

## REPORT AND ACCOUNTS

YEAR ENDED 31 MARCH 2016



HOME PHONE



BROADBAND



MOBILE



GAS



ELECTRICITY



# CONTENTS

## Strategic Report

Financial and Operating Highlights	1
Our Values and Services	2
Chairman's Statement	4
Chief Executive's Review	12
• Markets	12
• Business model	12
• Strategy	13
• Operational performance and non-financial KPIs	14
Financial Review	21
Principal Risks and Uncertainties	26
People and Organisation	32
Corporate Responsibility	35

## Governance

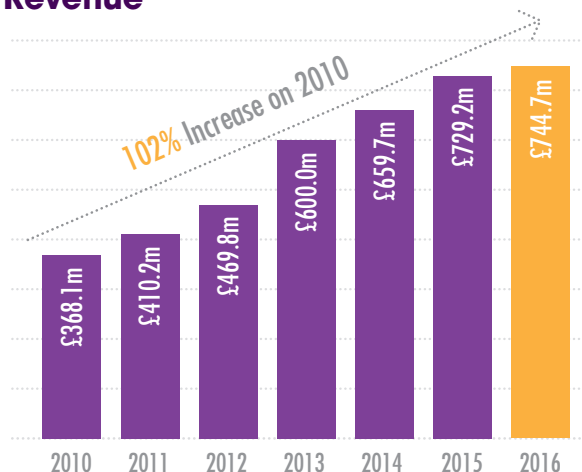
Board of Directors	37
Corporate Governance Statement	39
Nomination Committee Report	46
Audit Committee Report	48
Directors' Remuneration Report	51
Directors' Report	77
Directors' Responsibilities	82

## Financial Statements

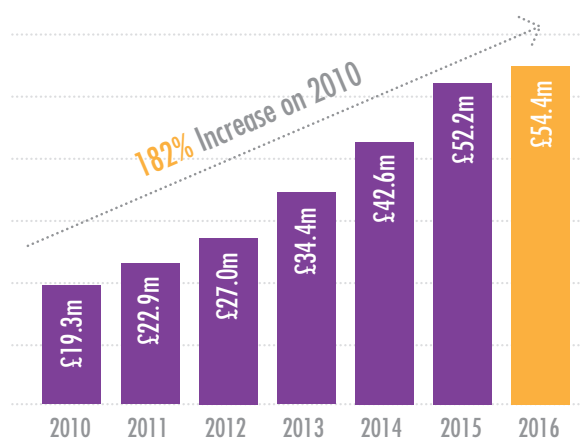
Independent Auditor's Report	84
Financial Statements	88
Notes to the Financial Statements	94

## FINANCIAL AND OPERATING HIGHLIGHTS

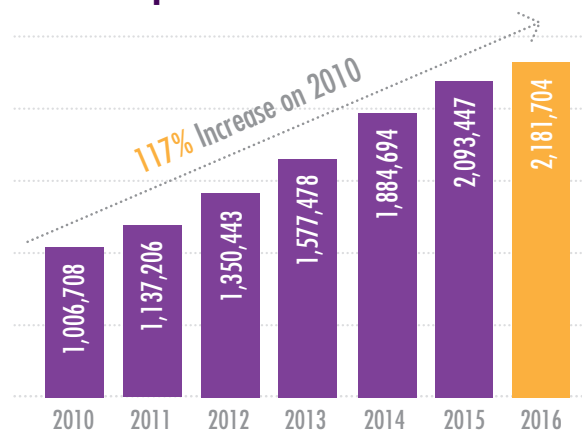
### Revenue\*



### Adjusted pretax profit\*



### Services provided



\*Financial years 2010 – 2014 are restated, adjusted pre-tax profit and EPS exclude share incentive scheme charges and the amortisation of intangible assets.

- Revenue up 2.1% to £744.7 million
- Adjusted pre-tax profit\* up 4.2% to £54.4 million
- Statutory pre-tax profit down 3.3% to £40.7million
- Adjusted EPS\* up 7% to 56.7p
- Full year dividend up 15% to 46p
- Further organic growth in both services and Members
- Service numbers increase by 4.2% to 2.18 million
- Almost 600,000 Members
- Successful launch of innovative nationwide light bulb replacement service
- Shortlisted by Which? for 'Best Telecom Services Company' in 2016 Annual Awards
- Ranked #2 in The UK 2016 Customer Satisfaction Index

## OUR VALUES AND SERVICES

### FIXED TELEPHONY

Our fixed-line telephony service gives Members guaranteed savings on the cost of their line rental and call costs compared with all the major providers. Unlike our competitors, most calls at evenings and weekends are free of charge for all Members.



### BROADBAND

A choice of high-quality broadband services offering great value, fast speeds and outstanding technical support, for the vast majority of domestic internet users.



### CASHBACK CARD

An exclusive pre-paid Mastercard® giving our Members between 3% and 7% CashBack at a wide range of leading national retailers.



### ONE MONTHLY BILL



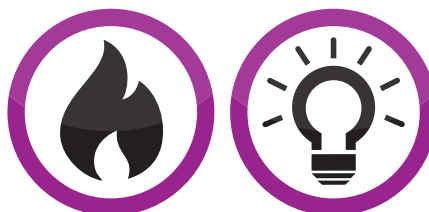
### ONLINE SHOPPING

We have over 2,000 online shopping partners offering attractive extra savings of up to 20%. Members choosing to take advantage of these offers by purchasing through our online Clubhouse, will receive the advertised extra discount as CashBack on their bill - irrespective of the means of payment they have chosen. We also help them to find the cheapest online supplier for any item they might be looking to purchase, with an exclusive search tool 'FindMeTheCheapest'.



### MOBILE

With a wide choice of handsets and competitive price plans, our mobile phone service provides outstanding value and great savings. We also offer a unique 'budget control' option, a loyalty discount, free handset protection against loss or damage, and a range of other benefits.



### GAS AND ELECTRICITY

We provide consistently fair prices, with guaranteed savings for Members in residential properties compared with the average of the cheapest standard variable tariffs charged by the 'Big 6'.

## OUR APPROACH

**Our lowest prices and most attractive benefits are reserved for Members who switch all their services to us, with most new Members taking one of the following 'Gold' bundles:**

**'Double Gold':** Energy, Landline, Broadband and Mobile

**'Gold Energy':** Energy, Landline and Broadband

**'Gold Talk':** Landline, Broadband and Mobile

Notes:

(i) Where a customer uses both Gas and Electricity in their home (approximately 80% of UK households), then they will almost invariably switch both of these to us (ie: Dual Fuel); otherwise, Energy will generally consist of Electricity alone.

(ii) Mobile consists of at least one connected mobile handset.

**Our mission is to be the Nation's most trusted utility supplier...  
the one you'd recommend to your mum.**

You're a  
Member not  
a number

### Welcome to the club

Although we're a major British business, we're not like other utility suppliers. We're a Discount Club, 100% focused on helping our Members save money on energy, telecoms and other household bills.

Guaranteed  
value

### Switch more, save more

By bundling different services together, and cutting out expensive overheads, we can pass savings directly onto our Members. The more services you take, the more you can save.

Making life  
simple

### One bill, one contact

We make life easier for you – with one clear, simple monthly bill for all the services you take. It shows you where you make extra savings and get more value. And with only one supplier, you have a single contact to deal with.

Exclusive  
club benefits

### CashBack card

It really does pay to be a Member of Utility Warehouse. Not only can you save on energy and phone bills, but there are lots of other exclusive Member benefits – like our CashBack card that saves you money on your everyday shopping.

Taking care  
of you

### 5 star customer service

We really care about our Members. In fact, great customer service is at the heart of everything we do. When you switch your services to us, we handle it all for you. And our award-winning UK call centre is always here when you need us.

Trusted and  
recommended

### 93% customer satisfaction

Friendly, fair, ethical – no other utility supplier achieves the same level of trust as we do. In fact, surveys have shown us to be the Nation's 'most trusted'. People come to us because family and friends recommend us. Which? magazine recommends us too – time and time again.

## CHAIRMAN'S STATEMENT

“ I am delighted to report another successful year for the Company with revenues, adjusted profits, earnings and dividends all reaching record levels. Adjusted pre-tax profits increased by 4.2% to £54.4m (2015: £52.2m) on revenue up by 2.1% to £744.7m (2015: £729.2m); adjusted earnings per share for the year rose by 7% to 56.7p (2015: 53.0p).

This performance has been achieved in the face of challenging market conditions, which have led to a slowdown in the double-digit percentage growth rate in service numbers we have achieved historically. The two principal factors behind this are: (i) the material fall in wholesale energy commodity prices over the last 30 months (which has created a significant gap between the standard variable tariffs paid by most customers and the short-term fixed price deals offered by our competitors to customers who switch); and (ii) the decision we took in March 2015 to stop offering introductory deals to new Members in favour of a fairer 'everyday low pricing' approach, consistent with our commitment to being the Nation's most trusted utility supplier.

Against this background, we remain encouraged by the continuing organic growth in the number of services we are providing through our Utility Warehouse brand, which reached 2,181,704 (2015: 2,093,447) by the year end – an increase of more than 88,000 services during the year. Within this total, there has been a significant improvement in customer quality, with 76,765 (2015: 58,753) residential Members now taking all of our five core services (landline, broadband, mobile, gas and electricity).

This has been driven by our decision to re-invest the money we were spending on introductory offers into making our 'Double Gold' bundle (for Members switching all their utilities to us) even more attractive, which we anticipate will lead to lower churn and higher customer satisfaction over the medium term and will materially increase their lifetime value.

We were delighted to receive a number of further endorsements from Which? during the year recognising both the value we offer and the quality of service provided by our UK-based membership service team, including being ranked as one of the top three suppliers in all the surveys we were featured in, and being shortlisted as 'Best Telecom Services Provider' at their 2016 Annual Awards. We were also recognised by Moneywise for three awards: (i) Best Gas and Electricity Provider for Value for Money; (ii) Best Gas and Electricity Provider for Service; and (iii) Most Recommended bundle Provider - Broadband, Landline and Mobile. Likewise the UK Institute for Customer Service ranked us second (behind Amazon) for customer satisfaction in a recent national cross-industry survey. This is a reflection of the continuing focus and significant resources invested into delivering the best possible service to our Members. ”

## RESULTS OVERVIEW

Our financial performance reflects the organic growth over the last two years in the number of services we are providing to our Members and an improvement in gross margins from our telephony services, partially offset by higher office occupancy and payroll costs following the move into our new headquarters last spring.

Revenue growth was adversely affected by a fall in average energy consumption within our domestic membership base compared with the previous year, reflecting the progressive impact of the energy efficiency measures that have been delivered by the industry over the last few years; this was exacerbated by lower average energy prices during the year following the price reductions we implemented in early 2015.

Our bad debt charge for the year fell, reflecting the improving quality of our membership base, and we are pleased that delinquency levels (which are a useful lead indicator of future bad debt) saw a further marginal reduction over the course of the year.

In line with previous guidance, we are proposing a final dividend of 24p (2015: 21p), bringing the total for the year to 46p (2015: 40p); this represents an increase of 15% compared with last year, and will be paid on 29 July 2016 to shareholders on the register at the close of business on 8 July 2016 subject to approval by shareholders at the Company's AGM which will be held on 22 July 2016. We remain committed to a progressive dividend policy consistent with the underlying strong cash generation of our business.

### Opus

Our share of the profits from Opus Energy Group Limited ('Opus'), in which we maintain a 20% stake, fell slightly to £5.6m (2015: £6.0m) for the year. This performance, during a year in which it achieved further significant growth in customer numbers, was broadly in line with expectations, and reflects the impact of the removal last summer of the exemption from Climate Change Levy ('CCL') for business customers supplied with European power. We anticipate that Opus will deliver a further strong performance in the coming year.

### Churn

Our churn has risen as a result of the attractive introductory deals being offered by other suppliers. Notwithstanding the record numbers of households switching energy supplier over recent months, it is most encouraging that our energy churn remains below the industry average.

### Competition and Markets Authority ('CMA')

The CMA issued their draft report into the energy industry during March. We consider they have missed an opportunity to address the main issue within the industry, where virtually all other suppliers (excluding ourselves) are using the higher margins earned on legacy customers to cross-subsidise the costs of attracting new customers. We expect this gap to narrow significantly once other suppliers either choose to start acting more responsibly, and/or as commodity prices start rising.

## CHAIRMAN'S STATEMENT

### CONTINUED

#### BUSINESS DEVELOPMENT

The continuing downward trend in energy prices has created a temporary and artificial environment where new entrants (who carry neither the burden of energy hedged at historically higher prices nor an obligation to meet the same environmental and social costs imposed on larger and more established suppliers) can offer highly attractive introductory short term fixed-price deals, creating a record gap between the introductory prices available to those who switch, and the standard variable tariffs paid by the vast majority of domestic consumers.

As a result, the market has polarised between the 'Big 6', who are broadly maintaining profitability whilst losing customers, and an increasing number of independent suppliers at the other end of the spectrum, who are gaining market share but (almost without exception) incurring significant losses whilst doing so. All of these market participants are reliant on the same wholesale costs and use the same distribution channels (namely price comparison sites and bulk switching initiatives) to attract customers who generally choose their new supplier based predominantly on price and, in many cases, will switch again as soon as they reach the end of their introductory fixed-price period.

By virtue of our unique route to market and focus on treating our Members fairly, we have found a balance which combines sustainable growth in both service numbers and profitability, thus creating real long term value for all our stakeholders.

Last autumn we announced the nationwide rollout of Project Daffodil, our innovative free LED light bulb replacement service. This is only available to Members (both new and existing) who have switched all their utilities to us, and is expected to reduce their electricity bills by around 11%; this goes a long way towards narrowing the gap between our energy prices and the introductory tariffs available elsewhere for potential new Members, and ensures our Partners can quote substantial savings for over 70% of UK households compared with the prices they are currently paying. This has resulted in a significant improvement in the quality of new Members joining the Club, as well as an increase in the number of existing Members who are adding additional services in order to take advantage of this valuable benefit.

More recently, we launched our first mobile app for our Members, giving them the opportunity to submit meter readings, top-up their mobile and/or CashBack card, track their mobile usage, and find their nearest CashBack retail partners; further functionality will be added in due course.

We remain focussed on growing our business to one million households (and beyond) over the medium term, although it is apparent that growth will be faster during periods when market conditions are favourable, and slower when (as currently) the competitive environment is more challenging. In the meantime we are pleased that the quality of our membership continues to improve and view this as a key driver of future shareholder value.

#### ROUTE TO MARKET

Significant numbers of new Partners continued to join the business during the year, taking the total number of registered Partners at the year end to 45,808. Whilst this is below the level we reported 12 months ago, this simply reflects a normal rate of cancellations by some of the record number who had joined the previous year but found themselves unable (for whatever reason) to take advantage of the opportunity we offer to build an attractive and secure part-time additional income.



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

We have invested in improving the personal development programme we make available, free of charge, to both new and existing Partners. This was enhanced during the year with the introduction of a re-vamped classroom based skills training course, designed to help them gather Members more effectively and build a growing long-term residual income.

It is encouraging that despite the absence of 'loss leader' introductory deals for new Members, the combined impact of our improved training courses, effective Partner incentive structure, and attractive benefits for 'Double Gold' Members (including free replacement LED light bulbs), means we are continuing to see a consistently high proportion of new Partners making a successful start to building their Utility Warehouse business.

## BOARD CHANGES

We are delighted to announce the appointment of Beatrice Hollond as a new independent non-executive director, who will be joining the Board of the Company in September. Bea is a member of the Board of Brown Advisory, a non-executive director of M&G Limited, a non-executive director at Templeton Emerging Markets Investment Trust, Chairman at Millbank Investment Managers, Chairman at Keystone Investment Trust and non-executive director and Chairman of the Audit Committee at Henderson Smaller Companies Investment Trust. She spent 16 years at Credit Suisse Asset Management in Global Fixed Income and began her career as an equity analyst at Morgan Grenfell Asset Management. It is expected that she will bring a refreshing new perspective to the Board.

We are sorry to bid farewell to Michael Pavia, who will be retiring at the forthcoming AGM, having completed a little over nine years as an independent non-executive director with the Company. During that time he has made a much valued contribution to the business, both as a member of the Board and as Chairman of the Audit Committee. He leaves with our sincere thanks and best wishes for the future.

Julian Schild, current senior independent non-executive director, will replace Michael Pavia as Chairman of the Audit Committee at the forthcoming AGM. In addition to having been Group Finance Director of Huntleigh Technology PLC, Julian is also a member and former Chairman of the Finance and Audit Committee of the Hospital of St John & Elizabeth in London. The chairmanships of the other committees of the Board will be reviewed in the coming year.

## CORPORATE GOVERNANCE

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

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

## CHAIRMAN'S STATEMENT

### CONTINUED

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

We propose to amend our remuneration policy by introducing a new long term incentive plan, which has the potential to provide entrepreneurial rewards to the management team for creating significant real shareholder value over a 10 year time frame. Full details of this new plan (which will include malus and clawback provisions in line with current best practice) are included in the Directors' Remuneration Report.

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

### OUTLOOK

#### Recent Trading

Our annual sales conference took place on 19/20 March, and was attended by over 6,000 Partners. The focus was on making our 'Double Gold' bundle easier for them to promote, and we also announced a new Refer-A-Friend scheme.

As a result we have seen a significant improvement in the quality of new Members over the last 10 weeks, albeit in relation to quantity we are only running slightly ahead of the level achieved in the previous quarter. The proportion of new Members being signed up by our Partners who take our 'Double Gold' bundle is now running at c. 55%. This compares with just 34% of new Members on a like-for-like basis in August 2015, the month immediately before we announced the national rollout of Project Daffodil.

#### Energy Prices

Within the energy sector significant costs will be incurred over the next decade to renew and extend the distribution network, replace nuclear and coal-fired generating plant that is approaching the end of its useful life, roll-out smart meters, fund capacity incentives, and to pay for the various renewable energy programmes which have been introduced. These are expected to exert upward pressure on retail energy prices over the next few years, although their impact is currently being offset by the fall in wholesale energy commodity costs we have seen over the last 30 months.

#### Regulatory

The Competition and Markets Authority has been carrying out a detailed review of the domestic energy market, and their final report is due to be published shortly.

We welcome their draft proposals to remove the current restrictions on discounts, bundling, and the number of tariffs each supplier can offer, which will significantly increase our flexibility to offer an attractive choice of packages as we expand our existing range of services in future.

