre-payment meter debts which are not due to be recovered until after 12 months time, and the payment of a dividend for the previous year which was not covered by earnings.

Budget plan customers spread the cost of their expected annual energy consumption into 12 equal monthly instalments. As a high proportion of each customer's annual energy consumption is used during the winter period, this means that our energy debtors reach a peak at the end of each winter before falling as we move through the spring and summer months. Winter this year was again exceptionally cold, which has led to an increase in unbilled energy debtors to £43.2m (included within prepayments and accrued income) compared with £32.8m at the end of last year.

The Board believes that most of the above factors are unlikely to be repeated during the current year. But more importantly, the new supply arrangements agreed with npower mean that the working capital required to fund customer budget plans will in future be provided by npower. As a result, we expect to report a healthy positive cash balance at the end of the financial year to 31 March 2012.

The Group does not have a policy with respect to interest rate management, as it has no long-term debt funding requirements or any obligation after 1 September of this year to provide a letter of credit to npower. 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
24 May 2011

Directors' Report

The directors have pleasure in presenting their report and the audited financial statements for the year to 31 March 2011.

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 17 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 £20,725,000 (2010 £13,442,000) has been transferred to reserves. An interim dividend of 8p per share (2010 8p) was paid during the year. A final dividend of 14p per share (2010 14p 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 33

	Ordinary 5p shares held at	
	31 March 2011	31 March 2010
Charles Wigoder	16,104,041	16,104,041
Julian Schild (appointed 25 May 2010)*	30,000	-
Andrew Lindsay	81,465	6,465
Chris Houghton	-	-
Melvin Lawson*	2,050,000	2,050,000
Michael Pavia*	20,000	20,000
Peter Nutting (retired 14 July 2010)*	n/a	976,750
Richard Michell (retired 14 July 2010)*	n/a	376,686
Keith Stella (retired 14 July 2010)*	n/a	100,000

* indicates non-executive directors

In respect of the above shareholdings, Mr Wigoder has a non-beneficial interest in 2,500,000 shares (2010: 2,300,000) There have been no movements in any of the directors' interests in the share capital of the Company between 1 April 2011 and 24 May 2011

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 the Board directors will be retiring at the forthcoming AGM and offering 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

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, 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 Group does not specifically follow any formal code or standard on payment practice, however it is the policy of the Group to pay all suppliers according to the terms mutually agreed with each supplier At the year-end trade creditors were on average 36 days old (2010: 42 days).

Donations

The Group made charitable donations of £5,829 during the year (2010: £9,996) No political donations were made during the year.

Employees

The requirements of the Companies Act in respect of employees are set out in the Business Review on page 12.

Substantial Shareholders

As at 24 May 2011, 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
Standard Life Investments Ltd	6,896,478	9.9%
Herald Investment Trust plc	2,965,000	4.3%
Nigel Wray	2,230,678	3.2%
Sheldon Management Ltd	2,209,028	3.2%

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 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 2011 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.

As detailed in the Remuneration Committee Report on pages 32 to 36, the Company established a new 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 2011 the JSOP Share Trust jointly held 500,000 shares with Mr Andrew 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 14 July 2010, the Company obtained authority to purchase up to 6,844,175 ordinary shares representing 10% of the issued ordinary share capital (excluding treasury shares) as at 11 June 2010. The Company did not use this authority, but intends to renew it at this year's AGM. During the financial year, the Company did not acquire any of its shares by any other means.

Treasury shares

The Company disposed of 651,525 treasury shares during the year to satisfy the exercise of share options by employees and distributors, representing 0.9% of issued share capital and a total nominal value of £32,576 25. The Company received total proceeds of £992,000 for the disposal of these treasury shares.

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.

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 15. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 16 to 18 and note 17 to the financial statements. In addition, note 17 includes 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 with npower, the Group will no longer be required to procure a letter of credit facility for npower as security against the cost of the energy it is supplying. Also from this date, npower will assume responsibility for funding the seasonal variations in working capital associated with providing gas and/or electricity to those customers who have chosen to pay for their energy using a budget plan.

On this basis, the Group has secured from Barclays Bank PLC the following letter of credit facilities for the period ending 30 September 2011:

Quarter ended 30 June 2011	£36,200,000
Quarter ended 30 September 2011	£30,000,000

Similarly, Barclays has committed to provide maximum borrowing facilities of up to £27,500,000 for the period until 1 September 2011 and then a reduced working capital facility for the period thereafter until 30 June 2012. It is expected that the Group will report a positive net cash balance as at 31 March 2012.

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 current uncertain economic outlook.

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
24 May 2011



Corporate Governance Statement

The Board has complied with the Combined Code on Corporate Governance ("the Code") issued by the Financial Reporting Council in June 2008 (except where detailed below). In June 2010, a revised code, the UK Corporate Governance Code, was published. Whilst complying with, and reporting against, the additional and revised principles contained within this code is not required for regulatory purposes until next year, the Board accepts that it represents an authoritative statement of best practice, and as such is in the process of reviewing its practices to assess what changes may need to be made in future.

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 schedule of matters to be discussed at each meeting, and with the 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. While 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.

An internal evaluation of the performance of the Board as a whole, of its Committees and of the contribution of individual directors during the course of the year has been carried out in accordance with provision A.6 of the Code. The evaluation was carried out through the completion of formal detailed board, and board committee, evaluation questionnaires by each director. The evaluation concluded that the Board and its Committees had operated satisfactorily during the year. The non-executive directors did not hold a separate meeting to appraise the performance of the Executive Chairman as required by provision A.1.3 of the Code, such a meeting was not considered necessary given that the formal board evaluation included an appraisal of the Executive Chairman in which no concerns were raised.

Table of attendance at formal meetings during the year ended 31 March 2011

Name of Director	Board	Remuneration Committee	Audit Committee	Nomination Committee
<i>Number of meetings</i>	12	4	3	1
Charles Wigoder	12	-	-	1
Julian Schild ¹	9	3	2	-
Andrew Lindsay	12	-	-	-
Chris Houghton	12	-	-	-
Melvin Lawson	12	3	2	-
Michael Pavia	10	3	3	1
Peter Nutting ²	5	-	1	-
Richard Michell ²	5	-	-	-
Keith Stella ²	5	1	1	1

¹ appointed to the Board 25 May 2010

² retired from the Board 14 July 2010

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).

Board Balance

Since the retirement of Peter Nutting, Richard Michell and Keith Stella at the Company's AGM on 14 July 2010, the Board has consisted of three executive directors and three independent non-executive directors. Julian Schild was appointed to the Board on 25 May 2010 as an independent non-executive director and also acts as Deputy Chairman. Upon the retirement of Keith Stella from the Board, Julian Schild was also appointed as the Company's 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

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)

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 revised UK Corporate Governance Code requires that all directors of FTSE 350 companies be subject to annual re-election by shareholders. Therefore, whilst the Company is not currently a member of the FTSE 350 and the new UK Corporate Governance Code does not apply to the current year, the Board has decided to follow best practice in this respect and submit all the directors for re-election at the forthcoming Annual General Meeting in July.

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. Following the retirement of Keith Stella and Peter Nutting from the Board, the Remuneration Committee has comprised 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 29 to 38.

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

Following the retirement of Peter Nutting and Keith Stella, the Audit Committee comprised 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 40 to 41.

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.

Nomination Committee

Following the retirement of Keith Stella, the Nomination Committee comprised 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 A.4). 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.

As described in last year's Nomination Committee Report, one appointment was made to the Board during the year, that of Julian Schild on 25 May 2010 as senior independent non-executive director and Deputy Chairman

The activities of the Nomination Committee are set out on page 39.