However, we were disappointed that the CMA did not propose more radical initiatives to address the widespread practice within the market by other suppliers of offering new customers attractive introductory deals, at the expense of the vast majority of their customer base who pay significantly higher prices on a standard variable tariff; in our view, this was a missed opportunity to create a fairer energy market for consumers, protecting those who (for whatever reasons) choose not to engage with the energy market on a regular basis.

We have started rolling out the installation of smart meters for our Members, and this programme is expected to gather pace as we head towards the 2020 target completion date for replacing all domestic meters. However, the continuing delays in finalising the specification of SMETS2 meters, in getting them certified, and in the smart Data Communications Company ('DCC') testing schedule, have created a broad consensus amongst energy suppliers that the original target completion date for this programme is no longer achievable, and maintaining this deadline will simply lead to even higher fulfilment costs which will ultimately be borne by consumers.

We remain concerned at the high and increasing costs imposed on the industry in order to comply with government policy, much of which seems to be imposed with inadequate thought apparently given to delivering such initiatives in a way that will minimise costs, which ultimately get passed on by suppliers to customers through higher bills. Examples include the current faster switching initiative, the establishment of Smart Energy GB, the structure of the smart meter roll-out programme, the over-engineering of the specification for the DCC, and the unrealistic time-frames which are invariably adopted for any industry change.

Regulation has an important role to play in ensuring the energy markets are operating in a transparent manner, creating a framework which encourages real competition, protecting the rights of consumers, and ensuring they receive a fair deal for their energy. However, it is not clear that the right balance has recently always been struck. We look forward to a less detailed and more principles-based approach in future, where innovation can flourish, and there is a clearer understanding of the need to reduce the burden of regulation which ultimately falls on those least able to afford it – namely domestic customers.

Within the telecoms markets, we were pleased to see the EU decision blocking the proposed merger between the '3' and O2 mobile networks, which ensures that four networks will remain available for Mobile Virtual Network Operators ('MVNO's') such as ourselves to work with in future. We retain a good working relationship with EE following their recent acquisition by BT, and have recently extended our MVNO agreement with them on improved commercial terms; this includes giving us access to their 4G network later this year.

We were also pleased to see the announcement earlier this year that the Government is committed to deregulating the domestic water supply market before the end of the current parliament. This potentially creates an exciting new opportunity for us to add the supply of water to the existing range of utilities we offer, further extending the benefits to consumers of our integrated multi-utility approach.

# CHAIRMAN'S STATEMENT

## CONTINUED

### Prospects

Notwithstanding the slower growth levels currently being achieved, we remain excited about the medium-term prospects for the business. Wholesale energy prices will not continue falling forever, and when the direction changes, the competitive environment will change very quickly. We believe we are in a strong position to take advantage of this when it happens.

In the meantime, there is much that we can (and will) do to strengthen the business, improve our financial and operating performance, and position ourselves for the future:

#### 1. Senior Management Team

We continue to seek to attract the very best talent available, and over the last year have appointed a Chief Technology Officer and Legal and Compliance Director. We are also in the process of materially strengthening our Technology teams and have a number of further important middle and senior management positions we are actively looking to fill.

#### 2. IT systems

Whilst our existing systems still have the capacity for significant future growth, and are delivering an exceptional level of operational efficiency relative to our competitors, we recognise that advances in technology mean that significant further improvement is possible. We are therefore investing in upgrading and enhancing our systems progressively over the next three to five years in order to benefit from this opportunity and build upon the competitive advantage we currently enjoy.

#### 3. Member retention

We are currently improving our processes and recruiting additional employees to build our retentions team with a view to reducing the number of Members we lose each month, particularly as a result of people moving home.

#### 4. Retail proposition

We constantly search for opportunities to make the proposition we offer our Members more attractive and look forward to launching a 4G mobile service later this year. We are considering how and when to change our current bundle and discount structure to take advantage of the more flexible rules being introduced into the energy market following the conclusion of the CMA enquiry.

#### 5. Insurance

We believe there is an exciting opportunity to offer our Members a range of insurance products, where: (i) the cost of the policies they choose can be paid to us monthly alongside the other essential household services we supply; and (ii) they will not need to switch to a new insurer each year in order to retain a competitive deal. We intend to start with home insurance (buildings and contents), with a view to expanding the range in due course to include motor, pet and travel cover.

## 6. Improving our digital presence

We have recently launched both a new online Clubhouse and a mobile app for Members. Future plans include an improved investor relations website, and a new online Partner portal to help them manage and build their Utility Warehouse businesses more effectively.

## 7. Direct Marketing

We have trialled a number of direct marketing campaigns to existing Members to encourage them to take additional services, using the opportunity of receiving free LED bulbs to induce them to do so. We are planning to roll this out to a wider cross-section of our existing membership base over the coming months, as well as targeting former Members as part of a win-back campaign.

In the meantime, the steadily improving quality of our membership base is extremely encouraging, and gives us good visibility over future revenues and margins on the various services we provide.

In the absence of unforeseen circumstances, we expect adjusted pre-tax profits for the current year to be between £55m and £59m and to increase our dividend in line with growth in adjusted earnings per share.

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

### Charles Wigoder

Executive Chairman

13 June 2016

# CHIEF EXECUTIVE'S REVIEW

## MARKETS

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

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

## BUSINESS MODEL

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

- we operate our business as a Discount Club; each of our customers becomes a Member, receiving a level of service commensurate with that status;
- we are the only fully integrated provider of both energy and communications services in the country. This enables us to enjoy unparalleled levels of operating efficiency as we are able to spread a single set of overheads across the multiple revenue streams that we derive from each of our Members; and
- we have a unique route to market, with an 'army' of over 45,000 part-time self-employed Partners; rather than seeking to attract new Members through expensive advertising or price comparison sites, we instead benefit from personal recommendations by both our Partners and our existing Members.

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

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

These benefits are supported by our commitment to treating our Members fairly, avoiding the typical marketing strategy adopted by our competitors of combining cheap introductory deals for new customers with much higher tariffs charged to their legacy customer bases. We believe their approach is not only fundamentally unfair on loyal customers, but less likely to create a sustainable long term business, as customers who have chosen to switch once based solely on the headline price on a comparison site will have a higher propensity to do so again when their introductory deal expires.

Our alternative approach is to focus on treating all our Members in a fair manner, and to give everyone consistently good value on all their services, rewarding loyalty and commitment with additional discounts and benefits available to our most valuable and long-standing Members.

The delivery of these core values is critical to our route to market, giving our Partners the confidence to promote our services to their friends and family – as well as generating recommendations from existing Members who in many cases also become advocates for our brand. The Net Promoter Scores ('NPS') of around +45-50 that we consistently achieve reflect our relentless focus on this goal, and are in stark contrast to the negative NPS scores prevalent within the utility and telecoms markets.

Against a backdrop where most of our competitors seem focussed almost solely on price, we believe that genuinely earning the **Trust** of our Members is the key point of differentiation that will enable us to achieve our medium term growth objectives and help us maximise long term shareholder value. By treating our Members fairly, as we would like to be treated ourselves, we aim to earn both their loyalty (which delivers long term, sustainable revenues) and their enthusiasm for our business model (which creates growth through referrals).

We have taken a number of steps in this direction over the past few years, culminating in our decision last year to stop offering introductory short-term discounts to new Members as an incentive to switch; this reflects our view that it is unfair for existing loyal Members not to be able to benefit from the same prices and tariffs as those offered to new ones.

Simultaneously we are progressively segmenting our customer base, based on their expected lifetime value as a Member, by increasing the value we provide to those who will deliver the highest returns. This means for example, that owner-occupiers who have switched all their utilities to us can now choose from a range of extra benefits, in addition to taking advantage of our free LED replacement light bulb service.

We continue to invest in our bespoke IT systems; these enable us to integrate all the services we supply into a single monthly bill, supported by just one set of central overheads (including all administrative and membership support functions). This highly efficient cost base is a key factor in enabling us to offer attractive pricing and a wide range of valuable benefits to our Members, a secure residual income to our Partners, and a growing dividend stream to shareholders. We are embarking on a programme to enhance and update these systems over the course of the next three to five years, and look forward to the greater business efficiency this will deliver in due course.

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

## STRATEGY

Our strategy is to build on the consistent strong organic growth we have historically delivered in order to progressively increase our share of the markets in which we operate, and to build a robust, sustainable and profitable business.

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

## CHIEF EXECUTIVE'S REVIEW

### CONTINUED

We continue to explore the possibility of expanding our current range of core services into areas where we can build upon our existing strong relationship with our Members by offering them improved service and better value on services they currently obtain from other suppliers, whilst also delivering a satisfactory return for our shareholders. Later this year we hope to introduce our first insurance product; in the medium term we look forward to supplying water; and in the longer term, other potential new services might include television and home emergency cover (including boiler cover), and combining the national rollout of smart meters with other 'connected home' products and services to leverage our position as the only fully integrated multi-utility supplier in the country.

#### OPERATIONAL PERFORMANCE AND NON-FINANCIAL KPIs

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

- continuing strong organic growth with service numbers up by 88,257 (2015: 208,753)
- materially higher proportion of Members taking our 'Double Gold' bundle
- improved delinquency levels
- positive reviews and recognition from Which? for both energy and telephony services
- Best Gas and Electricity Provider for both Value for money and Service – Moneywise
- Most Recommended bundle Provider for Broadband, Landline and Mobile – Moneywise
- The UK 2016 Customer Satisfaction Index: second place (behind Amazon) in a national cross-industry customer satisfaction survey conducted by the UK Institute of Customer Service
- consistently high Net Promoter Scores

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

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



## Members

	2016	2015
Residential Club	568,986	551,322
Business Club	29,627	30,191
<b>TOTAL CLUB</b>	<b>598,613</b>	<b>581,513</b>

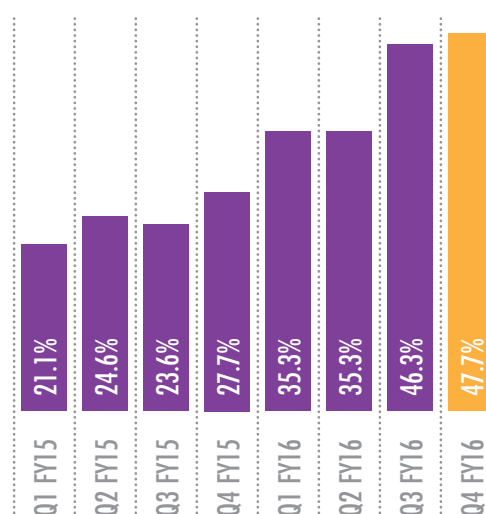
Whilst we continue to regard our Business Club as an exciting long-term opportunity, the dynamics of this market make it extremely difficult to grow in the current energy wholesale pricing environment. Our focus will therefore remain on the domestic market, until market conditions become more favourable.

Within the residential Club, there is a significant difference in average expected customer lifetimes between Members (and therefore in the revenues and profits they will generate), depending on whether they are an owner-occupier, and on the number of services we are providing to them.

The most attractive category, with a calculated expected average lifetime of around 25 years, are owner-occupiers taking our 'Double Gold' bundle.

Our focus on attracting this type of Member has been reflected in an increasing proportion of new Members switching all their services to us (landline, broadband, mobile, electricity and/or gas) over the last two years as can be seen from the figures below:

### PERCENTAGE OF NEW MEMBERS TAKING 'DOUBLE GOLD' BUNDLE



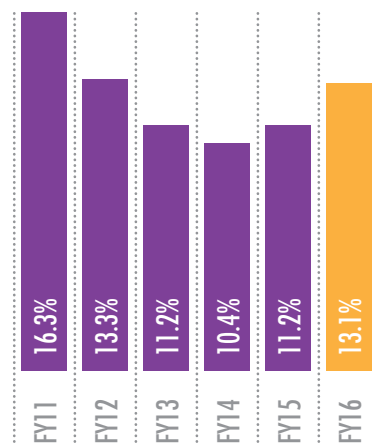
In March 2015 we made it more attractive for owner-occupiers to take this bundle from us by introducing a range of additional benefits and a new two-year fixed energy tariff. The subsequent step change in the second half of FY16 reflects the national launch of Project Daffodil, our free LED replacement light bulb service.

CHIEF EXECUTIVE’S REVIEW  
CONTINUED

In March 2016 we announced a further improvement in our retail proposition, by making Project Daffodil available to certain ‘Double Gold’ tenants. As a result, we are very pleased to have seen a further increase to around 55% in the proportion of new Members gathered by our Partners who are now taking our ‘Double Gold’ bundle.

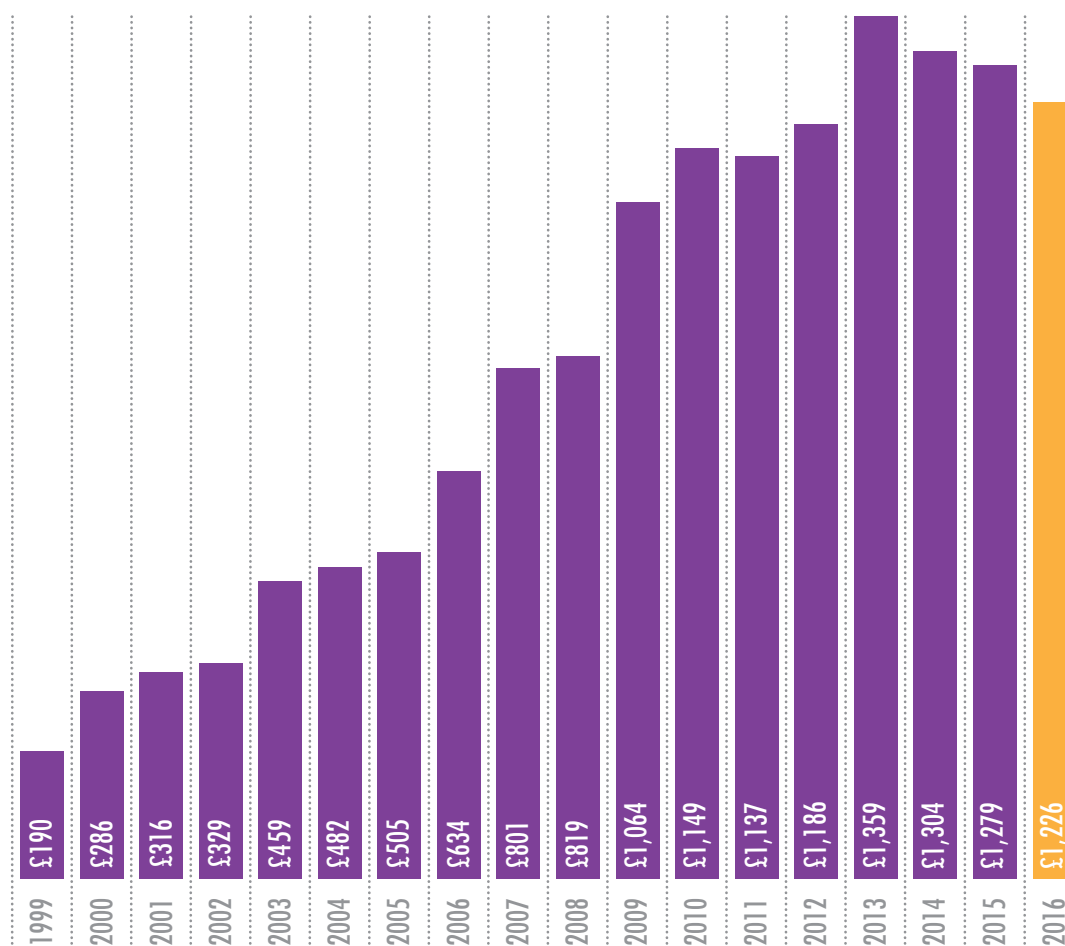
Within our membership base churn has increased slightly compared with last year. This is best illustrated by the level of individual energy supply point churn, which has risen to an average of around 1.1% per month, driven by higher levels of switching throughout the energy market, and reflecting the record gap between the introductory fixed price deals available from other suppliers and the range of tariffs we offer. Whilst never pleasing to see churn levels rising, the proportion of energy customers leaving us remains below the industry average:

ENERGY SUPPLY POINT CHURN



Average revenue per Member has fallen slightly for a third consecutive year, as the combined impact of falling average energy consumption and lower retail energy tariffs outweighed the benefit from the higher penetration of communications services (particularly mobile) that we are now seeing:

#### AVERAGE REVENUE PER MEMBER



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

## CHIEF EXECUTIVE'S REVIEW

### CONTINUED

#### Services

The full range of services we offer includes landline telephony (calls and line rental), broadband, mobile, gas, electricity, and our CashBack card. At the year end, we supplied a total of 2,181,704 services to Club Members (2015: 2,093,447), an increase of 4.2% during the year.

SERVICES	2016	2015
Electricity	542,430	525,024
Gas	440,872	430,517
Fixed Telephony (calls and NGN)	306,087	301,594
Fixed Telephony (line rental)	286,763	278,903
Broadband	256,777	245,625
Mobile	169,136	144,350
CashBack card	179,639	167,434
<b>TOTAL</b>	<b>2,181,704</b>	<b>2,093,447</b>
Residential Club	2,096,730	2,008,241
Business Club	84,974	85,206
<b>TOTAL CLUB</b>	<b>2,181,704</b>	<b>2,093,447</b>

All the core services we provide (landline, broadband, mobile, gas and electricity) grew during the year, with the highlight being a 17% rise in the number of mobile services. This increase means that penetration of mobile within our residential Club has now reached almost 30%, a substantial increase from less than 13% just six years earlier, and the direct result of a strategic decision to place mobile at the heart of our retail proposition.

We improved the competitiveness of our mobile service by launching a new range of price plans in January 2016, and anticipate making 4G available to our Members this autumn which should provide a further boost to the number of mobile services we provide.

#### CashBack

Our exclusive CashBack card has proven an important Member 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 an automatic credit on their next monthly bill from us. Since launching the programme, the total value of CashBack credited to Members now exceeds £28m.

We have seen a 7% increase during the year in the number of cards in issue to 179,639 (2015: 167,434), with around 50% of new residential Club Members gathered directly by our Partners applying for a card. We believe this continuing strong demand demonstrates the attractiveness of this unique membership benefit, and would be even higher were it not for the difficulties faced by some new Members in funding the switch from paying in arrears on their credit card, to paying for their purchases in advance with our prepayment card.

CashBack earned by our Members using our online shopping portal has increased further, with retail spend now running at over £1m each month. We continue to develop ways to make it easier for our Members to earn CashBack: we introduced a 'wizard' that automatically notifies Members that CashBack is available when they visit one of our online retail partners, and our new mobile app helps them locate all the nearby retail outlets where they can earn CashBack with their CashBack card.

The CashBack that we pay to our Members each month is funded entirely by the retailers in the programme, and many Members achieve a reduction of 20% to 30% on the amount they pay for their utilities simply by using their CashBack card (instead of an alternative payment card) for most of their regular household shopping, and/or our online shopping portal.

### Member Service and Support

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

We have a relentless focus on improving the service experience we deliver to our Members; we readily invest in technology that we believe will genuinely achieve this objective, and continually assess the numerous qualitative and quantitative performance measurement tools that we employ to monitor all aspects of our Members' interactions with us in order to ensure the overall quality of their experience.

We have been delighted at the consistently high ratings we receive in Which? magazine for the quality of the service and support provided to our Members, and the overwhelmingly positive feedback we receive from Members in our own surveys.

We were particularly proud to be placed second (behind Amazon) for customer satisfaction in a recent major national cross-industry survey published by the UK Institute of Customer Service. This provides yet another independent third party validation of the strong NPS scores we measure internally, in addition to the continuing awards and recognition we receive from Which? and Moneywise.

### Partners

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

## CHIEF EXECUTIVE'S REVIEW

### CONTINUED

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

Our Car Plan, which provides eligible Partners with a subsidised Utility Warehouse branded BMW Mini, remains extremely popular with around 800 vehicles now delivered (2015: c.700). Owners inform us that they find these helpful in raising their local profile, resulting in enquiries from both potential new Members and Partners.

#### IT Systems

We are taking advantage of the current slower organic growth to review and improve some of the systems and processes which have evolved over the course of the last 18 years, and to prepare for the introduction of new services (eg: 4G mobile, insurance and water). Despite our operating costs already being lower than those of any of our peers on a like-for-like basis, we have identified scope for significant further improvement. Whilst the additional costs required to enhance our current IT systems to obtain these operating efficiencies and introduce these new services are meaningful, we are confident that this investment will pay dividends over the medium term both through efficiency gains and from the revenues generated by the new services being supported.

#### **Andrew Lindsay MBE**

Chief Executive Officer  
13 June 2016

# FINANCIAL REVIEW

## OVERVIEW OF RESULTS

	ADJUSTED <sup>1</sup>			STATUTORY		
	2016	2015	CHANGE	2016	2015	CHANGE
Revenue	£744.7m	£729.2m	2.1%	£744.7m	£729.2m	2.1%
Profit before tax	£54.4m	£52.2m	4.2%	£40.7m	£42.1m	(3.3)%
Basic EPS	56.7p	53.0p	7.0%	39.8p	40.6p	(2.0)%
Dividend per share	46.0p	40.0p	15.0%	46.0p	40.0p	15.0%

<sup>1</sup>In order to provide a clearer presentation of the underlying performance of the Group, adjusted profit before tax and adjusted basic EPS exclude share incentive scheme charges and the amortisation of the intangible asset arising on entering into the energy supply arrangements with Npower in December 2013.

## SUMMARY

The increase in revenue during the year has been driven by continuing organic growth in the number of services we provide, partially offset by lower energy prices and lower average household energy usage compared with the previous year.

The improvement in adjusted pre-tax profits of 4.2% reflects the underlying increase in the average number of services being supplied during the year, improving gross margins from our telephony services, offset by lower energy prices, and higher payroll and occupancy costs following our move into larger offices last spring.

Within our Customer Acquisition operating segment, the combination of lower growth and a reduction in promotional activity, partially offset by additional costs relating to Project Daffodil (the provision of free LED light bulbs to multi-service Members) resulted in reduced losses of £14.6m (2015: £15.5m).

Distribution expenses reduced slightly to £21.4m (2015: £21.9m), reflecting lower promotional costs associated with gathering new Members offset by an increase in commissions paid to Partners.

Administrative expenses increased during the year by £5.8m to £52.4m (2015: £46.5m) mainly as a result of higher staff costs and higher occupancy costs associated with moving into larger offices.

Adjusted earnings per share increased by 7.0% to 56.7p (2015: 53.0p). In accordance with previous guidance and our strong cash position, the Board is proposing to pay a final dividend of 24p (2015: 21p) per share, making a total dividend of 46p (2015: 40p) per share for the year.

## MARGINS

Our overall gross margin for the year was 16.6% (2015: 15.9%) reflecting an improving gross margin on our telephony services where higher fixed monthly charges have more than offset the continuing downward trend in landline call spend, higher mobile penetration, and a change in revenue mix where energy (which has a lower margin than telephony) represented a smaller share of overall revenues. Over the medium term, we expect our gross profit margins to remain within the previously stated range of 15% to 17%, subject to the impact from any new services which may be introduced and energy price movements.

## FINANCIAL REVIEW

### CONTINUED

#### CUSTOMER MANAGEMENT

We have continued to achieve steady growth in the number of services we are supplying, with an increase of over 88,000 services during the course of the year. This takes the total number of services provided within our Discount Club to almost 2.2 million – an increase of 4.2% compared with the previous year.

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

Revenues increased overall, notwithstanding both lower average energy consumption and lower retail gas prices compared with the previous year:

£m	2016	2015
Electricity	313.7	304.7
Gas	273.9	278.4
Landline and Broadband	102.1	93.7
Mobile	24.4	20.3
Other	13.8	15.5
<b>TOTAL</b>	<b>727.9</b>	<b>712.6</b>

#### CUSTOMER ACQUISITION

Our Customer Acquisition operating segment loss reduced during the year to £14.6m (2015: £15.5m), mainly reflecting a reduction in the number of new Members signing up during the year as a result of the lower level of promotional activity; this was partially offset by additional costs relating to Project Daffodil, our free LED replacement light bulb service.

Following a successful regional trial, Daffodil was rolled out on a nationwide basis during the second half of the year, with installations gathering pace from January 2016 onwards. The full costs associated with providing this service to each Member are being expensed in the month in which the light bulbs are fitted, notwithstanding that this benefit is only available to multi-service Members who have the longest expected customer lifetimes. The overall cost of providing this service is expected to increase during the current financial year, as it will include a full 12 months of installation activity, compared with just three months for last year.

#### DISTRIBUTION AND ADMINISTRATIVE EXPENSES

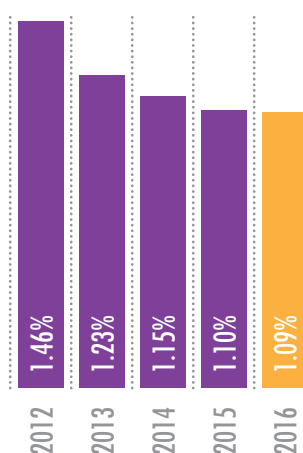
Distribution expenses include both the share of our revenues that we pay as commission to Partners, and other direct costs associated with gathering new Members included as part of the Customer Acquisition Segment result for the year. These reduced slightly to £21.4 m (2015: £21.9m), as the increase in residual commission we pay to Partners was more than offset by reduced promotional costs associated with gathering new Members.



Within administrative expenses, the bad debt charge for the year fell to 1.2% of revenues (2015: 1.5%), falling in absolute terms to £8.4m (2015: £10.7m).

The number of prepayment meters we installed during the year, many of which were provided at the Member's own request, fell to 6,775 (2015: 8,642), reflecting our slower rate of growth. This reflects our efforts over the last few years to attract and retain high quality multi-service owner-occupiers. At the end of the year we had an installed base of 71,026 (2015: 68,066) prepayment meters, representing approximately 7.2% of the energy services we supply; this remains significantly below the average level of prepayment meters within the industry of around 16% (source: CMA).

#### DELINQUENT MEMBERS



Delinquency (the proportion of Members who have at least two energy bills outstanding) has been on a steady downward trajectory over the last few years, and we are pleased that this trend has continued over the last 12 months, albeit at a lower rate.

The average number of employees increased from 787 to 908. This reflects our commitment to continue delivering the best possible experience to our Members (increasing numbers of which are taking multiple services from us), the additional services we are now supporting (such as Daffodil and smart meters) and a significant ongoing investment in strengthening our management team. Personnel expenses (excluding the non-cash accounting cost of share incentive schemes) increased by 15.4% during the year to £30.8m (2015: £26.7m).

Overall, administrative expenses increased during the year by £5.8m to £52.4m (2015: £46.5m) mainly as a result of higher staff costs, higher occupancy costs associated with moving into our new offices, costs associated with the launch of Project Daffodil, industry and internal costs related to the introduction of smart meters, partly offset by a lower bad debt charge.

## FINANCIAL REVIEW

### CONTINUED

#### OPUS

Our share of the profits from Opus Energy Group Limited ('Opus'), in which we maintain a 20% stake, fell during the year to £5.6m (2015: £6.0m) in line with expectations, following the impact of the removal of the exemption from Climate Change Levy ('CCL') for business customers supplied with European power last summer. Opus continues to grow its market share in the supply of gas alongside electricity into the small business and corporate sector, building on its profitable and highly cash generative business model.

We received a dividend of approximately £5.1m from Opus in April 2016.

Our shareholding in Opus is valued on our balance sheet at £11.6m in line with standard accounting policy, notwithstanding the likelihood that its market value is substantially in excess of this figure.

#### CASH, CAPITAL EXPENDITURE AND WORKING CAPITAL

Our cash balances at the year-end increased to £35.3m (2015: £16.5m) following a strongly cash generative year.

Our overall working capital position benefitted from a year on year cash inflow of £7.5m, largely due to lower average energy consumption and payment timing differences related to our energy purchasing arrangements, which are expected to reverse in due course.

Under the terms of our energy supply arrangements, Npower remains responsible for funding the working capital requirements associated with providing energy to Members who have chosen to pay on a Budget Plan.

In December we took advantage of the favourable banking environment for corporate borrowers with strong credit profiles, to re-finance and extend our existing facilities. We now have a fully revolving five year credit facility of £150m on improved terms. With a Net Debt/EBITDA ratio of only c. 1.0x we now have significant flexibility to take advantage of future opportunities for enhancing shareholder value and increasing our current rate of growth.

#### BORROWINGS

Our balance sheet at the year-end shows a net debt position of £56.3m (2015: £74.0m) including the deferred consideration of £21.5m payable to Npower in December 2016; this means we have significant headroom within our new borrowing facilities.

#### DIVIDEND

The final dividend of 24p per share (2015: 21p) will be paid on 29 July 2016 to shareholders on the register at the close of business on 8 July 2016 and is subject to approval by shareholders at the Company's Annual General Meeting which will be held on 22 July 2016. This makes a total dividend payable for the year of 46p (2015: 40p), an increase of 15% compared with the previous year.

We believe our strong underlying cash flow, rising adjusted earnings and strong credit profile will enable us to refinance our remaining borrowings as they fall due, whilst maintaining a progressive dividend policy. We remain comfortable with previous guidance that further growth in adjusted earnings from the level we achieved this year should be reflected in a corresponding rise in the level of distributions to shareholders.

### SHARE INCENTIVE SCHEME CHARGES

Operating profit is stated after share incentive scheme charges of £2.5m (2015: credits of £1.0m). These relate to an accounting charge under IFRS 2 Share Based Payments ('IFRS 2') and arose principally as a result of the increase in the Company's share price over the year.

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

### TAXATION

A full analysis of the taxation charge for the year is set out in note 4 to the financial statements. The tax charge for the year is £8.9m (2015: £9.8m).

The effective tax rate for the year was 21.9% (2015: 23.2%).

### Nick Schoenfeld

Chief Financial Officer

13 June 2016

# PRINCIPAL RISKS AND UNCERTAINTIES

## BACKGROUND

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

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

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

## BUSINESS MODEL

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

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

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

## REPUTATIONAL RISK

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

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

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

### INFORMATION TECHNOLOGY RISK

The Group is dependent on its proprietary billing and membership management software for the successful operation of its business model. This software is developed and maintained in accordance with the changing needs of the business by a team of highly skilled, generally long-standing, motivated and experienced individuals. The Group relies on this software and any failure in its operation could negatively impact service to Members and potentially be damaging to the Group's brand. During the year the Group recruited a new highly experienced Chief Technology Officer in order to strengthen the existing IT team.

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

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

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

### DATA SECURITY RISK

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

## PRINCIPAL RISKS AND UNCERTAINTIES

### CONTINUED

#### LEGISLATIVE AND REGULATORY RISK

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

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

Proposed regulatory changes such as the new requirements in relation to smart energy meters (with the potential for additional costs if existing meters must be replaced prior to the end of their planned lives) and social tariffs, and changes to the current decommissioning regime, could all have a potentially significant impact on the sector, although such additional costs are not expected to affect the net margins earned by energy suppliers in the longer term (as any such extra costs are likely to be reflected in higher retail charges).

In general, the majority of the Group's services are supplied into highly regulated markets, and this could restrict the operational flexibility of the Group's business. In order to mitigate this risk, the Group seeks to maintain appropriate relations with both Ofgem and Ofcom (the UK regulators for the energy and communications markets respectively), the Department for Energy and Climate Change ('DECC'), and the Financial Conduct Authority ('FCA'). The Group engages with officials from all these organisations on a periodic basis to ensure they are aware of the Group's views when they are consulting on proposed regulatory changes or if there are competition issues the Group needs to raise with them.

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

Political and consumer concern over energy prices and fuel poverty may lead to further reviews of the energy market which could result in further consumer protection legislation being introduced through energy supply licences. The Government could also choose to introduce adverse measures such as a windfall tax on the Group or price controls for certain customer segments. In addition, political and regulatory developments affecting the energy and telecoms markets within which the Group operates may have a material adverse effect on the Group's business, results of operations and overall financial condition.

## FINANCING RISK

The Group has debt service obligations which may place operating and financial restrictions on the Group. This debt could have adverse consequences insofar as it: (a) requires the Group to dedicate a proportion of its cash flows from operations to fund payments in respect of the debt, thereby reducing the flexibility of the Group to utilise its cash to invest in and/or grow the business; (b) increases the Group's vulnerability to adverse general economic and/or industry conditions; (c) may limit the Group's flexibility in planning for, or reacting to, changes in its business or the industry in which it operates; (d) may limit the Group's ability to raise additional debt in the long term; and (e) could restrict the Group from making larger strategic acquisitions or exploiting business opportunities.

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

## FRAUD AND BAD DEBT RISK

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

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

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

## Wholesale prices risk

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

## PRINCIPAL RISKS AND UNCERTAINTIES

### CONTINUED

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

The supply of energy has different risks associated with it. The wholesale price can be extremely volatile, and Member demand can be subject to considerable short term fluctuations depending on the weather. The Group has a long-standing supply relationship with Npower under which the latter assumes the substantive risks and rewards of hedging and buying energy for the Group's Members, and where the price paid by the Group is set by reference to the average of the standard variable tariffs charged by the 'Big 6' to their domestic customers less an agreed discount; this may not be competitive against the wholesale prices paid by new and/or other independent suppliers. However, if the Group did not have the benefit of this long term supply agreement it would be exposed to the pricing risk of securing access to the necessary energy on the open market and the costs of balancing.

#### COMPETITIVE RISK

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

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



## INFRASTRUCTURE RISK

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

## ENERGY INDUSTRY ESTIMATION RISK

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

## GAS LEAKAGE WITHIN THE NATIONAL GAS DISTRIBUTION NETWORK

The operational management of the national gas distribution network is outside the control of the Group. There is a risk that the level of leakage in future could be higher than those historically experienced, and above the level currently expected.

## KEY MAN RISK

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

## SINGLE SITE RISK

The Group operates from one principal site and, in the event of significant damage to that site through fire or other issues, the operations of the Group could be adversely affected.

## ACQUISITION RISK

The Group may invest in other businesses, taking a minority, majority or 100% equity shareholding, or through a joint venture partnership. Such investments may not deliver the anticipated returns, and may require additional funding in future.

## PEOPLE AND ORGANISATION

### EMPLOYEES

We rely on the combined efforts of around 920 employees to manage relationships with both our Members and Partners, and deliver a consistently high quality of service at all times. We pay considerable attention to recruiting, developing and retaining people with appropriate skills.

We continue to recruit new members of staff through our own Assessment Centre designed to give the Company greater control over the recruitment process and to ensure we select the very best candidates for our positions. Once they have joined, new starters go through a structured training programme to ensure that they are fully equipped to resolve any queries from our membership and to provide the high level of service that we demand. Everyone who successfully completes this programme celebrates their achievement at a quarterly Academy graduation ceremony, where they are presented with a certificate and Champagne by the Chief Executive.

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.

We continue to invest in our people, and have comprehensive Manager and Supervisor development programmes, which are accompanied by selective executive coaching. We have an online learning portal to assist in the development of all our employees, and make available a wide range of 'Skills Builder Courses' in addition to e-learning modules. We promote from within where possible into both specialist and managerial roles.

Our monthly employee recognition awards (known internally as 'Piggy Awards') enable the Company to celebrate and reward employees who have gone 'over and above' in the performance of their role.

We actively seek to engage all our employees in changes that may concern them, rather than just a representative few on a committee. Focus groups are held on a continual basis to ensure that any changes we have introduced continue to encourage our staff to perform to their best. Regular lunches are held with staff across the Company, hosted by members of the senior management team to ensure that they are kept abreast of employee concerns. We also keep employees informed on a regular basis of the financial performance of the business and other matters of potential concern to them, through the Company intranet, ad-hoc emails, the monthly Company newsletter and quarterly breakfast forums with the Chief Executive.

We recently launched our new intranet 'Babble' which provides a channel to communicate with staff as well as a platform for hosting communities and forums. Amongst our many communities we boast a Book Club, Film Club (with regular film showings in our auditorium), Guitar Club, Football Teams and an Art Club. We are particularly proud of our Art Club that curated an exhibition composed of works of art from members of our staff, which are now displayed across the Company.

We operate an 'open-door' policy throughout the business, provide employees with various mechanisms for providing feedback and making suggestions, and include open-ended questions within the staff survey. This year we held, for the second time, our very own 'Dragons' Den' competition, 'The Piggies' Pen', to elicit innovative suggestions for improving our business from our staff, and were delighted with the high number of entries from both individuals and teams within the Company.