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 with major shareholders and that this is undertaken primarily by the Chief Executive. 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 feed back issues to the Board as appropriate.

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 issue 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.

Financial Reporting

The Board believes that the report and accounts contained in this document represent a balanced and understandable assessment of the Group's position and prospects. The directors acknowledge their responsibility for preparing the accounts and the Group's auditor has made a statement in this regard.

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 Group (including financial, operational and compliance controls and risk management) and the principal risks which the Group 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 14 and 15.

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 shareholdings sections on pages 21 and 22.

Policy Statement

The Group has been in compliance with the Code throughout the year, save as referred to above. Careful consideration has been given by the Board to the departures from the Code; in all instances, the Board considered the commercial implications and concluded that the instances of non-compliance were not in any way to the detriment of the Company or its shareholders.

Directors' Remuneration Report

This report, which has been prepared in accordance with the provisions of the Combined Code ("the Code"), 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", "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, at least twice annually, 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

Following the retirement of Keith Stella and Peter Nutting from the Board after the AGM in July 2010, the Committee was re-constituted and now comprises the Company's three independent non-executive directors, Julian Schild (Chairman), Melvin Lawson and Michael Pavia.

The Committee met formally four times during the year and details of attendance at these meetings are provided in the Corporate Governance Statement on page 24

On 5 May 2011, the Committee reviewed and updated its Terms of Reference in the light of recent corporate governance guidance. A copy of the Committee's revised Terms of Reference is available on the Company's website www.utilitywarehouse.co.uk.

Legal advice to the Committee has been provided by Nabarro LLP, who are appointed by the Company and also provided legal services to the Company during the year. The legal advice provided to it by Nabarro LLP was discrete and the Committee is satisfied that the services provided did not create any conflict of interest. If a conflict of interest were to arise in the future, the Committee would appoint separate legal advisers from those used by the Company

Advice was also sought by the Committee from PKF (UK) LLP, the Company's auditor, in connection with the Company's new Joint Share Ownership Plan (the "JSOP"). Further details of the JSOP are set out below

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 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. 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) by the use of share incentive plans. Changes in the

remuneration of the executive directors are decided by the Committee in consultation with the Executive Chairman

The Business Review contained on pages 8 to 15 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

The Committee takes into account pay levels across the organisation when setting the remuneration payable to all directors (both executives and non-executives).

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

Following the AGM held in July 2010, the newly constituted Remuneration Committee carried out a review of the remuneration packages of the Company's executive directors. The Committee concluded that the remuneration packages of the executive directors, and in particular the base salary element of such packages, had fallen significantly behind the levels paid at similarly-sized UK publicly listed companies.

According to research reports on directors' remuneration in FTSE Small Cap and FTSE 250 companies published by Hewitt New Bridge Street during the year, the median base salary of the highest paid board director in the FTSE 250 was around £475,000 per annum (£340,000 for FTSE Small Cap) and for Finance Directors in the FTSE 250 was £300,000 per annum (£225,000 for FTSE Small Cap). The Remuneration Committee therefore recommended to the Board that the base salaries of Messrs Wigoder and Lindsay be increased to £310,000 per annum each and Mr Houghton to £175,000 per annum, all with effect from July 2010.

The Committee believes these increased salaries are fully justified by reference to their individual performances, their total remuneration packages (including participation in the Company's share incentive plans as set out below) and current market rates.

Whilst it was apparent from the Hewitt New Bridge Street research that many executive directors in similarly sized companies earned significant annual cash bonuses in addition to their base salaries, with the median annual bonus potential for the highest paid directors in the FTSE 250 being around 115% of salary, the Committee continue 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 the 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. Mr Wigoder, Mr Lindsay and Mr Houghton were also provided with private health insurance during the year.

Mr Wigoder and Mr Lindsay have both entered into new service contracts with the Company reflecting their new roles. Mr Wigoder has again waived his entitlement to receive a bonus equal to 1% of the pre-tax profit for the year, and has further agreed to the removal of this entitlement from his new service agreement.

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:

	Basic Salary & Fees £'000	Pension Contributions £'000	Other Payments £'000	2011 Total £'000	2010 Total £'000
Charles Wigoder	286	28	-	314	217
Julian Schild ¹	29	-	-	29	-
Andrew Lindsay	282	28	-	310	202
Chris Houghton	171	17	-	188	157
Melvin Lawson	12	-	-	12	12
Michael Pavia	20	-	-	20	20
Peter Nutting ²	5	-	-	5	15
Richard Michell ²	4	-	-	4	12
Keith Stella ²	14	-	-	14	22
Richard Hateley	-	-	205	205	-
	823	73	205	1,101	657

¹ appointed to the Board on 25 May 2010

² retired from the Board on 14 July 2010

A final payment was made during the year to Mr Richard Hateley, a former director, in connection with the cessation of his employment with the Company.

Share Incentive Schemes (audited)

The Company has two conventional 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 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.

The policy of the Committee with respect to the imposition of performance conditions changed in 2008 and since that time it has been the policy of the Committee, mindful of the requirements of the Combined Code on Corporate Governance, to ensure that save in exceptional circumstances performance conditions are imposed on any future awards made under share incentive plans agreed to be made either to 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.

The Joint Share Ownership Plan

As part of the review of the executive directors' overall remuneration packages, the Remuneration Committee reviewed the appropriateness of the Company's existing long term share incentive arrangements. The Committee concluded that it was appropriate to introduce a further long-term plan which could be made available to certain members of the senior management team, which would enable share incentive awards to be made to participants in a tax-efficient manner. As such, the establishment of a new Joint Share Ownership Plan was put to, and duly approved by, the Company's shareholders at a General Meeting of the Company held on 30 March 2011.

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 directors will only vest to the extent applicable performance conditions relating to financial and trading performance of the Company are met.

Further details of the JSOP are set out in the circular sent to shareholders on 14 March 2011 in advance of the General Meeting held on 30 March 2011. A copy of the circular is available on the Company's website: www.utilitywarehouse.co.uk.

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. As stated, these distributors are not employees and are not involved in the management of the Company; it is therefore considered inappropriate to

impose any performance conditions on the grant of options made to distributors under this plan

Details of awards granted to directors

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 16 to the financial statements):

	1 April 2010	Granted	Exercised	31 March 2011	Exercise price per share	Exercisable from	Expiry date
Andrew Lindsay							
<i>Share options</i>							
30 Aug 2007	75,000	-	75,000	-	171p	n/a	n/a
12 Jun 2008	217,400	-	-	217,400	330.5p	12 Jun 11	11 Jun 18
<i>JSOP interest</i>							
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

¹ Shares held jointly with the JSOP Share Trust

The share options held by Andrew Lindsay during the year were granted in two tranches on 30 August 2007 and 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 as described in further detail below.

As set out in the table above, on 30 September 2010 Mr Lindsay exercised his first tranche of options at an exercise price of 171p per share. The closing share price on the day of exercise was 388p, Mr Lindsay has retained all these shares.

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 last year's report. 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	TSR growth¹	Customer base growth
100%	10.0%	10.0%	15%
50%	5.0%	5.0%	7.5%
50%-100% ²	5.0%-10.0%	5.0%-10.0%	7.5%-15.0%
Nil	<5.0%	<5.0%	<7.5%

¹ compound annual share price growth assuming 22p annual dividend

² percentage of shares to be calculated on a straight line basis

At the year end the Company's share price was 456.5p and the range during the financial year was 296.3p to 485p.

The JSOP Share Award

Following the establishment of the JSOP, on 31 March 2011 the Remuneration Committee awarded Andrew Lindsay an interest in 500,000 shares to be held jointly with the JSOP Share Trust, in recognition of his promotion to Chief Executive Officer after the AGM in July 2010. The joint interest allows Mr Lindsay, subject to the achievement of the performance conditions detailed 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.

In determining the quantum of the award made to Mr Lindsay the Committee was mindful of a number of key factors including, (i) the need to recognise the delay in making the award following Mr Lindsay's promotion to Chief Executive Officer at the AGM in July 2010 and the significant increase in the Company's share price and profitability since that date; (ii) the relatively modest overall remuneration package received by Mr Lindsay when compared to directors of similarly-sized UK listed companies, including the absence of a cash-based bonus element; and (iii) the need to provide Mr Lindsay with a meaningful long term interest in the equity of the Company to align his interests with those of external shareholders. The Committee recognises that in certain respects Mr Lindsay's award does not strictly follow established corporate governance guidance. However, the award was considered by the Committee to be in the best interests of shareholders as a whole and appropriate to the specific circumstances of his position.

It is currently intended that Mr Lindsay will not receive any further awards under the JSOP during the four-year vesting period of the current award. It is also currently intended that, except in special circumstances, awards will not be made to participants in any financial year over shares with a value exceeding 100 per cent of their annual base salary.

JSOP Share Award Performance Conditions

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 of the following three company performance measures, over the four year vesting period:

- the growth in earnings per share (EPS);
- the growth in total shareholder return (TSR),
- the growth in service numbers.

The maximum number of shares used to calculate the gain will be 500,000 if the two highest performance conditions are fully met. To the extent the two highest performance conditions are not met, Mr Lindsay will receive the gain over a reduced number of shares. However, if Mr Lindsay's gain is settled through the transfer of shares to him from the JSOP Share Trust on vesting, as is considered by the Committee to be likely, Mr Lindsay would receive fewer than 500,000 shares.

In determining the nature and scope of the performance conditions described below, the Committee was mindful of the delay in making the award to Mr Lindsay and the significant increase in the Company's share price and profitability since July 2010. The Committee was also keen to ensure consistency across all performance conditions attached to share incentive awards thus focusing participants on common objectives. The performance conditions attached to Mr Lindsay's award were specifically designed to mirror the structure of those attached to the share options awarded to Chris Houghton in June 2009 on which professional advice was received by the Committee.

The table below summarises 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.

Percentage of 500,000 shares	EPS growth	TSR growth¹	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

EPS growth

EPS is customarily defined, based on the Company's reported annual results for the relevant year but adjusted to reflect changes in the standard rate of corporation tax for larger companies.

If the rate of inflation (measured by RPI) is greater than five per cent in any year during the four year vesting period, the EPS growth targets will be adjusted upwards to reflect the extent to which the rate of inflation has exceeded five per cent in that year. Any inflation below five per cent has been taken into account in setting the growth targets required for vesting.

TSR growth

TSR is customarily defined to include both any increase in share price and all dividends paid during the period to which the measure applies

In each case the relevant TSR targets are again subject to adjustment on the same basis as is described above if the rate of inflation (measured by RPI) increases by more than five per cent in any year during the vesting period

The Remuneration Committee recognises that the TSR criterion used departs from the more customary methodology of testing the Company's performance comparatively against a benchmark index or grouping of comparable companies. The Remuneration Committee gave consideration to this but ultimately concluded that this methodology would not provide an appropriate or fair means of measuring successful performance since there was no suitable grouping of comparable companies; furthermore, although the Company has historically measured, and continues to measure, total shareholder return against the performance of the FTSE All Share Fixed Line Telecommunications Index, as a multi-utility provider generating approximately 80 per cent of its revenues from services other than telephony, it is not felt that this index provides an appropriate comparative measure for the purposes of determining the vesting of awards under the JSOP. The Remuneration Committee therefore concluded that in this instance and on this occasion it would be more consistent with the Company's objectives to set a criterion that is based on TSR measured in absolute terms

Growth in number of services provided

Both EPS and TSR are traditional and widely accepted criteria for measuring the performance and financial success of a company. In the case of the Company, however, its longer term growth in profitability is in part dependent on the existence of a substantial and progressive growth in the number of services provided. Accordingly, it is considered appropriate to set this criterion for vesting, depending on the extent to which the number of services provided grows during the four year vesting period

General

The Committee has decided against imposing a formal stipulation or condition that shares which vest as a result of the award must be retained for any given period of time after vesting, but it has been made clear to Mr Lindsay that this is the Company's expectation and (in common with all senior executives granted share awards in the future) he will be strongly encouraged to hold shares that vest for the longer term

The Remuneration Committee recognises that certain features of these performance criteria are unusual and at variance with what might be considered more customary, but the Remuneration Committee has been clear in its desire to design vesting criteria that are suitable to the needs and circumstances of the Company and has expressed itself satisfied that these performance conditions are appropriate in order to align the objectives of Andrew Lindsay with maximising shareholder value through profitable and sustainable long-term growth. For this purpose, the Remuneration Committee considers that the three most important criteria to achieve this are EPS, TSR and growth in the number of services provided

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.

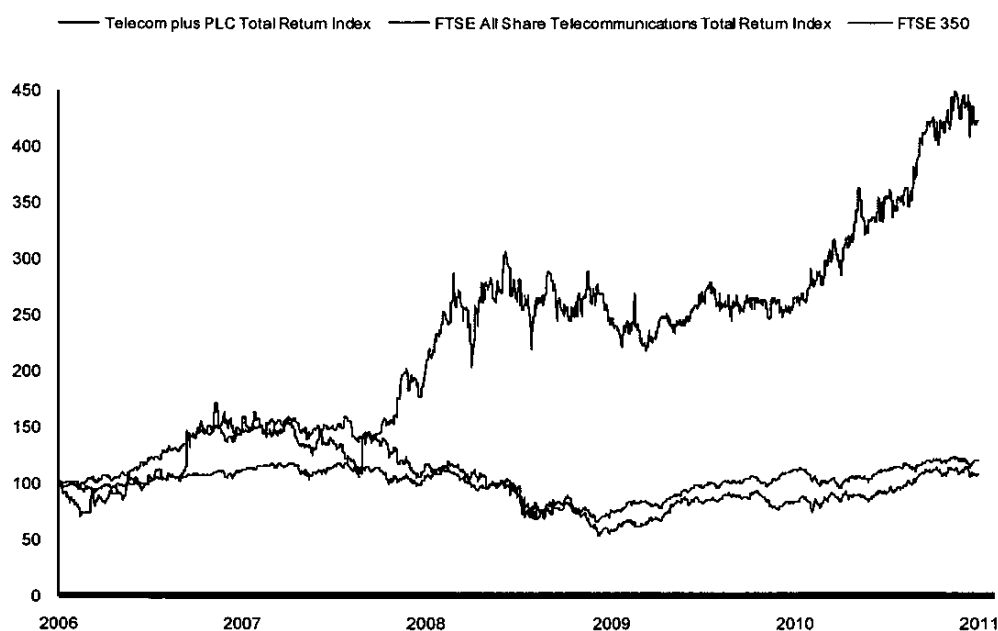
Pension Schemes (audited)

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 above.

Performance Graph showing Total Shareholder Return

The following graphs show 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 3 April 2006 to 31 March 2011. 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 20% of the Company's revenues are now generated from these telephony services.