We have an active staff social committee which organises a wide range of events, supported by the Company, including the annual summer and Christmas parties (this year's theme was Charlie & the Chocolate Factory), quiz nights and many other ad hoc fun events. Each month, we subsidise a Department hosted social event, to which the whole Company is invited. Such events have ranged from a Mexican night, to a Beer Fest (at which we launched our Piggy Brew), a Salsa event, Winter Wonderland and many more. We also have a 'Fun Fund' set aside for individual departmental social events.

We promote staff wellbeing, through an employee assistance helpline, periodic at-desk massages, healthy meal options in the staff restaurant and a cycle to work scheme. Each September we run our 'Fit Pig Week' to promote health and well-being within the Company with a range of fun events and initiatives, such as offering well-being check-ups.

Our headquarters building has been designed to offer our staff a much enhanced working environment. In addition to offering state of the art facilities, the offices include design features to inspire our staff and encourage collaboration. Spacious and light, there are break out rooms on all floors and a recreation suite that boasts a wide-screen TV lounge, pods for relaxing in, plenty of seating areas and a library area with table-tennis and pool tables. Our new staff restaurant has been upgraded to a brasserie style eatery, complete with its own Deli Bar. This highly subsidised restaurant is an increasingly popular benefit for our staff and provides a great venue for the staff social events. With the exception of our logistics team, all our employees work together in Network HQ, our new Head Office building in London. We provide a wide range of other staff benefits including a significant discount on the services we provide, employee loans at preferential interest rates, a generous Christmas bonus scheme, Gourmet Society dining membership and recognition for 5, 10 and 15 years' service.

The Company operates an HM Revenue and Customs approved employee share option plan, under which employees are granted options to purchase shares in the Company which are exercisable between three and ten years from the date of grant. The exercise price is the market price at the time of granting the option. Our policy is to issue options to all employees after the satisfactory completion of their probationary period, and additional options when 10 years' service has been completed and in other appropriate circumstances (e.g. promotion). As at 31 March 2016 there were outstanding options over 2,129,569 shares which had been granted to staff, representing approximately 2.7% of the issued share capital of the Company.

This year the Company introduced a Save As You Earn (SAYE) share scheme under which employees have been offered the opportunity to participate in the future growth of the Company through share option arrangements. We were pleased that over 100 members of our staff chose to participate.

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

We encourage all employees to participate in a stakeholder pension scheme operated by Aviva. Participants can choose their own contribution level, which is matched by the Company within certain limits, depending on length of service. As a result of pension auto-enrolment the Company is contributing to the pension funds of virtually all employees, on a monthly basis.

## PEOPLE AND ORGANISATION

### CONTINUED

We actively facilitate 'Access to Work' grants for employees who have a disability, health or mental health condition providing the practical support to enable them to continue working effectively.

#### DIVERSITY

Full and fair consideration is given to opportunities for employment, training, career progression and promotion 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.

The table below sets out a breakdown of the gender diversity at various levels within the organisation:

	2016		2015	
	MALE	FEMALE	MALE	FEMALE
Board	6	-	6	-
Senior Managers	14	6	13	6
Employees	569	353	478	305

The Board's position in relation to the Code requirement to set out any existing measurable objectives in relation to Board diversity is set out in the Corporate Governance Statement on pages 42 and 43.

# CORPORATE RESPONSIBILITY

## ENVIRONMENT

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

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

Since moving to an online Member application process, we have increasingly reduced the amount of printed marketing materials we are using, and seen a significant increase in the proportion of new Members choosing not to receive a paper bill each month.

We participate in a waste paper recycling programme, with a certificated saving of 337 trees and 45,720kg of CO<sub>2</sub> during the year (2015: 457 trees and 61,330kg of CO<sub>2</sub>); we also recycle all of our cardboard, and use only fsc-certified paper. We recycle both mobile phones and toner cartridges.

## GREENHOUSE GAS EMISSIONS STATEMENT

The greenhouse gas ('GHG') emissions statement below provides a summary of the Group's greenhouse gas (carbon) emissions from 1 April 2015 to 31 March 2016. It gives a summary of emissions from fuel combustion and the operation of our facilities (which include our offices and company cars, scope 1), and from our purchased electricity use during the year (scope 2).

We have adopted the operational control approach, as defined in the Greenhouse Gas Protocol, A Corporate Accounting and Reporting Standard (Revised Edition) 2004, therefore emissions associated with our Members' energy usage, the activities of our independent distributors and the supply of energy from Npower are not included in this statement as they are outside the Group's operational control.

### Global GHG emissions

	TOTAL EMISSIONS (TONNES CO <sub>2</sub> e)	
	2015-2016	2014-2015
Emissions from fuel combustion and fugitive refrigerants (scope 1)	115.2	34.8
Emissions from electricity, heat, steam and cooling purchased for own use (scope 2)	2,419.9	903.1
Total emissions	2,535.1	937.9
Intensity: Emissions per full time employee (FTE)	2.87 tCO <sub>2</sub> e/FTE	1.20 tCO <sub>2</sub> e/FTE

Note:

The significant increase in total emissions between reporting years was driven by a move to a new main office, Network HQ (formerly Merit House). While Network HQ was refurbished to high energy efficiency standards, it occupies more than three times as much floor space as the previous office, and thus has a significantly higher energy footprint.

## CORPORATE RESPONSIBILITY

### CONTINUED

#### Methodology

We have reported on all the emissions sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within our own business activities over which we have operational control.

We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), data gathered from our own operations, and emissions factors from UK Government's Conversion Factors for Company Reporting 2015.

#### SOCIAL ENGAGEMENT

During the year Breast Cancer Campaign and Prostate Cancer UK were our joint Charity Partners and our Staff, Members and Partners raised a total of approximately £82,000 during the year.

This year, with the participation of our Staff and Partners, we chose our new Charity Partner, Macmillan Cancer Support, and we look forward to supporting the activities of our Staff, Members and Partners in helping raise money for this very worthwhile cause. In addition, at a more local level, we have supported our neighbourhood, by raising funds for our local food bank, the Colindale Foodbank.

#### HUMAN RIGHTS

This report does not contain information about any policies of the Group in relation to human rights issues as it is not considered relevant to understanding the development, performance or position of the Group's business.

#### MODERN SLAVERY AND HUMAN TRAFFICKING STATEMENT

The Board has approved a Modern Slavery Act Transparency Statement in compliance with section 54 of the Modern Slavery Act 2015, which is available to view on the Company's website here: [www.utilitywarehouse.co.uk/legal/modernSlaveryStatement](http://www.utilitywarehouse.co.uk/legal/modernSlaveryStatement)

#### STRATEGIC REPORT APPROVAL

The Strategic Report, set out on pages 1 to 36, which incorporates the Financial and Operating Highlights, the Chairman's Statement, the Chief Executive's Review, the Financial Review, Principal Risks and Uncertainties, People and Organisation and Corporate Responsibility, has been duly approved by the Board.

By order of the Board  
**David Baxter**  
Company Secretary  
13 June 2016

## BOARD OF DIRECTORS



### THE HON. CHARLES WIGODER, EXECUTIVE CHAIRMAN

Charles, aged 56, qualified as a Chartered Accountant with KPMG in 1984 and was subsequently employed by Kleinwort Securities as an investment analyst in the media and communication sectors. Between 1985 and 1988, he was head of corporate finance and development at Carlton Communications PLC and then Quadrant Group PLC. In March 1988 he left Quadrant Group to set up The Peoples Phone Company PLC, which was subsequently purchased by Vodafone in December 1996. He joined the Company in February 1998.



### JULIAN SCHILD, DEPUTY CHAIRMAN AND SENIOR NON-EXECUTIVE DIRECTOR

Julian, aged 56, qualified as a Chartered Accountant in 1986. He joined Huntleigh Technology PLC in 1987 and was promoted to Group Finance Director that year, and to Chairman in 2003. Julian was Chairman of the Association of British Healthcare Industries from 2006 to 2007. Following the sale of Huntleigh in 2007, he set up a company investing in start-ups. Julian actively supports many charitable activities. He is a Director of the Hospital of St. John & Elizabeth in London and is an Advisory Fellow of Pembroke College, Oxford. Julian joined the Company in May 2010 as an independent non-executive director and, as determined by the Board, meets the test of independence under section B.1.1 of the UK Corporate Governance Code.



### ANDREW LINDSAY MBE, CHIEF EXECUTIVE OFFICER

Andrew, aged 39, joined the Company in April 2007 and was appointed to the Board in November 2008. Before joining Telecom Plus, Andrew was Managing Director of Ryness, an electrical retail chain based in London in which he previously held a significant equity stake after performing a Management Buyout in 2006. Prior to buying Ryness, he spent three years as an analyst in the UK Mergers & Acquisitions team at Goldman Sachs. Andrew rowed for Great Britain at the Sydney Olympic Games in 2000, where he won a Gold medal.



## BOARD OF DIRECTORS

### CONTINUED



#### NICK SCHOENFELD, CHIEF FINANCIAL OFFICER

Nick, aged 45, joined the Company in January 2015 as Chief Financial Officer. Since 2006, Nick was Group Finance Director of Hanover Acceptances, a substantial diversified private company with holdings in the food manufacturing, real estate, and agribusiness sectors. He was previously employed at Kingfisher plc, where he was responsible for the group's financial planning and analysis functions. Prior to this, he held senior strategic and development roles within Castorama and the Walt Disney Company, having started his career as a management consultant at the Boston Consulting Group. Nick also has an MBA from the Harvard Business School.



#### MELVIN LAWSON, NON-EXECUTIVE DIRECTOR

Melvin, aged 57, 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, as determined by the Board, meets the test of independence under section B.1.1 of the UK Corporate Governance Code.



#### MICHAEL PAVIA, NON-EXECUTIVE DIRECTOR

Michael, aged 69, 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 plc, SEEBOARD plc and London Electricity. He is currently a senior independent director of Thames Water Utilities Limited and Wales and West Utilities Limited, and non-executive Chairman of PetroGranada Ltd. He joined the Company in December 2006 as an independent non-executive director and, as determined by the Board, meets the test of independence under section B.1.1 of the UK Corporate Governance Code.



# CORPORATE GOVERNANCE STATEMENT

Save in the limited instances explained below, the Board is pleased to report that during the year and as at the date of this Annual Report the Company has applied the main principles and complied with the provisions of the UK Corporate Governance Code ("the Code") issued by the Financial Reporting Council in September 2014. Copies of the Code are available at [www.frc.org.uk](http://www.frc.org.uk).

This report, together with the Director's Report on pages 77 to 81 and the Directors' Remuneration Report on pages 51 to 76, provides details of how the Company has applied the principles and complied with the provisions of the Code and where required explains the rationale for instances where the Company has not been compliant, namely: (i) the external facilitation of a Board evaluation exercise; and (ii) the design of performance-related elements of remuneration, i.e. the requirement for share awards to be phased rather than being granted in blocks. Further detail in relation to the Company's position regarding performance-related elements of remuneration is set out in the Directors' Remuneration Report.

## THE BOARD OF DIRECTORS

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

## BOARD DUTIES

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

- reviewing and agreeing the Company's strategy and long term objectives;
- assessing performance in the light of the Company's strategy and objectives;
- ensuring an effective system of risk management and internal controls is in place;
- approving changes to the structure, size and composition of the Board and reviewing its performance on an annual basis;
- reviewing the Company's overall corporate governance arrangements; and
- 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](http://www.utilitywarehouse.co.uk)).

## CORPORATE GOVERNANCE STATEMENT

### CONTINUED

TABLE OF ATTENDANCE AT FORMAL MEETINGS DURING THE YEAR ENDED 31 MARCH 2016

NAME OF DIRECTOR	BOARD	REMUNERATION COMMITTEE	AUDIT COMMITTEE	NOMINATION COMMITTEE
<i>Number of meetings</i>	10	4	4	-
Charles Wigoder	10	-	-	-
Julian Schild	10	4	4	-
Andrew Lindsay	10	-	-	-
Nick Schoenfeld	10	-	-	-
Melvin Lawson	10	4	4	-
Michael Pavia	10	4	4	-

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

#### BOARD EVALUATION

The directors recognise that the Code requires an external evaluation of the boards of FTSE 350 companies to be carried out at least every three years. However, the directors considered the position in relation to the current year and concluded that an external evaluation was not necessary. In reaching this conclusion the directors were mindful of the effective operation of the Board during the year and the results of the internal Board evaluation exercise detailed below. The Board considers it unlikely that an external evaluation will be conducted in the medium term.

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

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

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

- the Board's consideration of diversity and succession planning; and
- the induction and training of board members.

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

The evaluation concluded that overall the Board and its Committees had operated satisfactorily during the year, with all directors making an effective contribution to the Board commensurate with their experience and responsibilities. However, the evaluation highlighted that the identification of and communication with key stakeholders could be improved. In this regard, it was noted that the recruitment of a new independent non-executive director with extensive fund management experience, as detailed below and in the Nomination Committee report, was expected to enhance the Board's knowledge of the requirements of institutional shareholders. The evaluation also highlighted that each director, supported by the Deputy Chairman, was primarily responsible for assessing whether they required any specific training to address any professional development requirements. It was agreed that any such training be provided by the Company as necessary.

## BOARD BALANCE

The Board was comprised of three executive directors and three independent non-executive directors during the year. Julian Schild acted as the Company's Deputy Chairman and Senior Independent Non-Executive Director.

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

NAME OF DIRECTOR	REMUNERATION COMMITTEE	AUDIT COMMITTEE	NOMINATION COMMITTEE
Charles Wigoder	-	-	✓
Julian Schild*	Chairman	✓	✓
Andrew Lindsay	-	-	-
Nick Schoenfeld	-	-	-
Melvin Lawson*	✓	✓	-
Michael Pavia*	✓	Chairman	Chairman

\* indicates independent non-executive directors

## CORPORATE GOVERNANCE STATEMENT

### CONTINUED

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

As referred to in the Chairman's statement, and consistent with the requirement of the Code to ensure a progressive refreshing of the Board, the Nomination Committee has been implementing its plan for independent non-executive director succession during the year, to reflect the long service of both Michael Pavia and Melvin Lawson since their appointment to the Board in late 2006. A new independent non-executive director, Beatrice Hollond, will be appointed to the Board in September 2016. Ms Hollond has extensive experience of fund management and will serve on the Audit Committee and the Remuneration Committee of the Board. In addition, Michael Pavia will retire from the Board at the forthcoming AGM and the Nomination Committee is in the process of seeking a further independent non-executive director to join the Board in the short term. It is currently expected that this new independent non-executive director will have experience in the retail insurance industry in order to provide guidance as the Company extends its future range of services to Members in this area.

The Code requires that at least half the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent. The Code also requires that the board should state its reasons if it determines that a director remains independent notwithstanding the existence of relationships or circumstances which may affect, or could appear to affect, the director's judgement. These circumstances include if the director has served on the board for more than nine years from the date of their first election. As noted above, both Michael Pavia and Melvin Lawson have now served on the Board for more than nine years since first election. However, the Board considers that the independence of Messrs Pavia and Lawson has not been negatively impacted during the year by their long service on the Board as both directors continued to provide robust constructive challenge to the executive directors on a regular basis.

The Board believes that the addition of two new independent non-executive directors to the board will strengthen the Company's compliance with one of the key supporting principles of the Code in relation to the composition of the board, namely that the board should include an appropriate combination of executive and non-executive directors (and, in particular, independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision making.

#### BOARD DIVERSITY

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

The Code requires companies to set out any measurable objectives that exist in relation to Board diversity. However, it remains the Committee's strong view that it is not appropriate to stipulate the characteristics of any future directors, including gender, ahead of a full assessment of the particular requirements of each role at the time a candidate is being sought. The Committee will continue to adhere to the principles set out above in identifying and recruiting the best candidates for any future Board roles in a non-discriminatory manner.

Further detail regarding the Company's position in relation to encouraging diversity within all layers of the organisation is set out in the 'People and Organisation' section of the Strategic Report on pages 32 to 34.

## 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 compliance with the effective operation of the Board.

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

## SUPPLY OF INFORMATION

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

## RE-ELECTION

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

However, the Code requires that all directors of FTSE 350 companies be subject to annual re-election by shareholders. Therefore all the directors apart from Michael Pavia will be submitted for re-election at the forthcoming Annual General Meeting in July. Acknowledging the Code requirement for a particularly rigorous review in circumstances where non-executive directors' terms are being extended beyond six years, the Board has determined that all directors submitted for re-election continue to make a valuable contribution to the commercial success of the Company, with each bringing a complementary range of skills to the team. In particular, and as referred to above, the Board has considered the long service of Melvin Lawson and has determined that he continues to provide an extremely valuable independent contribution to the Board as a result of his deep historical knowledge of the business and its operations.

## REMUNERATION COMMITTEE

The Board has a Remuneration Committee whose responsibility is to ensure that the remuneration of executive directors is sufficient to attract, retain and motivate people of the highest calibre. The Remuneration Committee comprises three independent non-executive directors, namely Julian Schild (Chairman of the Committee), Melvin Lawson and Michael Pavia. The Directors' Remuneration Report, giving the details of the emoluments of each director, may be found on pages 51 to 76.

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

# CORPORATE GOVERNANCE STATEMENT

## CONTINUED

### AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, Michael Pavia (Chairman of the Committee), Melvin Lawson and Julian Schild in compliance with the Code (provision C.3.1). Following the retirement of Michael Pavia at the forthcoming AGM, Julian Schild will become Audit Committee Chairman. The activities of the Audit Committee are set out on pages 48 to 50.

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

### NOMINATION COMMITTEE

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

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

The activities of the Nomination Committee are set out on pages 46 and 47.

### RELATIONS WITH SHAREHOLDERS

It is the policy of the Company to maintain a dialogue with institutional shareholders and to keep them informed about the objectives of the business. The Board considers that it is appropriate for the executive directors to discuss any relevant matters regarding company performance with major shareholders and this is undertaken primarily by the Chief Executive and Chief Financial Officer. 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 Chief Financial Officer also have periodic discussions with the Company's brokers and issues are fed back to the Board as appropriate. When reports are received from the Company's brokers following investor presentations, these are submitted to the Board for review. Additionally the non-executive directors have at least one opportunity each year to meet with the Company's brokers to discuss any issues.

Responsibility for communication with key shareholders in relation to corporate governance and Board remuneration matters lies primarily with the Deputy Chairman who is assisted in this regard by the Company Secretary. Individual invitations to engage with the Deputy Chairman have previously been sent out to key shareholders and, where requested or considered necessary, certain matters have been discussed in more detail during the year.