The Committee has therefore decided to introduce the FTSE 350 Index as a further comparator going forward 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
24 May 2011

Nomination Committee Report

The Nomination Committee comprised 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 Combined Code (provision A.4 1) Julian Schild joined the Committee following the retirement of Keith Stella from the Board in July 2010

The Nomination Committee updated its terms of reference on 5 May 2011 which describe the authority and duties which have been delegated to it by the Board and these are available on the Company's website (www.utilitywarehouse.co.uk)

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 or retirement by rotation in the Company's articles, and
- evaluating any matters relating to the continuation in office of any director including the suspension or termination of service of an executive director

The Committee met formally on one occasion during the year ended 31 March 2011, mainly in connection with the appointment of Mr Julian Schild to the Board as an independent non-executive director and Deputy Chairman on 25 May 2010.

On occasion during the year, Committee matters were also discussed as part of full Board meetings. The discussions principally concerned the appropriateness of succession planning within the Company

Michael Pavia
Chairman of the Nomination Committee
On behalf of the Board
24 May 2011

Audit Committee Report

The Audit Committee comprised three independent non-executive directors, Michael Pavia (Chairman of the Committee), Julian Schild and Melvin Lawson in accordance with the Combined 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 24 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

The Audit Committee updated its terms of reference on 5 May 2011 which describe the authority and duties which have been delegated to it by the Board and these are available on the Company's website (www.utilitywarehouse.co.uk)

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 at least once per year. 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. Also, in conjunction with the Company's external auditor, the Audit Committee has considered, among other matters, compliance with the provisions of the Combined 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

In accordance with the Combined 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 the effectiveness of the internal controls in place, no such function is currently required

The external auditor presents a detailed audit report to the Audit Committee following their review of the annual financial statements. Having regard to the work performed by the external auditor during the year, the Audit Committee considers that the relationship is working well and remains satisfied with their effectiveness. Accordingly the Audit Committee has recommended to the Board, for approval by the shareholders, the reappointment of PKF (UK) LLP as the Company's auditor

The external auditor has provided certain tax and other services to the Group during the year. The Audit Committee has reviewed the services provided and in the light of the nature of the work performed and the level of fees paid (as set out on page 57 of this document) considers that the external auditor's objectivity and independence have not been compromised and that the external auditor was best placed to provide these services

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 remains subject to the 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 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 (Combined 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
24 May 2011

Statement of Directors' Responsibilities

The directors are responsible for preparing the Directors' Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations. They are also responsible for ensuring that the annual report includes information required by the Listing Rules of the Financial Services Authority.

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 as adopted by the European Union and have elected to prepare the parent company financial statements in accordance with those standards. 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 Company and the Group and of the profit or loss of 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 judgments and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with IFRSs as adopted by the European Union;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

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 the Group and enable them to ensure that the Group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation and the parent company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

The directors confirm, to the best of their knowledge

- that the Group financial statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and
- that the management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The names and functions of all the directors are stated on page 2.

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 2011 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 auditor

As explained more fully in the Statement of Directors' Responsibilities, 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 and of the Group's profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; 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 in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook issued by the Financial Services Authority (information about 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

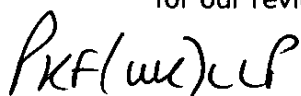
We have nothing to report in respect of the following:

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

Under the Listing Rules we are required to review

- the directors' statement, set out on pages 22 and 23, in relation to going concern, and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.



Jason Homewood (Senior statutory auditor)
for and on behalf of PKF (UK) LLP, Statutory auditor
London, UK
24 May 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2011

	<i>Note</i>	2011 £'000	2010 £'000
Revenue	1	418,845	369,069
Cost of sales		<u>352,273</u>	<u>313,386</u>
Gross profit		66,572	55,683
Distribution expenses		13,252	12,989
Administrative expenses		28,301	26,853
Other income		<u>82</u>	<u>339</u>
Operating profit	1, 2	<u>25,101</u>	<u>16,180</u>
Financial income		74	135
Financial expenses		<u>69</u>	<u>2</u>
Net financial income		5	133
Share of profit of associates		<u>2,400</u>	<u>1,885</u>
Profit before taxation		27,506	18,198
Taxation	4	<u>(6,781)</u>	<u>(4,756)</u>
Profit for the year attributable to owners of the parent		<u>20,725</u>	<u>13,442</u>
Other comprehensive income:			
Deferred tax on share options	4, 8	167	(114)
Comprehensive income for the year attributable to owners of the parent		<u>20,892</u>	<u>13,328</u>
Basic earnings per share	14	<u>30 1p</u>	<u>19 7p</u>
Diluted earnings per share	14	<u>29 9p</u>	<u>19 5p</u>

Consolidated and Company Balance Sheets

As at 31 March 2011

	Note	Group		Company	
		2011	2010	2011	2010
		£'000	£'000	£'000	£'000
Assets					
Non-current assets					
Property, plant and equipment	5	12,468	12,098	12,468	12,098
Goodwill and intangible assets	6	3,742	3,742	-	-
Investments in associates	7	5,313	4,003	1,479	1,479
Deferred tax	8	1,118	1,409	1,106	1,388
Non-current receivables	9	5,095	2,335	7,370	2,335
Total non-current assets		27,736	23,587	22,423	17,300
Current assets					
Inventories		347	234	347	234
Trade and other receivables	10	15,772	10,857	15,656	10,163
Prepayments and accrued income	10	79,307	65,838	78,035	64,328
Cash and cash equivalents		2,419	2,473	2,183	2,454
Total current assets		97,845	79,402	96,221	77,179
Total assets		125,581	102,989	118,644	94,479
Current liabilities					
Short term borrowings		15,525	-	15,525	-
Trade and other payables	11	3,937	8,812	4,876	8,528
Current tax payable		2,565	1,988	2,304	1,748
Accrued expenses and deferred income	12	51,852	47,701	51,365	46,740
Total current liabilities		73,879	58,501	74,070	57,016
Total assets less total liabilities		51,702	44,488	44,574	37,463
Equity					
Share capital	13	3,477	3,452	3,477	3,452
Share premium		4,298	2,000	4,298	2,000
Treasury shares		-	(1,278)	-	(1,278)
JSOP reserve		(2,275)	-	-	-
Retained earnings		46,202	40,314	36,799	33,289
Total equity		51,702	44,488	44,574	37,463

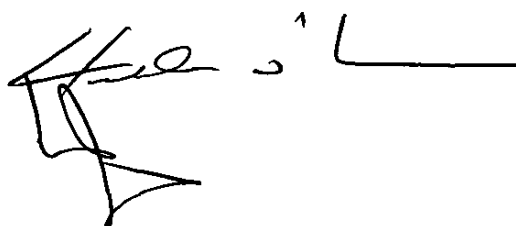
These accounts were approved and authorised for issue by the Board on 24 May 2011

Charles Wigoder

Director

Chris Houghton

Director



Consolidated and Company Cash Flow Statements

For the year ended 31 March 2011

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Operating activities				
Operating profit	25,101	16,180	23,617	14,572
Depreciation of property, plant and equipment	1,076	917	1,076	917
Amortisation of intangible assets	-	1	-	1
Distribution from associated company	1,090	1,017	1,090	1,017
(Increase)/decrease in inventories	(113)	123	(113)	123
Increase in trade and other receivables	(21,144)	(21,142)	(21,960)	(20,821)
(Decrease)/increase in trade and other payables	(724)	1,495	(220)	1,582
Increase in inter-company payable	-	-	1,193	496
Costs attributed to the issue of share options	436	459	436	459
Corporation tax paid	(5,745)	(6,199)	(5,359)	(5,511)
Net cash flow from operating activities	(23)	(7,149)	(240)	(7,165)
Investing activities				
Purchase of property, plant and equipment	(1,447)	(1,545)	(1,447)	(1,545)
Purchase of shares in associated company	-	(432)	-	(432)
Cash flow from investing activities	(1,447)	(1,977)	(1,447)	(1,977)
Financing activities				
Dividends paid	(15,118)	(13,989)	(15,118)	(13,989)
Interest received	74	135	74	135
Interest paid	(69)	(2)	(69)	(2)
Loan to JSOP share trust	-	-	(2,275)	-
Issue of new ordinary shares	12	-	2,287	-
Purchase of own shares	-	(272)	-	(272)
Sale of treasury shares	992	370	992	370
Cash flow from financing activities	(14,109)	(13,758)	(14,109)	(13,758)
Decrease in cash and cash equivalents	(15,579)	(22,884)	(15,796)	(22,900)
Cash and cash equivalents at the beginning of the year	2,473	25,357	2,454	25,354
Net cash and cash equivalents at the end of the year	(13,106)	2,473	(13,342)	2,454
Cash and cash equivalents	2,419	2,473	2,183	2,454
Short term borrowings	(15,525)	-	(15,525)	-
Net cash and cash equivalents at the end of the year	(13,106)	2,473	(13,342)	2,454

Consolidated Statement of Changes in Equity

For the year ended 31 March 2011

Consolidated	Share capital £'000	Share premium £'000	JSOP reserve £'000	Treasury shares £'000	Retained earnings £'000	Total £'000
Balance at 1 April 2009	3,452	1,992	-	(1,457)	40,605	44,592
Profit for the year					13,442	13,442
Deferred tax on share options					(114)	(114)
Comprehensive income for the year					13,328	13,328
Dividends					(13,989)	(13,989)
Purchase of treasury shares				(272)		(272)
Sale of treasury shares		8		451	(89)	370
Credit arising on share options					459	459
Balance at 31 March 2010	3,452	2,000	-	(1,278)	40,314	44,488
Profit for the year					20,725	20,725
Deferred tax on share options					167	167
Comprehensive income for the year					20,892	20,892
Dividends					(15,118)	(15,118)
Sale of treasury shares		36		1,278	(322)	992
Credit arising on share options					436	436
Issue of new shares to JSOP (note 16)	25	2,250	(2,275)		-	-
Issue of new shares	-	12			-	12
Balance at 31 March 2011	3,477	4,298	(2,275)	-	46,202	51,702

Company Statement of Changes in Equity

For the year ended 31 March 2011

Company	Share capital £'000	Share premium £'000	Treasury shares £'000	Retained earnings £'000	Total £'000
Balance at 1 April 2009	3,452	1,992	(1,457)	35,607	39,594
Profit for the year				11,415	11,415
Deferred tax on share options				(114)	(114)
Comprehensive income for the year				11,301	11,301
Dividends				(13,989)	(13,989)
Purchase of treasury shares			(272)		(272)
Sale of treasury shares		8	451	(89)	370
Credit arising on share options				459	459
Balance at 31 March 2010	3,452	2,000	(1,278)	33,289	37,463
Profit for the year				18,347	18,347
Deferred tax on share options				167	167
Comprehensive income for the year				18,514	18,514
Dividends				(15,118)	(15,118)
Sale of treasury shares		36	1,278	(322)	992
Credit arising on share options				436	436
Issue of new shares to JSOP (note 16)	25	2,250		-	2,275
Issue of new shares	-	12		-	12
Balance at 31 March 2011	3,477	4,298	-	36,799	44,574

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 2011 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 24 May 2011.

(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 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 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 provisions for bad debts and delinquent customers, 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 £18,347,000 (2010: £11,415,000).

The following standards and interpretations have become mandatory for the Company during the current accounting period, but are not relevant to the Company's operations:

- IAS 39 Financial instruments: Recognition and measurement;
- IAS 27 Consolidated and separate financial statements;
- IFRS 3 Business combinations;
- IFRS 1 First time adoption of IFRS;
- UITF Abstract 48 Accounting implications of the replacement of the RPI with the CPI for retirement benefits;
- IFRIC 18 Transfers of assets from customers; and
- IFRIC 17 Distributions of non-cash assets to owners.

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 as 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 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.

(f) Interest income

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

(g) Leases

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

Notes to the consolidated financial statements

Significant accounting policies (continued)

(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.

(k) 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.

Notes to the consolidated financial statements

Significant accounting policies (continued)

(l) 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.

(m) 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.

(n) 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.

(o) 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 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.

(p) Trade receivables

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

Notes to the consolidated financial statements

Significant accounting policies (continued)

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits with banks. Short term borrowings comprise bank loans and overdrafts provided by Barclays Bank PLC.

(r) 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

(s) 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.

As set out in the Remuneration Committee report, the Company established a new 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 Statement of Comprehensive Income.

(t) Segmental reporting

Financial information on operating segments that corresponds with information regularly reviewed by the chief operating decision maker is disclosed in note 1 to the accounts.

(u) 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.

Notes to the consolidated financial statements

Significant accounting policies (continued)

(v) 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.

(w) 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.

(x) 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:

- IFRS 7 Financial instruments: Disclosure,
- IAS 32 Financial instruments: Presentation;
- IFRS 9 Financial instruments: Recognition and measurement;
- IAS 24 Related party disclosures,
- IFRIC 14 Prepayments of a minimum funding requirement, and
- IFRIC 19 Extinguishing financial liabilities with equity 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 2011			Year ended 31 March 2010		
	Customer Management	Customer Acquisition	Total	Customer Management	Customer Acquisition	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue.						
External sales	413,490	5,355	418,845	364,890	4,179	369,069
Segment result	30,211	(5,110)	25,101	21,655	(5,475)	16,180
Operating profit			25,101			16,180
Net financing income			5			133
Share of profit of associates			2,400			1,885
Profit before taxation			27,506			18,198
Taxation			(6,781)			(4,756)
Profit for the year			20,725			13,442
Segment assets	117,773	2,495	120,268	96,828	2,158	98,986
Investment in equity method associates	5,313	-	5,313	4,003	-	4,003
Total assets	123,086	2,495	125,581	100,831	2,158	102,989
Segment liabilities	(73,001)	(878)	(73,879)	(57,864)	(637)	(58,501)
Net assets			51,702			44,488
Capital expenditure	1,429	18	1,447	1,527	18	1,545
Depreciation and amortisation	1,062	14	1,076	908	10	918

Notes to the consolidated financial statements

1. Segment reporting (continued)

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.

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

2. Operating profit

Operating profit is stated after charging

	2011 £'000	2010 £'000
Depreciation and amortisation	1,076	918
Operating lease rentals - land and buildings	321	321
Auditor's remuneration - audit of the Company	70	53
- audit of the subsidiary of the Company	13	12
- other services pursuant to legislation	12	12
- taxation services	55	58
- other services	23	7
Inventories expensed	2,988	3,491
Inventory write-down expense	22	6
Receivables and accrued income impairment cost	8,232	7,366

3. Personnel expenses

	Group	
	2011 £'000	2010 £'000
The total charge in the Statement of Comprehensive Income comprised the following.		
Wages and salaries	13,081	12,363
Social security costs	1,307	1,196
Pension contributions	239	213
Share based payments	352	405
	<u>14,979</u>	<u>14,177</u>

	Number	Number
Average number employed by the Group during the year (excluding directors)		
Customer Acquisition	70	73
Customer Management	409	378
	<u>479</u>	<u>451</u>

Notes to the consolidated financial statements

3. Personnel expenses (continued)

	Group	
	2011	2010
	£'000	£'000
The aggregate remuneration of the directors (included above) was as follows		
Salaries, fees and other benefits	823	606
Pension contributions	73	51
Other payments	205	-
	<u>1,101</u>	<u>657</u>
Share based payments	124	130
	<u>1,125</u>	<u>787</u>

Other payments relate to a final payment made during the year to Mr Richard Hateley, a former director, in connection with the cessation of his employment with the Company

The emoluments of the highest paid director were £286,442 (2010: £197,880) and pension costs were £28,326 (2010: £19,523). Three (2010: three) directors had contributions paid to their personal pension schemes.