## ANNUAL GENERAL MEETING

Notice of the Annual General Meeting and related papers are sent to all shareholders at least 21 working days before the meeting. Separate resolutions are proposed for each matter including the adoption of the Report and Accounts, the approval of the Company's Remuneration Policy, the Directors' Remuneration Report and the appointment of the Group's external 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 normally available to answer questions. Shareholders who attend are invited to ask questions and take part in the meeting.

## INTERNAL CONTROL

The Board acknowledges its responsibility for the Group's systems of internal control and risk management. However it recognises that any system can only provide reasonable, and not absolute, assurance against material misstatement or loss. The principal risks faced by the Company and the measures taken to address these risks are set out in the Strategic Report on pages 26 to 31.

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

The Board of directors has continued to review the internal controls of the Company (including financial, operational and compliance controls and risk management) and the principal risks which the Company faces during the year. No material weaknesses in internal controls were identified during the year.

The disclosures regarding internal controls do not encompass the Company's investment in the associate Opus Energy Group Limited.

## SHARE CAPITAL AND VOTING RIGHTS

Details of the Company's share capital and substantial shareholdings can be found in the Directors' Report under the capital structure and substantial shareholders sections on pages 79 and 80.

By Order of the Board

**David Baxter**

Company Secretary

13 June 2016

# NOMINATION COMMITTEE REPORT

## INTRODUCTION

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

The key responsibilities of the Nomination Committee include:

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

## THE COMMITTEE'S ACTIVITIES FOR THE YEAR ENDED 31 MARCH 2016

The Committee met informally on a number of occasions during the year and Committee matters were also discussed formally as part of certain full Board meetings.

### Recruitment of new independent non-executive directors

The Committee's principal activity during the year related to the identification and evaluation of two new independent non-executive directors. A number of potential candidates were identified by the Board and a shortlist was produced based on the background, experience and capability of the individuals concerned. A small number of candidates were invited to meet the non-executive directors and Executive Chairman, acting on behalf of the Board, to evaluate their interest in the opportunity.

From the potential candidates approached, Beatrice Hollond was identified as an extremely strong candidate by the Committee and displayed a keen interest in joining the Board. Ms Hollond is a member of the Board of Brown Advisory, a non-executive director of M&G Limited, a non-executive director at Templeton Emerging Markets Investment Trust, Chairman at Millbank Investment Managers, Chairman at Keystone Investment Trust and non-executive director and Chairman of Audit Committee at Henderson Smaller Companies Investment Trust. She spent 16 years at Credit Suisse Asset Management in Global Fixed Income and began her career as an equity analyst at Morgan Grenfell Asset Management.

The members of the Committee formally interviewed Ms Hollond, benchmarking her experience and capabilities against a list of key attributes previously agreed by the Board. The Committee's conclusions were reported to the Board and her appointment was put forward for approval. Ms Hollond's extensive experience of fund management, and therefore knowledge of the requirements of institutional shareholders, was particularly attractive to the Committee. It is expected that Ms Hollond will formally join the Board in September 2016 and will become a member of the Audit and Remuneration committees.



With due regard for the benefits of diversity on the Board, and the wide network of business contacts possessed by Committee members, the use of an external search consultancy and open advertising was not considered necessary in the appointment of Ms Hollond.

Mindful of the Code requirement to ensure a progressive refreshing of the Board, the Committee is in the process of seeking a further independent non-executive director to join the Board. It is currently expected that this new independent non-executive director will have experience in the retail insurance industry in order to provide guidance as the Company extends its future range of services to Members in this area. In the light of this specific requirement, an external search consultancy, Korn Ferry, has been instructed to draw up a shortlist of potential candidates for consideration by the Committee. The Committee therefore expects to be in a position to announce the appointment of a further new non-executive director in the near future. Korn Ferry does not have any other connection with the Company.

#### Other activities

Other discussions concerning Committee matters during the year principally related to the appropriateness of the composition of the Board given the Company's operations and medium-term strategic objectives, and succession planning for senior management. Aside from the position in relation to independent non-executive directors set out above, no other changes to the Board were deemed necessary during the year.

The Committee's position in relation to diversity and the Code requirement to set out any measurable objectives that exist in this regard is included in the Corporate Governance Statement on page 42 of this document.

#### Michael Pavia

Chairman of the Nomination Committee  
On behalf of the Board  
13 June 2016

# AUDIT COMMITTEE REPORT

## INTRODUCTION

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

## THE AUDIT COMMITTEE

Attendance at Committee meetings during the current year by Committee members is set out in the Corporate Governance Report on page 40 of this document. In accordance with best practice, the Committee has the opportunity, as required, to meet with the external auditor of the Company without the presence of any executive directors and has done so during the current year.

The key responsibilities of the Committee include:

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

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

## THE COMMITTEE'S ACTIVITIES FOR THE YEAR ENDED 31 MARCH 2016

The Committee's main activities during the year included a review of the financial statements involving a detailed evaluation of the significant accounting issues therein.

The actions taken by the Committee in regard to these issues are described in the table below.

ISSUE	ACTION TAKEN BY THE COMMITTEE
Operational accuracy of billing system	Review of internal analysis and external auditor procedures. Monitoring of regulator communications (Ofgem, BABT) and monthly monitoring of detailed call centre statistics which would indicate significant billing issues.
Revenue recognition in relation to energy services	Monitoring of key assumptions underlying the recognition of energy revenues based on internal analysis.
Valuation of intangible assets	Review of key assumptions underlying the value and recoverability of the intangible asset relating to the energy supply agreement entered into with Npower in December 2013.
Risk of management override of internal controls	Review of significant accounting estimates and judgements in relation mainly to receivables balances.

Also, in conjunction with the Company's external auditor, the Audit Committee has considered, amongst other matters, compliance with the provisions of the Code and accounting developments, the Company's financial control environment and its risk management and control processes. As part of this process the Audit Committee has also considered the need for any special projects or internal investigations and concluded that no such additional projects or investigations have been required.

In accordance with the Code (provision C.3.6), the Audit Committee has also considered the need for an internal audit function at the Company. In the light of the simplicity of the Group structure, its single country focus, its relatively straightforward financial model, the internal controls in place and the fact that management and the Board conduct regular financial reviews, the Committee has recommended to the Board that an internal audit function is not currently appropriate for the business. This decision will be kept under regular review and where appropriate extended assurance will also be sought in specific areas of concern.

During the year the Audit Committee reviewed and approved the Company's half year and annual financial statements. The Committee has advised the Board that the annual report and accounts taken as a whole provide a fair, balanced and understandable picture of the Company's position and performance, business model and strategy.

#### EXTERNAL AUDITOR EFFECTIVENESS

The Company's external auditor, KPMG, presented a detailed audit report to the Audit Committee following a review of the annual financial statements. Having regard to its review of the work performed by the external auditor during the year and its approach to key audit issues, the Audit Committee was satisfied with the effectiveness of KPMG as external auditor.

In reaching this conclusion, the Committee assessed:

- the efficiency with which the audit team was able to understand the Company and its systems and processes;

## AUDIT COMMITTEE REPORT

### CONTINUED

- the experience and expertise of the audit team;
- the scope and eventual fulfilment of the detailed audit plan;
- the robustness and perceptiveness of the audit team in their handling of key accounting and audit judgements; and
- the nature and quality of the content of the external auditor's report.

The Committee has therefore recommended to the Board, for approval by shareholders at the AGM, the reappointment of KPMG as the Company's external auditor for the coming year.

#### EXTERNAL AUDITOR INDEPENDENCE

In order to guard against the objectivity and independence of the external auditor being compromised, the provision of any significant additional services remains subject to the prior approval of the Audit Committee. The Committee would normally 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.

It is also currently envisaged that in accordance with best practice, tax compliance advice will not be awarded to the external auditor.

#### REPORTING OF STAFF CONCERNS

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 in the Staff Handbook and on the Company's intranet website which sets out Michael Pavia's contact details (Code provision C.3.5). No such matters were raised by employees during the current year.

#### **Michael Pavia**

Chairman of the Audit Committee  
On behalf of the Board  
13 June 2016

# DIRECTORS' REMUNERATION REPORT

## ANNUAL STATEMENT

Dear Shareholder,

In accordance with best practice, I am pleased to provide this introduction to the Remuneration Committee Report which appears in full on pages 51 to 76.

The Committee believes that remuneration packages should be competitive, align the interests of management with those of external shareholders, and both incentivise and reward superior long term performance.

In particular, we note the importance of continuing to strengthen not just the very senior management team, but also those in more junior management positions, from whom the next generation of senior management is most likely to be found. This succession planning, at all levels, is key to securing the continuing success of the Company, and positioning us to take advantage of future opportunities as they arise. A necessary ingredient is the effective retention of the talented individuals we attract, as they gain knowledge and experience within what is becoming a highly complex business.

We are therefore proposing a material change to the Remuneration Policy which was approved by shareholders at the 2014 Annual General Meeting by introducing a new long-term incentive plan ("LTIP 2016"). LTIP 2016 is designed to attract and retain high calibre individuals, by delivering entrepreneurial rewards throughout the management team as both an incentive and a reward for creating significant real shareholder value over a 10 year time-frame.

LTIP 2016 will comprise the issue to participants of a new class of 'growth' shares, which will potentially become convertible into ordinary shares over a period of 3-10 years following the achievement of stretching targets. If these targets are not achieved, then the growth shares will lapse with no value to participants.

Because the intention behind introducing LTIP 2016 is only to reward real increases in shareholder value, the hurdle which has been chosen is a direct link to growth in the Company's share price, with no value accruing to participants unless either: (i) the share price has approximately doubled to at least £20; or (ii) at the discretion of the Remuneration Committee, the adjusted earnings per share of the Company has doubled.

## DIRECTORS' REMUNERATION REPORT

### CONTINUED

The participants are being set further stretching targets of growing the share price to at least £25, £30, £35, £40, £45 and £50 respectively; as each of these hurdles is achieved, the maximum number of shares issued (in aggregate) to participants increases as follows:

SHARE PRICE	MAXIMUM NO. OF SHARES	APPROX DILUTION FOR EXISTING SHAREHOLDERS
<£20	Nil	NIL
>£20	1,625,000	1.9%
>£25	2,437,500	2.8%
>£30	3,250,000	3.7%
>£35	4,062,500	4.7%
>£40	4,875,000	5.6%
>£45	5,687,500	6.6%
>£50	6,500,000	7.5%

Although it is anticipated that each participant will receive a single award of growth shares under LTIP 2016, these will vest progressively over a 10 year period with 25% vesting after 3 years, 25% after 5 years, 25% after 7 years, and the final 25% vesting after 10 years. In all cases, conversion is subject to the relevant hurdles having been achieved on the conversion date and transfer restrictions will apply on a proportion of the shares for up to two years. This ensures that the interests of management and shareholders are fully aligned.

For any future grants, other than those made immediately following adoption of the LTIP 2016, stretching hurdles will be set by the Committee that will not be below those which apply to initial participants.

Because one of the key drivers behind the introduction of LTIP 2016 is the retention of key individuals over the longer term, any growth shares issued to a participant will generally lapse if they cease to be employed by the Company before they have vested. In accordance with best practice, both malus and clawback provisions are also being included.

The Committee recognises that the current approval it holds to issue up to 15% of the equity for existing share incentive schemes is higher than would usually be found, and therefore intends to reduce the current limit for existing share schemes to 12%. Although the total theoretical maximum dilution following approval of LTIP 2016 would increase to 20%, because of the stretching hurdles contained in LTIP 2016 the maximum would not reach 15% (ie: the current limit) unless the share price exceeds £25 (ie: an increase of c.250%), and would only reach 20% once the share price exceeds £50 (ie: an increase of c.500%).

Following approval by shareholders at the forthcoming AGM, the Committee will keep the proposed amended remuneration policy under review, in accordance with legislation, and expects to submit an updated version to the Annual General meeting to be held in 2019.

Executive directors' salaries are reviewed annually. During the year covered by this Report, the Executive Chairman, Chief Executive Officer and Chief Financial Officer each received an increase of 1.5% taking their salaries to £426,000, £461,825 and £406,000 respectively. This rise was in line with the Company's standard increase.

Charles Wigoder and Andrew Lindsay will also receive an increase of 1.25% for the year to 31 March 2017 which again is in line with the Company's cost of living increase. The Committee has reviewed Nick Schoenfeld's first full year performance and believes that he warrants an above inflation increase bringing his salary to £456,000.

At present, executive directors do not receive annual bonuses in either cash or shares. The Committee keeps this practice under consideration but believes that the grant of market price incentives combined with the new LTIP 2016 will provide long term retention and motivation.

On 30 November 2015, Andrew Lindsay exercised his rights granted under the JSOP in 2011 over 500,000 shares having met the requisite performance conditions. The exercise was satisfied by the transfer to him of 247,362 shares, representing the value of the gain made on these rights. The JSOP expired on 30 March 2016, and no further options were awarded to Andrew Lindsay during the year.

As outlined in last year's report, the Committee exceptionally decided to reissue the 300,000 options over ordinary shares that were awarded to Nick Schoenfeld upon his appointment to the Board in January 2015. In light of the fall in the Company's share price during the second quarter of 2015 – relating to events predating his appointment – the Committee felt it appropriate that his particular circumstances should be taken into consideration having only recently joined the Board.

In conclusion, I should like to thank shareholders for their support and engagement during the year.

## **Julian Schild**

Chairman of the Remuneration Committee  
13 June 2016

# REMUNERATION POLICY

## REMUNERATION COMMITTEE

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

The Committee met formally four times during the year and details of attendance at this meeting are provided in the Corporate Governance Statement on page 40.

The Committee's principal activities during the year included:

- reviewing and approving executive remuneration packages;
- monitoring senior management remuneration packages;
- reviewing and approving the issue of share options to the Chief Financial Officer, certain employees and independent distributors of the Company; and
- determining the performance conditions attached to the issue of certain share options.

## REMUNERATION POLICY INTRODUCTION

The Company's overall remuneration policy remains to ensure that the executive directors and other senior managers are fairly and responsibly rewarded for their individual contribution to the overall long term performance of the Company, in a manner that ensures that the Company is able to attract, motivate, and retain executives of the quality necessary to ensure the successful management of the Company.

Accordingly, we propose to amend our remuneration policy by introducing a new long term incentive plan ("LTIP 2016"), details of which are set out elsewhere in this report and in the resolution being proposed at the forthcoming Annual General Meeting. This has the potential to provide entrepreneurial rewards to the extended senior management team for creating significant real shareholder value over a 10 year time-frame.

The Company's remuneration policy will continue to be 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 best achieved through the use of share incentive plans. The Committee believes that share incentive awards granted at market value, and/or the issue of growth shares under the proposed LTIP 2016, provide a far more transparent method by which to align directly each director's interests with all shareholders when compared to the payment of regular annual cash bonuses based on short-term performance measures. In the light of the focus on share incentive awards rather than cash bonuses the Committee believes it continues to be appropriate to grant meaningful share awards in blocks rather than using a phased approach as set out in the Corporate Governance Code.



The outstanding awards made under share incentive schemes prior to the approval of the Company's remuneration policy at the AGM in July 2014 were broadly consistent with that policy and, for the avoidance of doubt, will in most cases remain in place until exercise.

The proposed remuneration policy described in this part of the report was prepared in accordance with the requirements of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended in August 2013). The existing policy was duly approved by the Company's shareholders at the AGM on 15 July 2014 and was intended to apply for the three years beginning on that date, however certain amendments are being proposed at the forthcoming AGM as set out in this report. The Committee will continue to review the amended remuneration policy annually to ensure it remains appropriate for the Company's requirements and consistent with market practice.

#### REMUNERATION POLICY TABLE

How component supports strategic objectives	Operation of component	Maximum potential value of component	Performance metrics used, weighting and time periods
<b>Base Salary</b>			
To recognise status and responsibility to deliver operational strategy on a day-to-day basis.	<p>Base salary is paid in 12 equal monthly instalments during the year.</p> <p>Base salaries are reviewed annually and any changes are effective from 1 April each year.</p>	<p>Increases normally for inflation and in line with other employees, or in order to ensure that base salaries properly reflect the size, complexity and growth rate of the Company relative to other FTSE 250 companies.</p> <p>Increases may also reflect any change in the level of responsibility of the director (whether through a change in role or an increase in the scale and/or scope of the activities carried out by the Company) or an increase in experience and knowledge of the Company and its markets.</p>	None, although overall performance of the individual is considered by the Committee when setting and reviewing salaries.

## REMUNERATION POLICY

### CONTINUED

How component supports strategic objectives	Operation of component	Maximum potential value of component	Performance metrics used, weighting and time periods
<b>Benefits</b>			
To provide benefits commensurate with the role and market practice.	<p>The Company pays for private healthcare for each director and their immediate family.</p> <p>The Company provides company cars for executive directors where appropriate.</p> <p>The Company provides death in service benefits up to a maximum of four times annual base salary (subject to prevailing policy caps).</p> <p>The Committee reserves the right to introduce other benefits should this be necessary to attract and/or retain key executive directors.</p> <p>In relation to new directors the Company will pay for reasonable relocation expenses where required.</p>	Market cost of the provision of private healthcare, company cars and other benefits as applicable from time to time.	None.
<b>Annual Bonus</b>			
No regular annual cash bonus scheme is currently in place although the Committee wishes to retain the flexibility to introduce such a scheme should it be deemed necessary to attract and retain high calibre executive directors in future.	Bonus payment to be dependent on achievement of performance measures.	<p>Maximum potential bonus of 200% of annual Base Salary, including the value of any share incentive awards granted, as detailed below.</p> <p>The overall combined limit for annual cash bonuses and share incentive awards to be 200% of annual Base Salary.</p> <p>In years where no bonus is awarded and/or no grant of share incentives is made to a director the maximum grant limit of 200% can be accumulated and/or brought forward to be used in other years.</p>	<p>Performance measures are likely to include similar metrics to the Company performance measures used for share incentive schemes described below coupled with short term strategic or operational objectives specific to the individual director.</p> <p>Save in exceptional circumstances, directors will be required to reinvest 25% of any bonus payment (after tax) in the Company's shares at the prevailing market price. These shares are then expected to be retained for the director's period of service.</p>

How component supports strategic objectives	Operation of component	Maximum potential value of component	Performance metrics used, weighting and time periods
<b>Individual Cash Bonus</b>			
Only paid to recognise an exceptional short term contribution to a discrete project outside the ordinary course of business requiring the director to commit time and effort significantly over and above their normal duties.	Bonus to be paid at the discretion of the Remuneration Committee and based on the formal recommendation of the Chairman.	Maximum potential bonus of 10% of base salary in any one year.	Committee to evaluate the contribution of the director to any project outside the ordinary course of business with a particular emphasis on the level of commitment made by the director and the complexity and importance of the project to the strategic success of the Company.
<b>Existing share plans ("Share Incentive Schemes") and proposed new LTIP ("LTIP 2016")</b>			
To directly align the directors' interests with those of all other shareholders.	<p>Issue of share incentives at market price on the date of grant which provide direct and transparent exposure to the Company share price for the director ("Share Incentive Schemes") or, subject to the proposed long-term incentive plan ("LTIP 2016") being approved by shareholders, subscription for growth shares at market value.</p> <p>Some participants below board level may be invited to subscribe for growth shares under employee shareholder status ("ESS"), ie: growth shares issued in return for the surrender of certain employment rights.</p> <p>Share Incentive Schemes include HMRC approved share option awards, and unapproved share option awards</p>	<p>Maximum grant value equivalent to 200% of salary per annum, assuming that no annual cash bonus has been awarded during that year.</p> <p>Larger awards may be made but any excess over 200% will be carried forward and taken into account in any future share incentive grants and/or bonus payments.</p> <p><b>Share Incentive Schemes</b></p> <p>Grants made periodically, with awards vesting over 3 to 7 years.</p> <p>Grant value of share incentives to be determined in accordance with FRC Reporting Lab guidance issued in March 2013, i.e. share options to be valued at one third of the market value of the shares under option.</p> <p>Vesting is dependent on service and the achievement of performance conditions.</p> <p>30% vests at threshold performance.</p>	<p><b>Share Incentive Schemes</b></p> <p>Service and performance conditions must be met over the vesting period, weighted average of three performance measures typically used for Chief Executive and Finance Director:</p> <ul style="list-style-type: none"> <li>• Adjusted EPS growth</li> <li>• TSR growth</li> <li>• Service number growth</li> </ul> <p>Weighting of each measure to be determined by the Committee and dependent on each director's role and strategic responsibility.</p> <p>The Committee also retains the ability to amend the performance conditions for future grants to ensure that they appropriately reflect the strategic responsibilities of the director concerned.</p>

## REMUNERATION POLICY

### CONTINUED

How component supports strategic objectives	Operation of component	Maximum potential value of component	Performance metrics used, weighting and time periods																		
Existing share plans ("Share Incentive Schemes") and proposed new LTIP ("LTIP 2016") - continued																					
		<p><b>LTIP 2016</b></p> <p>Grants are expected to be made in a single tranche following adoption of the plan (although new joiners or promoted individuals may be invited to join at a later stage).</p> <p>Grant value of the growth shares will be based on their market value on the date they are issued to participants, and assuming maximum dilution (ie: each growth share is equivalent to 10 ordinary shares in the Company).</p> <p>Awards will vest over 3 to 10 years, and the growth shares will accrete value subject to the achievement of defined hurdles.</p> <p>Participants will only share in the growth of the value of the Company if the initial share price increases to at least £20, or (if the Committee so determines) adjusted EPS has increased by at least 100%. Maximum dilution will only occur if the share price exceeds £50, or (if the Committee has so determined) adjusted EPS has increased to at least 3.5x the current level.</p>	<p>The Committee may require forfeiture of shares comprised in an award in the event of a material error or mis-statement in the accounts, or a material failure in risk management ("Malus and Clawback").</p> <p><b>LTIP 2016</b></p> <p>Service conditions must be met over vesting periods of 3, 5, 7 or 10 years, each in relation to 25% of the total number of growth shares issued to each participant.</p> <p>The basis on which value accretes to the growth shares is determined by reference to increases in share price or (at the discretion of the Committee) increases in adjusted earnings per share.</p> <p>In respect of the shares which become convertible on each vesting date, the basis of conversion will be the higher of the rate given by using the share price and adjusted EPS growth rates, as follows:</p> <table> <tr> <th>Share Price</th> <th>Conversion Ratio</th> </tr> <tr> <td>&lt;£20</td> <td>Nil</td> </tr> <tr> <td>£20 to £24.99</td> <td>2.5x</td> </tr> <tr> <td>£25 to £29.99</td> <td>3.75x</td> </tr> <tr> <td>£30 to £34.99</td> <td>5.0x</td> </tr> <tr> <td>£35 to £39.99</td> <td>6.25x</td> </tr> <tr> <td>£40 to £44.99</td> <td>7.5x</td> </tr> <tr> <td>£45 to £49.99</td> <td>8.75x</td> </tr> <tr> <td>£50+</td> <td>10.0x</td> </tr> </table>	Share Price	Conversion Ratio	<£20	Nil	£20 to £24.99	2.5x	£25 to £29.99	3.75x	£30 to £34.99	5.0x	£35 to £39.99	6.25x	£40 to £44.99	7.5x	£45 to £49.99	8.75x	£50+	10.0x
Share Price	Conversion Ratio																				
<£20	Nil																				
£20 to £24.99	2.5x																				
£25 to £29.99	3.75x																				
£30 to £34.99	5.0x																				
£35 to £39.99	6.25x																				
£40 to £44.99	7.5x																				
£45 to £49.99	8.75x																				
£50+	10.0x																				

How component supports strategic objectives	Operation of component	Maximum potential value of component	Performance metrics used, weighting and time periods																			
Existing share plans ("Share Incentive Schemes") and proposed new LTIP ("LTIP 2016") - continued																						
		<p>The Committee has absolute discretion in setting the share price hurdles for both initial participants (being those made shortly after the adoption of LTIP 2016) and future grants, subject to the hurdles not being below the levels set out in this report (ie: an initial hurdle of £20 for 2.5x conversion, £25 for 3.75x conversion, £30 for 5x conversion, £35 for 6.25x conversion, £40 for 7.5x conversion, £45 for 8.75x conversion and £50 for 10x conversion).</p> <p>For initial participants, the first vesting period will be the 30 day window immediately following the announcement of the results for the Company for the year ended 31 March 2019 (ie: slightly under three years), and then annually thereafter.</p> <p>For future grants, the first vesting/conversion period will be the 30 day window immediately following the third anniversary of the date on which the growth shares were issued, then annually thereafter.</p>	<table><tr><th>EPS Growth</th><th>Conversion Ratio</th></tr><tr><td>&lt;2.0x</td><td>Nil</td></tr><tr><td>2.0x to 2.24x</td><td>2.5x</td></tr><tr><td>2.25x to 2.49x</td><td>3.75x</td></tr><tr><td>2.5x to 2.74x</td><td>5.0x</td></tr><tr><td>2.75x to 2.9x</td><td>6.25x</td></tr><tr><td>3.0x to 3.24x</td><td>7.5x</td></tr><tr><td>3.25x to 3.5x</td><td>8.75x</td></tr><tr><td>&gt;3.5x</td><td>10.0x</td></tr></table>	EPS Growth	Conversion Ratio	<2.0x	Nil	2.0x to 2.24x	2.5x	2.25x to 2.49x	3.75x	2.5x to 2.74x	5.0x	2.75x to 2.9x	6.25x	3.0x to 3.24x	7.5x	3.25x to 3.5x	8.75x	>3.5x	10.0x	<p>For any future grants, other than those made immediately following adoption of the LTIP 2016, stretching hurdles will be set by the Committee that will not be below those which apply to initial participants.</p> <p>The Company has the right to reduce or withhold the value that would otherwise accrue under the 2016 LTIP or Share Incentive Schemes prior to exercise/conversion (malus) or after exercise/conversion (clawback) in certain circumstances including:</p> <ul style="list-style-type: none"><li>(i) Gross misconduct of the participant;</li><li>(ii) Material error or misstatement in the accounts; or</li><li>(iii) Grant or vesting of awards being found to be incorrect due to misleading or inaccurate information.</li></ul>
EPS Growth	Conversion Ratio																					
<2.0x	Nil																					
2.0x to 2.24x	2.5x																					
2.25x to 2.49x	3.75x																					
2.5x to 2.74x	5.0x																					
2.75x to 2.9x	6.25x																					
3.0x to 3.24x	7.5x																					
3.25x to 3.5x	8.75x																					
>3.5x	10.0x																					

## REMUNERATION POLICY

### CONTINUED

How component supports strategic objectives	Operation of component	Maximum potential value of component	Performance metrics used, weighting and time periods
<b>Pension</b>			
To provide funding for retirement.	Defined contribution pension scheme open to all employees and executive directors.	Company contributes up to a maximum of 20% of Base Salary per annum.	None.
<b>Shareholding Requirement</b>			
To strengthen the long term alignment of directors' interests with those of all shareholders.	Shareholding requirement policy is primarily driven from the issue of shares resulting from the exercise of awards made under the Share Incentive Schemes and LTIP 2016.	<p>Subject to personal circumstances and existing shareholding level, and the payment of relevant taxes, directors are encouraged to retain 25% of the shares resulting from each exercise of awards made under the Share Incentive Schemes and LTIP 2016.</p> <p>Under LTIP 2016, in relation to the 25% blocks of their award which vest after 3, 5 or 7 years, participants are required to retain 50% of any shares they choose to convert for at least 12 months. In relation to the final 25% block which vests after 10 years, they are obliged to retain 75% for 12 months, 50% for 18 months, and 25% for 24 months.</p>	N/A

References to the JSOP have been removed from these tables as it has now expired.

## CHOICE OF PERFORMANCE MEASURES

The Committee chose the performance measures described in the table above as these are deemed to align directly the executive directors' interests with those of all shareholders in an easily understood and transparent manner.

### Share Incentive Schemes (excluding LTIP 2016)

The performance measures comprise a combination of relative total shareholder return ('TSR'), Adjusted EPS (excluding share incentive scheme charges and amortisation of intangible assets) and service number growth measures. Adjusted EPS is considered appropriate as a key strategic objective of the Company if it is to drive profitable growth in each year. It also provides a balance to relative TSR, which considers shareholder value creation and reflects market expectations of future performance, and absolute service number growth which, when achieved responsibly, will also drive long-term value creation.

The use of relative TSR and Adjusted EPS growth measures provides a combined focus on the Company's financial performance and shareholder value creation. Targets for Adjusted EPS are set by reference to internal budgeting plans and external market expectations. TSR targets are set on a standard practice, median to upper quartile ranking range. Only 30% of share incentive awards vest for threshold levels of performance.

The Committee wishes to retain the ability to change the composition of performance conditions for future grants to directors should this be required in order to reflect appropriately the strategic responsibilities of the particular director concerned.

### LTIP 2016

The Committee has chosen growth in the Company's share price as the primary measure for LTIP 2016 because it considers it is the best way to link the rewards received by participants with the value that has been created for shareholders. However, the Committee recognises that share price is not in the control of senior management, and periods of stock market volatility may coincide with the dates on which growth shares issued under the plan are due to vest. Discretion has therefore been given to the Committee to include the alternative stretching growth metric of adjusted earnings per share, for the purpose of determining the number of ordinary shares in the Company received by participants on each vesting date.

## ILLUSTRATIVE APPLICATION OF REMUNERATION POLICY

The bar chart below seeks to illustrate the potential rewards available under the proposed remuneration policy for the coming financial year under varying levels of performance in relation to Share Incentive Schemes. For the purposes of the illustration the values assume the maximum grant of share incentive awards during the year under the Share Incentive Schemes, no grants under LTIP 2016 (which is subject to approval by shareholders at the forthcoming Annual General Meeting), and no annual cash bonuses are paid. However, as outlined in the above table, the Committee reserves the right to bring or carry forward any unused annual share incentive scheme or LTIP 2016 allowances. Therefore, share incentives might not be awarded during a particular year, and/or share incentive awards may be larger than 200% of base salary in any one year.

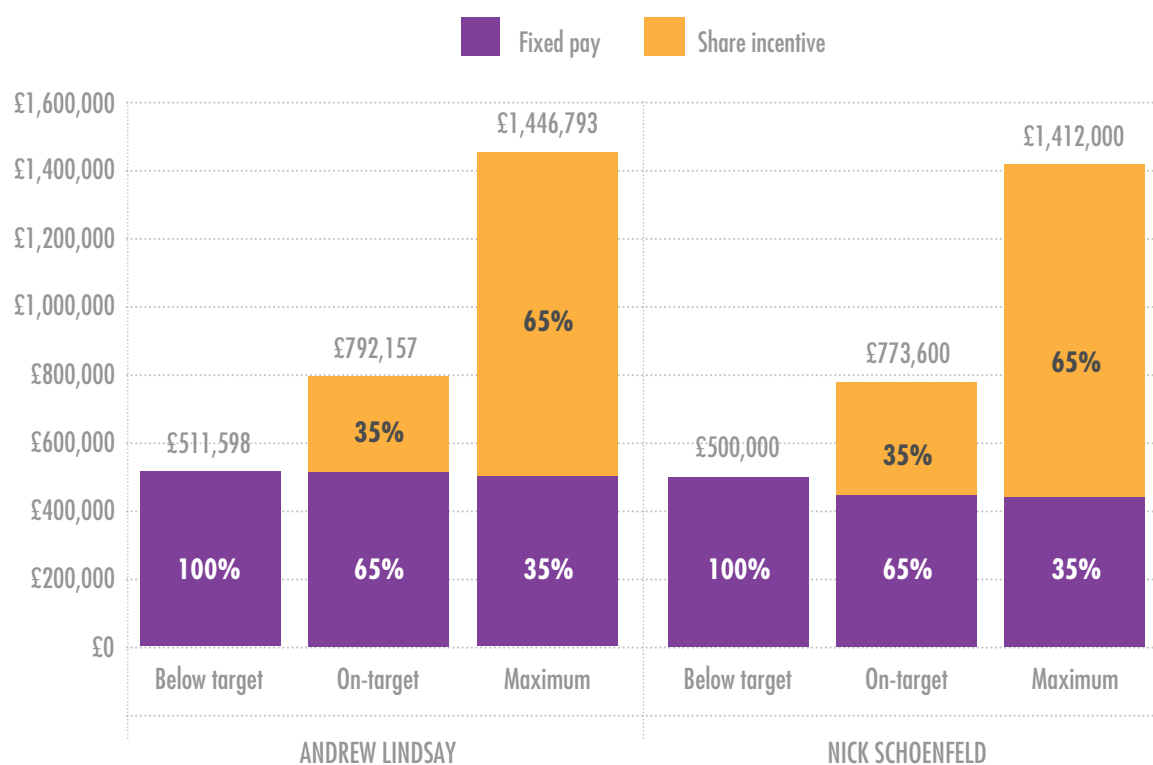
## REMUNERATION POLICY

### CONTINUED

The amounts included for share incentive awards are based on one third of the market value of the shares under option, although the awards have no realisable value inherent at the date of grant; awards granted under LTIP 2016 in future will have a different valuation basis. The amounts for pensions and benefits included in the fixed remuneration figure have been calculated on the same basis as payments made for the year ended 31 March 2016.

The potential rewards available for 'on-target' performance under share incentive schemes have been based on 30% vesting of share incentive awards.

All performance measures or targets for share incentive scheme awards relate to more than one financial year.



The Executive Chairman, Mr Wigoder, has not been included in the above bar chart as he only receives fixed remuneration due to the size of his existing shareholding in the Company.



## SERVICE CONTRACTS AND POLICY FOR PAYMENT FOR LOSS OF OFFICE

The table below sets out the Company's policy regarding service contracts and payments for loss of office.

Standard provision	Policy	Details	Other provisions in service contracts
Notice periods in executive directors' service contracts.	6 - 12 months' notice from the Company.  6 - 12 months' notice from the executive director.	Executive directors may be required to work during notice period or may be provided with pay in lieu of notice if not required to work full notice.  All executive directors are subject to annual re-election by shareholders.	N/A
Compensation for loss of office in service contracts.	No more than base salary, benefits and pension contributions for the period of the executive director's notice.  No contractual provision for additional compensation in the event of loss of office resulting from poor performance.	Any statutory entitlements or sums to settle or compromise claims in connection with any termination of office would need to be paid as necessary, subject to the fulfilment of the director's duty to mitigate their loss.	N/A
Treatment of unvested Share Incentive Scheme and LTIP 2016.	<b>Share Incentive Schemes</b>  All awards lapse except for "good leavers": i.e. death, injury, disability, redundancy, retirement or where the employing company or the company with which the office is held ceases to be a member of the Group or the transfer of employment out of the Group by reason of the Transfer of Undertakings (Protection of Employment) Regulations 2006.	<b>Share Incentive Schemes</b>  A "good leaver" may exercise any subsisting share options within the period of 6 months from the date of cessation of employment.  If a participant ceases to be employed within the Group otherwise than as a "good leaver", no unvested share options held shall be exercisable after the date of such cessation unless the Committee in its absolute discretion (provided that such discretion must be exercised fairly and reasonably) so decides but for a period of not more than 12 months from the date of cessation. The Committee considers it unlikely that such discretion would be used in the event of a participant ceasing to be employed by the Company as a "bad leaver".	N/A

## REMUNERATION POLICY

### CONTINUED

Standard provision	Policy	Details	Other provisions in service contracts
	<p><b>LTIP 2016</b></p> <p>All awards lapse except for “good leavers”: i.e. death, or where the employing company or the company with which the office is held ceases to be a member of the Group or the transfer of employment out of the Group by reason of the Transfer of Undertakings (Protection of Employment) Regulations 2006.</p> <p>In the event of injury, disability, retirement or redundancy, the Committee may exercise its discretion to classify the participant as a “good leaver”.</p>	<p><b>LTIP 2016</b></p> <p>If a participant in the LTIP 2016 ceases to be employed within the Group otherwise than as a “good leaver”, any unvested awards will be forfeited. Any growth shares which have vested but not been converted, must be converted within 14 days of the end of their employment otherwise they will be forfeited; the conversion ratio shall be based on the average share price for the 30 working days immediately preceding the date on which conversion takes place.</p> <p>If a participant in the LTIP 2016 is a “good leaver”, then he shall be entitled to the benefit of any shares that have become convertible prior to the date of leaving, and such shares shall be converted (at the option of the employee) either within 14 days of the termination of their employment (in which case the conversion ratio shall be based on the average share price for the 30 working days immediately preceding the date on which conversion takes place), or during the next annual vesting period using the criteria which apply on that date.</p>	N/A
Exercise of discretion.	Discretion to be used only in exceptional circumstances.	The Committee will take into account the recent performance of the director and the Company, and the nature of the circumstances around the executive director’s departure.	N/A
Non-Executive Directors.	Non-executive directors are appointed for an initial term of one year which is then reviewed by the Board on annual basis thereafter.	<p>Non-executive directors are all subject to annual re-election by shareholders at the Company’s AGM each year.</p> <p>Non-executive directors have a three month notice period and there is no provision for compensation if required to stand down.</p>	Non-executive directors have the right to seek independent professional advice at the expense of the Company in the pursuance of their duties.