On 30 September 2010, Mr Andrew Lindsay exercised 75,000 share options at an exercise price of 171p per share on which a gain of £156,000 arose. Mr Lindsay has retained all these shares.

4. Taxation

(i) Recognised in the Statement of Comprehensive Income

	2011	2010
	£'000	£'000
Current tax charge		
Current year	6,522	4,210
Adjustments for prior years	(199)	32
	<u>6,323</u>	<u>4,242</u>
Deferred tax charge/(credit)		
Accelerated/(decelerated) capital allowances	22	(36)
Other temporary differences	399	549
Deduction in respect of share options	(203)	(9)
Reduction in rate of future taxes	86	-
Adjustment for prior years	154	10
	<u>458</u>	<u>514</u>
Total tax charge	<u>6,781</u>	<u>4,756</u>

Notes to the consolidated financial statements

4. Taxation (continued)

(ii) Reconciliation of total tax charge

	2011 £'000	2010 £'000
Profit before tax	<u>27,506</u>	<u>18,198</u>
Corporation tax using the UK corporation tax rate of 28% (2010: 28%)	7,702	5,096
Expenses not deductible for taxation purposes	40	94
Adjustment in respect of share options exercised	(330)	52
Reduction in rate of future taxes	86	-
Share of associate's tax charge	(672)	(528)
Adjustments in respect of prior years - current tax	(199)	32
- deferred tax	154	10
Total tax charge	<u>6,781</u>	<u>4,756</u>

(iii) Tax on items charged to equity

	2011 £'000	2010 £'000
Deferred tax on share options	<u>167</u>	<u>(114)</u>

Notes to the consolidated financial statements

5. Property, plant and equipment

	Freehold land and buildings £'000	Plant and machinery £'000	Fixtures and fittings £'000	Leasehold improvements £'000	Computer and office equipment £'000	Motor vehicles £'000	Total £'000
Group and Company							
2011							
Cost							
At 1 April 2010	9,169	1,246	852	594	4,137	221	16,219
Additions	-	56	537	-	854	-	1,447
Disposals	-	-	-	-	-	(11)	(11)
Reclassification	-	(270)	234	-	36	-	-
At 31 March 2011	9,169	1,032	1,623	594	5,027	210	17,655
Depreciation							
At 1 April 2010	213	78	113	393	3,117	207	4,121
Depreciation charge for the year	125	50	188	47	656	10	1,076
Disposals	-	-	-	-	-	(10)	(10)
At 31 March 2011	338	128	301	440	3,773	207	5,187
Net book amounts							
At 31 March 2011	8,831	904	1,322	154	1,254	3	12,468
2010							
Cost							
At 1 April 2009	9,169	652	617	548	3,467	221	14,674
Additions	-	594	235	46	670	-	1,545
At 31 March 2010	9,169	1,246	852	594	4,137	221	16,219
Depreciation							
At 1 April 2009	87	-	-	308	2,620	189	3,204
Depreciation charge for the year	126	78	113	85	497	18	917
At 31 March 2010	213	78	113	393	3,117	207	4,121
Net book amounts							
At 31 March 2010	8,956	1,168	739	201	1,020	14	12,098
At 31 March 2009	9,082	652	617	240	847	32	11,470

Notes to the consolidated financial statements

6. Goodwill and intangible assets

	Source code licence £'000	Goodwill £'000	Total £'000
Group			
2011			
Cost			
At 1 April 2010 and 31 March 2011	839	4,558	5,397
Amortisation			
At 1 April 2010	839	816	1,655
Amortisation for the year	-	-	-
At 31 March 2011	839	816	1,655
Carrying amounts			
At 31 March 2011	-	3,742	3,742
2010			
Cost			
At 1 April 2009 and 31 March 2010	839	4,558	5,397
Amortisation			
At 1 April 2009	838	816	1,654
Amortisation for the year	1	-	1
At 31 March 2010	839	816	1,655
Carrying amounts			
At 31 March 2010	-	3,742	3,742
At 31 March 2009	1	3,742	3,743

Goodwill is attributable wholly to the Customer Management operating segment

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 2011 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 assets using cash flow projections based on current levels of profitability, with no assumed growth. A pre-tax discount rate of 20% into perpetuity was used, this was considered appropriate given the expectation that the Company's subsidiary, TML, will continue to operate as a going concern for the foreseeable future. The result of the review undertaken at 31 March 2011 indicated that no impairment is necessary.

Company

The Company's intangible assets relate solely to the source code licence detailed above

Notes to the consolidated financial statements

7. Investments

Fixed asset investments

The investment in the associate represents the cost of purchasing a 20% (2010: 20%) equity interest in the ordinary share capital of Opus Energy Group Limited ("Opus"), together with the Group's share of retained reserves. Amounts shown below relating to Opus for the year ended 31 March 2011 remain subject to final audit by Opus' auditor.

	2011 £'000	2010 £'000
Associated undertaking		
Cost less impairment		
At 1 April	1,479	1,047
Additions	-	432
At 31 March	<u>1,479</u>	<u>1,479</u>
Share of profit		
At 1 April	2,524	1,656
Share of profit after taxation for the year	2,400	1,885
Dividends in the year	<u>(1,090)</u>	<u>(1,017)</u>
At 31 March	<u>3,834</u>	<u>2,524</u>
Carrying amounts		
At 31 March	<u>5,313</u>	<u>4,003</u>

Notes to the consolidated financial statements

7. Investments (continued)

Fixed asset investments (continued)

Associated company

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

	2011 £'000	2010 £'000
Total assets	51,767	34,578
Total liabilities	28,935	18,319
Net assets	<u>22,832</u>	<u>16,259</u>
Income	197,176	151,206
Expenses	180,506	141,248
Profit before tax	<u>16,670</u>	<u>9,958</u>

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

8. Deferred tax asset

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

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Tax effect of temporary differences:				
(Shortfall)/excess of qualifying depreciation over tax allowances	(68)	148	(70)	144
Other short term temporary differences	603	992	593	975
Employee benefits in excess of amount expensed	583	269	583	269
	<u>1,118</u>	<u>1,409</u>	<u>1,106</u>	<u>1,388</u>

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
At 1 April	1,409	2,036	1,388	2,008
Charged to the Statement of Comprehensive Income	(458)	(513)	(449)	(506)
Taken to equity	167	(114)	167	(114)
At 31 March	<u>1,118</u>	<u>1,409</u>	<u>1,106</u>	<u>1,388</u>

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

9. Non-current receivables

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Hire purchase agreements receivable	1,900	1,645	1,900	1,645
Loan to JSOP share trust	-	-	2,275	-
Prepayment meter debt due after one year	2,578	-	2,578	-
Other non-current receivables	617	690	617	690
	<u>5,095</u>	<u>2,335</u>	<u>7,370</u>	<u>2,335</u>

No amounts receivable under hire purchase agreements are due after five years.