## APPROACH TO RECRUITMENT REMUNERATION

The Committee's approach to recruitment is to pay a sufficient amount necessary to attract the best candidates to the particular role. In determining these amounts the Committee will be mindful of, inter alia, prevailing market rates, the chosen candidate's skills, knowledge and experience, and their existing location and position.

Where the candidate has variable remuneration arrangements with a previous employer that will be lost on leaving employment, the Company will consider offering a sign-on award in compensation for the value foregone, either as an award under an existing share incentive scheme or a bespoke award under the Listing Rules exemption available for this purpose. The face and/or expected values of the award(s) offered will not materially exceed the value ascribed to the award(s) foregone, and would normally follow the same vesting timing and form (i.e. cash or shares) save that the Committee may award the whole of the value in shares, at its discretion. The application of performance conditions would be considered and, where appropriate, the awards could be made subject to claw-back in certain circumstances. For material amounts the Committee would, where practicable, consult with key institutional shareholders ahead of committing to make any such sign-on awards, and in any event a full explanation of any amounts awarded, an explanation of why it was necessary and a breakdown of the awards to be made will be announced to the markets at the time of granting. For the avoidance of doubt, should a new director be internally promoted from the Company's senior management team they will not be expected to give up or amend any element of remuneration granted to them prior to becoming a director which is inconsistent with the remuneration policy set out above.

Any new executive director's remuneration package would include the same elements, and be subject to the same constraints, as those of the existing executive directors as outlined in the above policy table.

## NON-EXECUTIVE DIRECTORS' FEES POLICY

How component supports strategic objectives	Operation of component	Maximum potential value of component	Performance metrics used, weighting and time periods
To attract non-executive directors who have a broad range of experience and skills to support and oversee the implementation of strategy and ensure good corporate governance.	<p>Non-executive directors' fees are set by the Board as a whole and aligned with the responsibilities of each director.</p> <p>Annual fees are paid in 12 equal monthly instalments during the year.</p> <p>Non-executive directors' fees are periodically reviewed by the Board in the light of any changes in role and prevailing market rates for Non-executive directors in similarly sized listed companies.</p>	Non-executive directors' remuneration will not be set outside the parameters of prevailing market rates for similarly-sized companies of equal complexity.	Non-executive directors are not eligible to participate in any performance-related arrangements or share incentive schemes.

## REMUNERATION POLICY

### CONTINUED

#### STATEMENT OF CONSIDERATION OF SHAREHOLDER VIEWS

The Chairman of the Committee engages with certain of the Company's largest shareholders who have expressed an interest in being consulted in relation to remuneration matters to understand their expectations and monitor any changes in their views.

#### STATEMENT OF CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE GROUP

The Committee considers pay levels across the organisation when setting remuneration for all directors (both executives and non-executives). However this review is undertaken against a background of ensuring that the prevailing market rates for all levels of employee in the organisation are taken into account in order to attract, retain and motivate the best employees at each level. In relation to directors, specific account is taken of any change in the level of responsibility of the director (whether through a change in role or the increased size of the Company) or an increase in experience and knowledge of the Company and its markets which may not be relevant to roles elsewhere in the Company.

The Company does not deem it appropriate to formally consult with employees regarding the determination of the directors' remuneration policy as the broad remuneration structure for directors mirrors that of all employees, i.e. the payment of a base salary, benefits and share incentive scheme awards at market price and/or LTIP 2016 awards. However, employees have the opportunity to make comments on any aspect of the Company's activities through an employee survey and any comments made which are relevant to directors' remuneration would be considered by the Committee.

## ANNUAL REPORT ON REMUNERATION

This report, which has been prepared in accordance with the provisions of the UK Corporate Governance Code ("the Code") issued by the Financial Reporting Council in September 2014 and Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended in August 2013) ("the Regulations"), 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 "Single Total Figure of Remuneration", parts of "Share Incentive Schemes" and "Pension Schemes" have been subject to external audit.

### SINGLE TOTAL FIGURE OF REMUNERATION

The Committee recommended increases to the annual base salaries of Executive Chairman Charles Wigoder, Chief Executive Andrew Lindsay and Chief Financial Officer Nick Schoenfeld during the year as follows:

- Charles Wigoder - increased from £420,000 to £426,300;
- Andrew Lindsay - increased from £455,000 to £461,825; and
- Nick Schoenfeld - increased from £400,000 to £406,000.

These increases broadly reflected the average increase in the base salaries of the majority of the Company's employees.

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

The non-executive directors receive fees for their services, the details of which are described below. The level of these fees was unchanged during the year.

### YEAR ENDED 31 MARCH 2016 (AUDITED)

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

DIRECTOR	SALARY & FEES £'000	TAXABLE BENEFITS £'000	PENSION CONTRIBUTIONS £'000	SHARE INCENTIVES £'000	TOTAL £'000
Charles Wigoder	426	-	-	-	426
Julian Schild	35	-	-	-	35
Andrew Lindsay	462	11	40	-	513
Nick Schoenfeld	406	4	40	-	450
Melvin Lawson	12	-	-	-	12
Michael Pavia	21	-	-	-	21
<b>TOTAL</b>	<b>1,362</b>	<b>15</b>	<b>80</b>	<b>-</b>	<b>1,457</b>

None of the directors held share incentive awards where final vesting was determined as a result of performance conditions relating to a period ending in the financial year to 31 March 2016.

# ANNUAL REPORT ON REMUNERATION

## CONTINUED

### YEAR ENDED 31 MARCH 2015 (AUDITED)

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

DIRECTOR	SALARY & FEES £'000	TAXABLE BENEFITS £'000	PENSION CONTRIBUTIONS £'000	SHARE INCENTIVES £'000	TOTAL £'000
Charles Wigoder	420	5	19	-	444
Julian Schild	35	-	-	-	35
Andrew Lindsay	455	4	40	1,676	2,175
Nick Schoenfeld	94	1	9	-	104
Melvin Lawson	12	-	-	-	12
Michael Pavia	21	-	-	-	21
Chris Houghton	153	2	15	-	170
<b>TOTAL</b>	<b>1,190</b>	<b>12</b>	<b>83</b>	<b>1,676</b>	<b>2,961</b>

The amounts relating to benefits received relate principally to the provision of private health insurance and Company motor vehicles to the directors.

Mr Lindsay held share incentive awards under the Company's Joint Share Ownership Plan ('JSOP') where final vesting was determined as a result of the achievement of performance conditions relating to the financial year to 31 March 2015. However, it should be noted that as at 31 March 2015 Mr Lindsay had not exercised his right to realise the gain made under the JSOP as the vesting period for the award commenced on 1 April 2015. Mr Lindsay exercised his rights under the JSOP on 30 November 2015, details of which are set out below in this report.

### SHARE INCENTIVE SCHEMES

The Company has two conventional share option plans, and also had a Joint Share Ownership Plan which expired on 30 March 2016. The first share option plan and the JSOP are available to employees, and the second share option plan is available to the Company's independent distributors. The Company has also established a new Save As You Earn share option plan ("the Employee SAYE Share Option Plan") for employees during the year.

Following the fall in the Company's share price following the trading update issued on 16 April 2015, the Committee felt that it was important to ensure that employees and distributors at all levels remained motivated and committed to the Company. As described in the previous year's annual report, and in the best interests of the Company, it decided to offer all employees and distributors with existing options with an exercise price above the prevailing market price the opportunity to have their existing options cancelled and to receive new options in their place. In total replacement options over 746,950 shares (including 300,000 to Chief Financial Officer Nick Schoenfeld as detailed below) were issued to employees and distributors as a result of this proposal.

### 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 market price options over shares in the Company, the number of shares being related to their seniority and length of service.

The Committee recognises that the collective contribution of all employees is critical to the success of the Company and continues to believe that the granting of share options at all levels within the organisation generates employee loyalty and helps to ensure that staff turnover is kept to a minimum and below the levels seen across the industry for employees passing their probationary periods.

### The Employee SAYE Share Option Plan

The Employee SAYE Share Option Plan enables employees of the group to acquire shares in the Company in a tax efficient manner using monies saved from salary over a three or five year period. A summary of the principal terms of the Employee SAYE Share Option Plan were set out in the Appendix to the 2015 AGM circular sent to all shareholders.

### The Joint Share Ownership Plan

Awards made through the JSOP provide participants with a joint interest in tranches of shares which are held until vesting by an independent employee benefit trust (the "JSOP Share Trust"). The trustee of the JSOP Share Trust is Zedra Trust Company (Guernsey) Limited (formerly Barclays Wealth Trustees (Guernsey) Limited). The value to participants of awards made under the JSOP is based upon the growth in the value of the Company's shares from the date of grant in a similar manner to the value achieved through participation in the conventional share option scheme. However, participants in the JSOP only receive value to the extent that the share price increase exceeds a compound annual growth rate of at least five per cent (the 'Hurdle Rate'). On vesting, participants receive any gain over the Hurdle Rate on the tranche of shares in which they hold a joint interest, with all the gain below the Hurdle Rate being retained by the JSOP Share Trust. In addition, awards made under the JSOP to executive directors will only vest to the extent applicable performance conditions relating to the financial and trading performance of the Company are met. The JSOP terminated on 30 March 2016 in accordance with the rules of the scheme five years after the date of adoption by the Board and shareholders.

### 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 Members 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.

### Statement of Directors' Shareholding and Share Interests (audited)

Details of the directors' shareholdings are set out in the Directors' Report on page 77. As set out in the Future Remuneration Policy Table of the Company's Remuneration Policy, a target level of share ownership is not stipulated for directors, however, subject to personal circumstances and existing shareholdings they are encouraged to retain 25% of shares issued as a result of the exercise of share incentive awards.

## ANNUAL REPORT ON REMUNERATION

### CONTINUED

Details of the share awards held by 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 18 to the financial statements):

#### CHARLES WIGODER

	1 APRIL 2015	GRANTED	EXERCISED/ LAPSED	31 MARCH 2016	EXERCISE PRICE PER SHARE	EXERCISABLE FROM	EXPIRY DATE
<i>SAYE Scheme</i>							
25 Sept 2015	-	1,701	-	1,701	1058p	1 Nov 18	30 Apr 19

#### ANDREW LINDSAY

	1 APRIL 2015	GRANTED	EXERCISED/ LAPSED	31 MARCH 2016	EXERCISE PRICE PER SHARE	EXERCISABLE FROM	EXPIRY DATE
<i>Share options</i>							
1 July 2014	100,000	-	-	100,000	1337p	1 Jul 17	30 Jun 24
1 July 2014	100,000	-	-	100,000	1337p	1 Jul 19	30 Jun 24
1 July 2014	100,000	-	-	100,000	1337p	1 Jul 21	30 Jun 24
<i>JSOP interest</i>							
31 March 2011 <sup>1</sup>	500,000	-	500,000	-	n/a	1 Apr 15	n/a
<i>SAYE Scheme</i>							
25 Sept 2015	-	1,701	-	1,701	1058p	1 Nov 18	30 Apr 19

<sup>1</sup>Shares were held jointly with the JSOP Share Trust

#### NICK SCHOENFELD

	1 APRIL 2015	GRANTED	EXERCISED/ LAPSED	31 MARCH 2016	EXERCISE PRICE PER SHARE	EXERCISABLE FROM	EXPIRY DATE
<i>Share options</i>							
7 January 2015	100,000	-	100,000	-	1262p	7 Jan 18	6 Jan 25
7 January 2015	50,000	-	50,000	-	1262p	7 Jan 19	6 Jan 25
7 January 2015	50,000	-	50,000	-	1262p	7 Jan 20	6 Jan 25
7 January 2015	50,000	-	50,000	-	1262p	7 Jan 21	6 Jan 25
7 January 2015	50,000	-	50,000	-	1262p	7 Jan 22	6 Jan 25
13 July 2015	-	100,000	-	100,000	985p	13 Jul 18	12 Jul 25
13 July 2015	-	50,000	-	50,000	985p	13 Jul 19	12 Jul 25
13 July 2015	-	50,000	-	50,000	985p	13 Jul 20	12 Jul 25
13 July 2015	-	50,000	-	50,000	985p	13 Jul 21	12 Jul 25
13 July 2015	-	50,000	-	50,000	985p	13 Jul 22	12 Jul 25
<i>SAYE Scheme</i>							
25 Sept 2015	-	1,701	-	1,701	1058p	1 Nov 18	30 Apr 19



### Mr Andrew Lindsay

The award of a joint interest in 500,000 shares made to Mr Lindsay on 31 March 2011 under the JSOP ("the JSOP Share Award") was made subject to performance conditions which were described in detail in the annual report for the year ended 31 March 2011. The performance conditions in relation to the JSOP award were all fully achieved as at 31 March 2015 and this was detailed in the annual report for the year ended 31 March 2015.

Mr Lindsay exercised his rights granted under the JSOP over 500,000 ordinary shares on 30 November 2015. Under the rules of the JSOP, Mr Lindsay was entitled to receive any increase in the value of the 500,000 shares over the share price at the date of grant on 31 March 2011 of £4.55, plus an annual compound growth rate of five per cent which together equated to £5.71 per share on 30 November 2015.

In accordance with the rules of the JSOP, the Committee elected to satisfy the exercise of Mr Lindsay's rights under the JSOP by instructing the transfer of 247,362 of the 500,000 ordinary shares to Mr Lindsay, representing the value of the gain made on these rights at the closing market price for ordinary shares on 30 November 2015 of £11.31.

On 1 July 2014 300,000 share options were awarded to Mr Lindsay under the terms of the Employee Share Option Scheme.

The extent to which these options will vest will depend on the average growth, weighted 40% by reference to adjusted EPS growth, 40% by reference to relative TSR growth and 20% by reference to service number growth, achieved across the three annual performance measures summarised in the table below:

PERCENTAGE OF OPTIONS VESTING	ADJUSTED EPS GROWTH	RELATIVE TSR GROWTH <sup>1</sup>	SERVICE NUMBER GROWTH
100%	CPI + 12.5%	Upper quartile	10.0%
30%	CPI + 5.0%	Median	5.0%
30%-100% <sup>2</sup>	CPI + 5.0%-12.5%	Median – Upper quartile	5.0%-10.0%
NIL	<CPI + 5.0%	Below median	<5.0%

<sup>1</sup> Company TSR performance relative to the FTSE 350 (excluding Investment Trusts)

<sup>2</sup> Percentage of shares to be calculated on a straight line basis

The base year for the Adjusted EPS performance measure will be the Adjusted EPS for the year ended 31 March 2014.

### Mr Nick Schoenfeld

Options over 300,000 ordinary shares were granted to Chief Financial Officer Nick Schoenfeld on his appointment to the Board on 7 January 2015 under the terms of the Employee Share Option Scheme. However, as described in the last annual report and in the light of the fall in the Company's share price following the release of the Trading Update on 16 April 2015, which set out details of certain issues related to historical accounting estimates pre-dating Mr Schoenfeld's appointment to the Board, the Committee decided to cancel the options issued to Mr Schoenfeld on 7 January 2015 and re-issue the same number of options to him on 13 July 2015.

## ANNUAL REPORT ON REMUNERATION

### CONTINUED

The extent to which these options will vest will depend on the average growth, weighted 40% by reference to adjusted EPS growth, 40% by reference to relative TSR growth and 20% by reference to service number growth, achieved across the three annual performance measures summarised in the table below:

PERCENTAGE OF OPTIONS VESTING	ADJUSTED EPS GROWTH	RELATIVE TSR GROWTH <sup>1</sup>	SERVICE NUMBER GROWTH
100%	CPI + 10.0%	Upper quartile	10.0%
30%	CPI + 5.0%	Median	5.0%
30%-100% <sup>2</sup>	CPI + 5.0%-10.0%	Median – Upper quartile	5.0%-10.0%
NIL	<CPI + 5.0%	Below median	<5.0%

<sup>1</sup> Company TSR performance relative to the FTSE 350 (excluding Investment Trusts)

<sup>2</sup> Percentage of shares to be calculated on a straight line basis

The base year for the Adjusted EPS performance measure will be the Adjusted EPS for the year ended 31 March 2015. Provisions to withhold or recover gains relating to these options in the event of fraud or malus committed by Mr Schoenfeld are included in the conditions of the award.

These options will vest in five discrete tranches over three, four, five, six and seven year periods as set out in the table above. The largest tranche of options represents shares with a face value of £985,000 equating to approximately 242% of Mr Schoenfeld's annual base salary. However, it should be noted that as market price options their value to Mr Schoenfeld rests solely on the increase in the Company's share price from the point of grant. In accordance with guidance in the FRC's Lab Project Report: Reporting of pay and performance issued in March 2013, the value of market price share options can be measured as one third of the market value of the shares under option. The value of these options granted to Mr Schoenfeld under this measure would therefore represent approximately 80% of his annual base salary for the year. Under this measure the value of each of the other four tranches of options represents approximately 40% of Mr Schoenfeld's annual base salary.

#### DIRECTORS' CONTRACTS OF SERVICE

There are Service Contracts or Letters of Appointment for Charles Wigoder (5 May 2011), Andrew Lindsay (5 May 2011), Nick Schoenfeld (9 October 2014), 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 Schoenfeld each with six months on either side.

#### PENSION SCHEMES (AUDITED)

The Company makes no contributions to the pensions of any current directors except to Mr Lindsay and Mr Schoenfeld, details of which are shown within the table on page 67.

### PERFORMANCE GRAPH SHOWING TOTAL SHAREHOLDER RETURN

The following graph shows the Company's performance measured by total shareholder return compared with the performance of the FTSE All Share Telecommunications Index and the FTSE 350 for the period 1 April 2011 to 31 March 2016. As noted in previous years, the FTSE All Share 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 17% of the Company's revenues are now generated from such telephony services.

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



SOURCE: BLOOMBERG

# ANNUAL REPORT ON REMUNERATION

## CONTINUED

### TABLE OF HISTORICAL DATA

The following table shows the total remuneration, as defined by the Regulations, and the amount vesting under share incentive schemes as a percentage of the maximum that could have been achieved, in respect of the Chief Executive. The Chief Executive was Mr Andrew Lindsay in all years shown in the table.