Notes to the consolidated financial statements

10. Receivables and accrued income

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Trade receivables	10,329	9,189	10,204	8,855
Other receivables	5,443	1,668	5,452	1,308
Trade and other receivables	15,772	10,857	15,656	10,163
Accrued income	77,527	64,320	77,035	63,491
Prepayments	1,780	1,518	1,000	837
Prepayments and accrued income	79,307	65,838	78,035	64,328
Trade and other receivables	15,772	10,857	15,656	10,163
Accrued income	77,527	64,320	77,035	63,491
Receivables and accrued income (net)	93,299	75,177	92,691	73,654

Prepayments and accrued income of £78,899,000, (2010: £65,451,000) includes March revenue invoiced in April of £35,707,000, (2010: £32,678,000) and unbilled energy debtors of £43,192,000 (2010: £32,773,000). Offset against this figure is an allowance for future credit losses of £1,372,000 (2010: £1,131,000), which is included in the allowance for credit losses of £13,554,000 (2010: £13,405,000)

Allowance for credit losses on receivables and accrued income

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Allowances as at 1 April	13,405	8,918	12,696	9,168
Additions – charged to Statement of Comprehensive Income	8,232	7,366	7,314	6,501
Allowances used on fully written down receivables	(8,083)	(2,879)	(7,635)	(2,973)
Allowances as at 31 March	13,554	13,405	12,375	12,696

Analysis of receivables and accrued income

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Receivables and accrued income (gross)	106,853	88,582	105,066	86,350
Allowance for credit losses	(13,554)	(13,405)	(12,375)	(12,696)
Receivables and accrued income (net)	93,299	75,177	92,691	73,654

The above tables have been restated to reflect allowances against trade receivables that are yet to be fully impaired. In prior years these tables assumed that all trade receivables due after six months were not recoverable. This assumption is no longer considered appropriate in the light of the significant increase in energy debt due after six months that has been loaded onto prepayment meters during the current year.

Notes to the consolidated financial statements

10. Receivables and accrued income (continued)

Aged analysis of trade receivables

	Not impaired but past due by the following amounts					Total carrying amount
	30 days or less	Between 31 and 60 days	Between 61 and 90 days	Between 91 and 120 days	More than 120 days	
	£'000	£'000	£'000	£'000	£'000	£'000
2011 Trade receivables	1,872	921	1,110	560	8,444	12,907
2010 Trade receivables	3,053	788	904	670	3,774	9,189

The increase in trade receivables due after more than 120 days predominantly relates to the significant increase in amounts due from customers for energy consumption that have been loaded onto prepayment meters during the year, of which approximately £2,578,000 is due after one year

11. Trade and other payables

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Trade payables	1,686	6,418	2,906	6,558
Other taxation and social security	2,251	2,394	1,970	1,970
	<u>3,937</u>	<u>8,812</u>	<u>4,876</u>	<u>8,528</u>

12. Accrued expenses and deferred income

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Accrued expenses	50,211	46,220	50,031	45,259
Deferred income	1,641	1,481	1,334	1,481
	<u>51,852</u>	<u>47,701</u>	<u>51,365</u>	<u>46,740</u>

Notes to the consolidated financial statements

13. Capital and reserves

Issued share capital – ordinary shares of 5p each

	2011		2010	
	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	69,032	3,452	69,032	3,452
Issue of new ordinary shares	508	25	-	-
At 31 March	<u>69,540</u>	<u>3,477</u>	<u>69,032</u>	<u>3,452</u>

At the year end the Company's share price was 456 5p and the range during the financial year was 296 3p to 485p

At 31 March 2011, the Company had 69,539,828 (2010: 69,031,863) shares in issue, there were no shares held in treasury (2010: 651,525). The total number of voting rights of 5p ordinary shares in the Company was 69,539,828 (2010: 68,380,338). Since the year end, a further 1,713 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 69,541,541.

By 31 March 2011, 1,684,000 shares held in treasury had been used to satisfy the exercise of options under the Company's two share option plans.

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 69,541,541. The Company received consideration of £2,275,000 for the issue of the 500,000 shares to the JSOP Share Trust.

Notes to the consolidated financial statements

13. 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 2011 was £51.7 million (2010: £44.5 million).

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

Dividends

	2011 £'000	2010 £'000
Prior year final paid 14p (2010: 12.5p) per share	9,604	8,526
Interim paid 8p (2010: 8p) per share	<u>5,514</u>	<u>5,463</u>

The Directors have proposed a final dividend of 14p per ordinary share totalling £9.7 million, payable on 5 August 2011, to shareholders on the register at the close of business on 15 July 2011. In accordance with the Group's accounting policies the dividend has not been included as a liability as at 31 March 2011.

Notes to the consolidated financial statements

14. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 March 2011 was based on the profit attributable to owners of the parent of £20,725,000 (2010 £13,442,000) and a weighted average number of ordinary shares outstanding during the year ended 31 March 2011 of 68,739,755 (2010 68,270,160)

	2011	2010
Basic earnings per share	30 1p	19 7p
Diluted earnings per share	<u>29 9p</u>	<u>19 5p</u>

Diluted earnings per share

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

	2011		2010	
	Profit £'000	Number of shares '000	Profit £'000	Number of shares '000
Basic earnings	20,725	68,740	13,442	68,270
Dilutive effects – Options	-	560	-	551
Diluted earnings	<u>20,725</u>	<u>69,300</u>	<u>13,442</u>	<u>68,821</u>

The share options may be dilutive in future periods

15. Commitments

Operating lease commitments

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

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Amounts payable:				
Less than one year	310	310	310	310
Between one and five years	849	1,078	849	1,078
More than five years	-	67	-	67
	<u>1,159</u>	<u>1,455</u>	<u>1,159</u>	<u>1,455</u>

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

Capital commitments

At 31 March 2011 the Company had capital commitments of £745,000 relating to the refurbishment of Network HQ, the Company's freehold office building (2010: £312,000).

Notes to the consolidated financial statements

16. 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 Andrew 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 described in the Remuneration Committee Report, subject to the fulfilment of performance conditions, Mr Lindsay will receive any gain above 553p per share should the award be settled on 1 April 2015, the first day of vesting

As set out in note (s) 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 only award currently granted under the JSOP was made to Mr Lindsay on 31 March 2011, the final day of the current accounting period, and therefore no material charge to the Statement of Comprehensive Income would arise for the year. As such the share based expenses for the current year detailed below do not include any amount in respect of the JSOP award made to Mr Lindsay

Notes to the consolidated financial statements

16. Share-based payments (continued)

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

	2011 £'000	2010 £'000
Distribution expenses	84	54
Administrative expenses	352	405
Total charge	<u>436</u>	<u>459</u>

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

	2011		2010	
	Number	Weighted average exercise price	Number	Weighted average exercise price
At 1 April	2,488,148	240p	2,539,030	221p
Options granted	591,439	358p	447,500	286p
Options exercised	(806,697)	191p	(249,490)	156p
Options lapsed/expired	(151,871)	274p	(248,892)	209p
At 31 March	<u>2,121,019</u>	<u>289p</u>	<u>2,488,148</u>	<u>240p</u>

The weighted average share price at the date of exercise for the options exercised during the year was 386p.

Notes to the consolidated financial statements

16. Share-based payments (continued)

During the year ended 31 March 2011, 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	05/07/2010	05/07/2010	17/12/2010	17/12/2010
Number of options originally granted	177,500	300,611	100,500	12,828
Contractual life	10 years	10 years	10 years	10 years
Exercise price (pence)	338p	338p	442p	442p
Share price at date of grant (pence)	327p	327p	443p	443p
Number of employees / distributors	54	723	59	189
Expected volatility	35.50%	35.50%	36.39%	36.39%
Expected option life	10 years	10 years	10 years	10 years
Risk free rate	1.24%	1.24%	1.24%	1.24%
Expected dividend yield	6.51%	6.51%	4.98%	4.98%
Fair value per option (pence)	49p	49p	89p	89p

During the previous year ended 31 March 2010, the Group issued share options to employees 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	26/06/2009	26/06/2009	09/12/2009	09/12/2009
Number of options originally granted	272,000	42,000	95,500	38,000
Contractual life	10 years	10 years	10 years	10 years
Exercise price (pence)	278p	278p	305p	305p
Share price at date of grant (pence)	280p	280p	298p	298p
Number of employees / distributors	114	15	49	19
Expected volatility	53.51%	53.51%	43.47%	43.47%
Expected option life	10 years	10 years	10 years	10 years
Risk free rate	0.50%	0.50%	0.50%	0.50%
Expected dividend yield	7.91%	7.91%	7.21%	7.21%
Fair value per option (pence)	57p	57p	51p	51p

The Group has used the Cox, Ross and Rubenstein Binomial Tree model to value its share options, with no account taken of any vesting conditions, other than time, due to the immateriality of the number of options with performance conditions attached. 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

16. Share-based payments (continued)

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

	Number 1 April 2010	Number 31 March 2011	Exercise price per share	Exercisable from	Expiry date
2007 Networkers and Consultants Share Option Plan					
24 Jun 2003	279,515	-	192 5p	24 Jun 2006	23 Jun 2010
15 Jul 2004	129,000	61,000	284p	15 Jul 2007	14 Jul 2011
27 Jan 2005	26,000	16,000	251.5p	27 Jan 2008	26 Jan 2012
17 Feb 2006	216,533	159,831	162p	17 Feb 2009	16 Feb 2013
30 Aug 2007	84,000	41,500	171p	30 Aug 2010	29 Aug 2017
10 Dec 2008	74,000	74,000	340p	10 Dec 2011	09 Dec 2018
26 Jun 2009	42,000	42,000	278p	26 Jun 2012	25 Jun 2019
09 Dec 2009	36,000	36,000	305p	09 Dec 2012	08 Dec 2019
05 Jul 2010	-	298,780	338p	05 Jul 2013	03 Jul 2020
17 Dec 2010	-	12,593	442p	17 Dec 2013	16 Dec 2020
	887,048	741,704			
2007 Employee Share Option Plan					
7 Jul 2003	17,000	-	201p	7 Jul 2006	6 Jul 2010
5 Jan 2004	4,500	-	375p	5 Jan 2007	4 Jan 2011
14 Jul 2004	16,000	8,230	284p	14 Jul 2007	13 Jul 2011
27 Jan 2005	6,000	1,000	251.5p	27 Jan 2008	26 Jan 2012
13 Jul 2005	21,000	3,000	168p	13 Jul 2008	12 Jul 2012
17 Feb 2006	66,000	38,000	162p	17 Feb 2009	16 Feb 2013
12 Jul 2006	37,000	16,500	127p	12 Jul 2009	11 Jul 2013
4 Jan 2007	46,200	9,935	199 25p	4 Jan 2010	3 Jan 2014
30 Aug 2007	412,500	189,300	171p	30 Aug 2010	29 Aug 2017
17 Jan 2008	110,500	60,950	198p	17 Jan 2011	16 Jan 2018
12 Jun 2008	324,400	319,400	330 5p	12 Jun 2011	11 Jun 2018
10 Dec 2008	202,000	177,500	340p	10 Dec 2011	09 Dec 2018
26 Jun 2009	244,000	220,000	278p	26 Jun 2012	25 Jun 2019
09 Dec 2009	94,000	82,000	305p	09 Dec 2012	08 Dec 2019
05 Jul 2010	-	159,000	338p	05 Jul 2013	03 Jul 2020
17 Dec 2010	-	94,500	442p	17 Dec 2013	16 Dec 2020
	1,601,100	1,379,315			
	2,488,148	2,121,019			
Weighted average exercise price	240.5p	289.5p			

Notes to the consolidated financial statements

16. Share-based payments (continued)

At 31 March 2011 605,246 share options were exercisable (2010: 864,748) at a weighted average exercise price of 185.2p (2010: 198.1p). The average remaining contractual life of the outstanding options was 7.1 years at 31 March 2011 (2010: 6.0 years).

Notes to the consolidated financial statements

17. 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 £101,295,000 (2010: £79,985,000) and for the Company of £102,725,000 (2010: £78,444,000). 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 £70,500,000 (2010: £55,053,000) and for the Company £71,271,000 (2010: £53,977,000)

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 credit worthy, the Company is obliged to supply domestic energy to anyone who submits a properly completed application form. Where such customers subsequently fail to pay for the energy they have used ("delinquent customers"), there is likely to be a considerable delay before the Company is able to eliminate its exposure to future bad debt from them by either installing a pre-payment meter or disconnecting their supply, and the costs associated with preventing such delinquent customers from increasing their indebtedness are not always fully recoverable. The provision for delinquent customers included in accrued expenses and deferred income is £1.0m (2010: £1.4m).

The maximum credit risk for the Group is £101,295,000 (2010: £79,985,000) and for the Company £102,725,000 (2010: £78,444,000)

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.

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.

Notes to the consolidated financial statements

17. Derivatives and financial instruments (continued)

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 £2,516,000 (2010 £2,335,000) due from employees and distributors which earns interest at variable rates above Base Rate.

Borrowing facilities

At 31 March 2011, the Group had an available overdraft facility of up to £5,000,000 (2010 £5,000,000), a money market loan of up to £20,000,000 (2010 £nil) and had a facility of £55,400,000 (2010 £55,700,000) for Bonds, Guarantees and/or Indemnities to provide security to npower in respect of energy supplied by them.

From 1 September 2011, under the revised arrangements with npower, the Group will no longer be required to procure a facility for Bonds, Guarantees and/or Indemnities for npower as security against the cost of the energy it is supplying. Also from this date, npower will assume responsibility for funding the seasonal variations in working capital associated with providing gas and/or electricity to those customers who have chosen to pay for their energy using a budget plan.

On this basis, the Group has secured from Barclays Bank PLC the following facilities for Bonds, Guarantees and/or Indemnities for the period ending 30 September 2011:

Quarter ended 30 June 2011	£36,200,000
Quarter ended 30 September 2011	£30,000,000

Similarly, it has committed to provide an overdraft facility of up to £5,000,000 and a money market loan of up to £22,500,000 for the period until 30 June 2012. Total available facilities are as follows:

Period ended 30 April 2011	£25,000,000
Period ended 30 June 2011	£27,500,000
Period ended 31 August 2011	£25,000,000
Period ended 31 October 2011	£15,000,000
Period ended 30 June 2012	£11,000,000

These 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.

Notes to the consolidated financial statements

17. Derivatives and financial instruments (continued)

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.

18. Related parties

Identity of related parties

The Company has a related party relationship with its subsidiary (see note 7), associate (see note 7) and with its directors and executive officers.

Transactions with key management personnel

Directors of the Company and their immediate relatives control 27.01% of the voting shares of the Company

During the year, the Company acquired goods and services worth approximately £92,000 (2010: £87,000) from companies in which directors have a beneficial interest

Other related party transactions

Associates

During the year ended 31 March 2011, the associate supplied goods to the Group which amounted to £604,000 (2010: £559,000) and at 31 March 2011 the associate was owed £42,000 by the Group (2010: £94,000). Dividends received during the year from the associate amounted to £1,090,000 (2010: £1,017,000) relating to the financial year to 31 March 2010.

Subsidiary company

During the year ended 31 March 2011, the subsidiary purchased goods and services from the Company in the amount of £7,535,000 (2010: £7,433,000). At 31 March 2011 the subsidiary was owed £1,778,000 by the Company (2010: £585,000).