YEAR ENDED 31 MARCH	2012	2013	2014	2015	2016
Single figure of total remuneration £'000	1,150	399	432	2,175	513
Percentage of maximum of share incentives vesting in year %	100	N/A	N/A	100	N/A

The gains on share incentive schemes vesting in the years ended 31 March 2012 and 31 March 2015 represent the gains on share incentive awards based on the prevailing share price as at the earlier of the date of exercise of the share incentives and the year end in which the awards vested. No share incentive awards vested to the Chief Executive in the years ended 31 March 2013, 2014 and 2016.

### PERCENTAGE CHANGE IN THE REMUNERATION OF THE CHIEF EXECUTIVE

The following table shows the change in certain aspects of the remuneration of Mr Lindsay.

YEAR ENDED 31 MARCH	2016 £'000	2015 £'000	CHANGE %
Salary	462	455	1.5
Benefits	11	4	175.0

The Group's pay review for the year ended 31 March 2016 which took effect on 1 April 2015 awarded average percentage increases in salaries to employees of 1.5%.

### RELATIVE IMPORTANCE OF THE SPEND ON PAY

The Regulations require an illustration of the significance of the Company's expenditure on pay in the context of its operations. Set out below is a summary of the Company's levels of expenditure on pay and other significant cash outflows to key stakeholders.

CASH OUTFLOWS TO KEY STAKEHOLDERS	2016 £'000	2015 £'000	CHANGE %
Wages and salaries	27,495	23,698	16.0%
Dividends paid	34,331	30,230	13.6%
Corporation tax and social security costs paid	11,404	11,506	(0.9)%

## STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN THE FOLLOWING FINANCIAL YEAR

### Base Salaries

The Committee recommended that increases to the base salaries of the executive directors for the forthcoming year ended 31 March 2017, with effect from 1 April 2016, be made as described below.

Executive Chairman Charles Wigoder's annual base salary was increased from £426,300 to £431,629 and the annual base salary of Chief Executive Andrew Lindsay was increased from £461,825 to £467,598, these increases being in line with the increase of 1.25% in the base salaries of the majority of the Company's employees. The annual base salary of Chief Financial Officer Nick Schoenfeld was increased from £406,000 to £456,000, reflecting his increased knowledge and experience of the Company following joining the Board in January 2015.

### LTIP 2016

It is intended that up to 30,000 growth shares will be offered to both Andrew Lindsay and Nick Schoenfeld (i.e. up to 60,000 growth shares in aggregate) as soon as reasonably practical after LTIP 2016 has been approved by shareholders. As a pre-condition, it is anticipated that they will waive their rights over some (or all) of their existing share options, such that there will be no increase in the maximum total possible dilution (i.e. if the 600,000 share options held by Andrew Lindsay and Nick Schoenfeld in aggregate had vested in full) as a result of the introduction of LTIP 2016.

### Other benefits

Directors' remuneration in relation to pension contributions and other benefits for the year will be made in accordance with the Remuneration Policy.

## SHAREHOLDER VOTE AND SHAREHOLDER ENGAGEMENT

As set out in the Remuneration Policy, the Committee encourages dialogue with the Company's major shareholders regarding remuneration matters and will endeavour to consult with these shareholders ahead of any significant future changes to the remuneration policy.

Details of the votes cast in relation to the remuneration policy and report at last year's AGM are set out below:

	2015 AGM	%
<i>To approve the 2015 Remuneration Report</i>		
Votes cast in favour & Chairman discretion	39,195,945	80.29
Votes cast against	9,621,975	19.71
<b>Total</b>	<b>48,817,920</b>	<b>100.00</b>

In addition to the above there were 671,642 votes withheld. The Committee understands that a significant factor in relation to the relatively high number of votes cast against the Remuneration Report related to concerns raised around the proposed cancellation and reissue of options with an exercise price above the prevailing market price. However the Committee firmly believes that the proposal was in the best interests of the Company and was necessary to ensure that employees and distributors at all levels remained motivated and committed to the Company.

## ANNUAL REPORT ON REMUNERATION

### CONTINUED

#### THE UK CORPORATE GOVERNANCE CODE

The Committee acknowledges the requirement set out in the Corporate Governance Code issued by the FRC in September 2014 ("the Code") for companies to put in place arrangements that will enable them to recover or withhold variable remuneration when appropriate to do so.

The Committee intends to include provisions to withhold or recover such remuneration in the event of fraud or malus committed by a director in any new Share Incentive Scheme or LTIP 2016 awards.

#### **Julian Schild**

Chairman of the Remuneration Committee

On behalf of the Board

13 June 2016

## DIRECTORS' REPORT

The directors have pleasure in presenting their report and the audited financial statements for the year to 31 March 2016.

### PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

A full review of the development of the business is contained in the Strategic Report on pages 1 to 36. A summary of the financial risk management objectives and policies is contained in note 19 to the financial statements.

This Directors' Report, together with the information in the Strategic Report forms the management report for the purposes of DTR 4.1.8R.

### RESULTS AND DIVIDENDS

The profit for the year after tax of £31,774,000 (2015: £32,301,000) has been transferred to reserves. An interim dividend of 22p per share (2015: 19p) was paid during the year. A final dividend of 24p per share (2015: 21p per share) is proposed.

On 19 April 2016 the Board announced that it expected adjusted profit before tax to be at least £54 million for the year ended 31 March 2016. The actual adjusted profit before tax for the year ended 31 March 2016 was £54.4 million.

### DIRECTORS

The names of directors who served during the year and their interests, including those of their connected persons, 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 70.

DIRECTOR	ORDINARY 5P SHARES HELD AT	
	31 MARCH 2016	31 MARCH 2015
Charles Wigoder	16,073,241	16,026,366
Julian Schild*	189,932	158,682
Andrew Lindsay	382,674	135,312
Nick Schoenfeld	6,250	-
Melvin Lawson*	2,136,744	2,089,869
Michael Pavia*	36,391	26,391

\*indicates non-executive directors

In respect of the above shareholdings, Mr Wigoder has a non-beneficial interest in 3,067,683 shares (2015: 3,067,683).

## DIRECTORS' REPORT

### CONTINUED

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, shareholders with in excess of 20% of the shares in the Company, as is currently the case for Mr Wigoder, are entitled under the Articles to appoint a director and remove any such director appointed.

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

#### DIRECTORS' CONFLICTS OF INTEREST

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

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

#### DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

#### EMPLOYEES

The requirements of the Companies Act 2006 in respect of employees are set out in the Strategic Report on pages 32 to 34.



## SUBSTANTIAL SHAREHOLDERS

As at 13 June 2016, in addition to the directors, the following have notified the Company of their substantial shareholdings as detailed below:

SHAREHOLDER	NUMBER OF SHARES	PERCENTAGE OF ISSUED SHARE CAPITAL
Standard Life Investments Ltd	9,402,924	11.7%
Schroders PLC	5,845,036	7.3%
Hargreave Hale Ltd	3,232,330	4.0%
Neptune Investment Mgt	3,220,348	4.0%
Norges Bank	2,664,265	3.3%

## CAPITAL STRUCTURE

### Restrictions on the transfer of shares

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

Other than as set out below and so far as the directors are aware, there were no arrangements at 31 March 2016 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.

Executive Chairman Charles Wigoder entered into an agreement to charge 325,000 of his shares in the Company as security for a loan from Barclays Bank on 3 December 2013. The loan enabled him to apply for 57,142 ordinary shares as part of his open offer entitlement which resulted from funding the Company's entering into of the new energy supply arrangements with Npower on 20 December 2013. Under the terms of the charge, title to the 325,000 shares can be transferred, sold or otherwise dealt with by Barclays following the occurrence of a failure to pay any amount due and payable under the loan.

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

The Company established a Joint Share Ownership Plan ("the JSOP") on 30 March 2011. As part of the JSOP an employee benefit trust was established to jointly hold shares with the participants in the plan ("the JSOP Share Trust"). As at 31 March 2016 the JSOP Share Trust held 252,638 shares. All voting and dividend rights attached to these shares have been waived.

## DIRECTORS' REPORT

### CONTINUED

#### 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 EE 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 11 August 2015, the Company obtained authority to purchase up to 8,017,189 ordinary shares representing approximately 10% of the issued ordinary share capital (excluding treasury shares) as at 3 July 2015. The Company intends to renew this authority at this year's AGM.

During the year the Company did not repurchase any ordinary shares.

#### Treasury shares

The Company held 60,000 ordinary shares in treasury as at 31 March 2016 (2015: 60,000).

#### DISCLOSURE OF INFORMATION

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

#### CORPORATE GOVERNANCE

The Company's position in relation to compliance with the requirements of the UK Corporate Governance Code issued by the Financial Reporting Council is set out in the Corporate Governance Statement on pages 39 to 45.

#### RISK, CONTROL AND VIABILITY

In accordance with the UK Corporate Governance Code, the Directors have assessed the viability of the Group over a three year period, taking into account the Group's current position and the potential impact of the principal risks and uncertainties set out on pages 26 to 31. Based on this assessment, the directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to March 2019.

The directors have determined that a three year period to 31 March 2019 constitutes an appropriate period over which to provide its viability statement. This is the period focussed on by the Board during the strategic planning process.

Whilst the directors have no reason to believe the Group will not be viable over a longer period, given the inherent uncertainty involved we believe this presents users of the Annual Report with a reasonable degree of confidence while still providing a longer-term perspective.

In making this statement, the Board carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

The Board considers annually and on a rolling basis, a three year bottom-up strategic plan. The output of this plan is used to perform central debt and headroom profile analysis, which includes a review of sensitivity to 'business as usual' risks, such as profit growth and working capital variances and severe but plausible events.

The Board also considers the ability of the Group to raise finance and deploy capital. The results take account of the availability and likely effectiveness of the mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks.

Under the revised energy supply arrangements which were effective from 1 December 2013, Npower continues to be responsible for funding the principal working capital requirements relating to the supply of energy to the Company's Members. This includes funding the Budget Plans of Members who pay for their energy in equal monthly instalments and pre-funding the payment of certain energy network charges.

The Group has from Barclays Bank PLC and Lloyds Bank PLC total revolving credit facilities of £150.0 million for the period to 14 December 2020 of which only £71.2 million was drawn down as at 31 March 2016.

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

Whilst this review does not consider all of the risks that the Group may face, the directors consider that this stress-testing based assessment of the Group's prospects is reasonable in the circumstances of the inherent uncertainty involved.

For and on behalf of the Board

**David Baxter**

Company Secretary

13 June 2016

## DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

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

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 2006.

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

### WEBSITE PUBLICATION

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

### DIRECTORS' RESPONSIBILITIES PURSUANT TO DTR4

The directors confirm to the best of their knowledge:

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

Having taken advice from the Audit Committee, the Board considers the report and accounts, taken as a whole, to be fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

For and on behalf of the Board

**Charles Wigoder**

Executive Chairman  
13 June 2016

**Nick Schoenfeld**

Chief Financial Officer  
13 June 2016

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TELECOM PLUS PLC ONLY

## OPINIONS AND CONCLUSIONS ARISING FROM OUR AUDIT

### 1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Telecom Plus PLC for the year ended 31 March 2016 set out on pages 88 to 126. In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2016 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and 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.

### 2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows (unchanged from 2015):

#### Energy revenue recognition £587.6m (2015: £583.1m) Risk vs 2015:◀▶

Refer to page 49 (Audit Committee report), page 97 (accounting policy) and page 102 (financial disclosures)

THE RISK	THE RESPONSE
<p>Revenue recognised in relation to the supply of gas and electricity includes estimates of the value of the energy supplied to customers between the date of the last meter reading and the year end.</p> <p>The method of estimating such revenues is complex and judgemental, requiring estimates and assumptions to be made to assess the volume of energy supplied, which is sensitive to a number of factors, one of which includes volatility in weather patterns.</p> <p>The risk of misstatement is that the accounting for the Group's estimated revenues does not appropriately reflect the underlying actual delivery of gas and electricity and as a result revenues may be misstated.</p>	<p>In this area our audit procedures included:</p> <ul style="list-style-type: none"><li>• assessing the appropriateness of the revenue recognition accounting policy through comparison with relevant accounting standards and industry practice;</li><li>• analysing the accuracy of the estimates made by the billing system for a sample of customers by comparing actual usage, obtained from meter readings, with the billing system generated estimated usage for the same period;</li><li>• for a sample of customers, we agreed the meter readings, used in the billing system, including those taken after the year end, back to source documentation being the customer or third party meter readings;</li><li>• testing the Group's controls over revenue recognition including reconciliations between the billing system, cash receipts and the general ledger;</li><li>• analysing monthly energy revenue compared to the prior year, factoring in volatility in weather patterns, in order to identify and investigate any anomalies and outliers; and</li><li>• considering whether the critical accounting estimates, judgements and assumptions, and accounting policy disclosures properly reflect the judgements and estimates inherent in recognising revenue.</li></ul>

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TELECOM PLUS PLC ONLY

## CONTINUED

**Valuation of intangible assets £198.4m (2015: £209.6m) Risk vs 2015:◀▶**

**Refer to page 49 (Audit Committee report), page 98 (accounting policy) and page 107 (financial disclosures)**

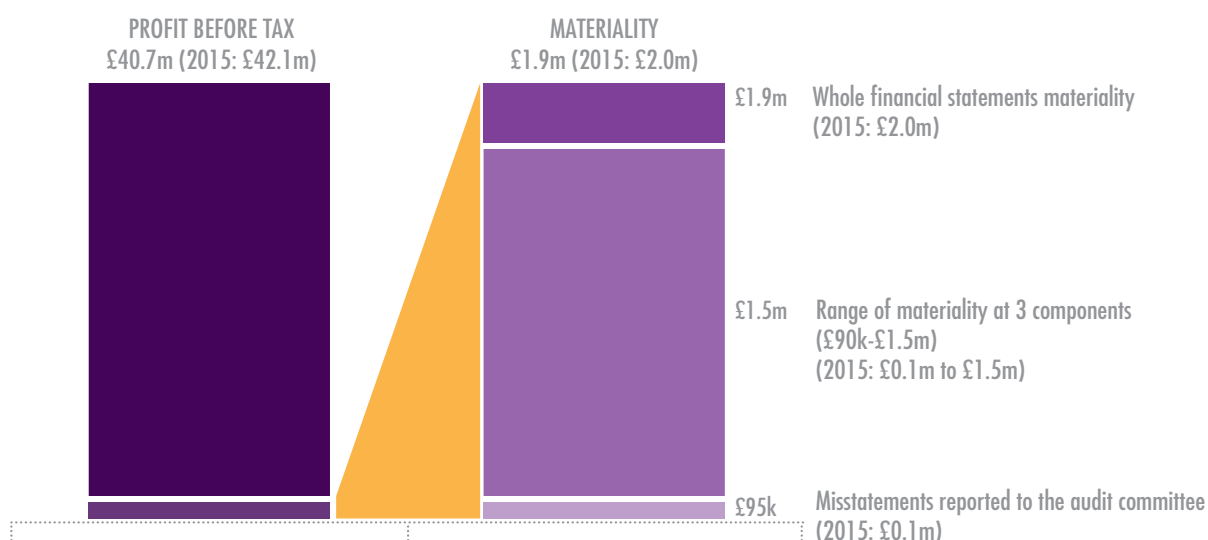
THE RISK	THE RESPONSE
<p>An intangible asset is held on the Group's balance sheet at cost less amortisation, representing an energy supply agreement to supply gas and electricity to the Group.</p> <p>Wholesale energy prices are volatile, and there are high levels of competition in the energy supply market, leading to challenging market conditions. In that context, the recoverability of the intangible asset is subject to judgment in terms of the assumptions used in the Group's discounted cash flow model, in particular in respect of customers growth and the discount rate.</p> <p>Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgemental areas that our audit is concentrated on.</p>	<p>In this area our audit procedures included:</p> <ul style="list-style-type: none"> <li>• assessing the appropriateness of the design and implementation of the Group's discounted cash flow model;</li> <li>• assessing the reasonableness of the Group's forecasting by comparing actual performance for the year against forecasts for the same period in the prior year model;</li> <li>• evaluating the Group's assumptions included within the discounted cash flow forecasts by comparing key inputs such as projected growth, cost inflation and discount rates to internally and externally derived data;</li> <li>• performing sensitivity analysis on the assumptions; and</li> <li>• assessing the adequacy of the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions.</li> </ul>

### 3 Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £1.9 million (2015: £2.0m), determined with reference to a benchmark of group profit before tax of £40.7 million, of which it represents 4.7% (2015: 4.75%).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £95,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's four components we subjected the three significant components to audits for group reporting purposes, performed by the group audit team, using component materialities which ranged from £90,000 to £1.5 million (2015: £0.1 million to £1.5 million).



# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TELECOM PLUS PLC ONLY

## CONTINUED

The remaining component, an equity accounted investment, was subject to specified risk-focused procedures over the revenue recognition policy and estimation of supply of energy to customers. These procedures were performed by the group audit team as it is not individually financially significant enough to require an audit for group reporting purposes, but did present specific individual risks that needed to be addressed.

The components within the scope of our work accounted for the following percentages of the group's results:

	2016			2015		
	AUDITS FOR GROUP REPORTING PURPOSES	SPECIFIED RISK-FOCUSED PROCEDURES	TOTAL	AUDITS FOR GROUP REPORTING PURPOSES	SPECIFIED RISK-FOCUSED PROCEDURES	TOTAL
Group revenue	100%	0%	100%	100%	0%	100%
Group profit before tax	82.8%	17.2%	100%	81.9%	18.1%	100%
Group assets	97.3%	2.7%	100%	97.5%	2.5%	100%

### 4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### 5 We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the directors' statement of risk, control and viability on pages 80 to 81, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the Group's continuing in operation over the 3 years to 31 March 2019; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

### 6 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee.



# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TELECOM PLUS PLC ONLY

## CONTINUED

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 80 to 81, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on pages 39 to 45 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

### SCOPE AND RESPONSIBILITIES

As explained more fully in the Directors' Responsibilities Statement set out on pages 82 to 83, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate). This report is made solely to the Company's Members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at [www.kpmg.com/uk/auditscopeukco2014a](http://www.kpmg.com/uk/auditscopeukco2014a), which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

### **David Neale (Senior Statutory Auditor)**

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

Canary Wharf

London E14 5GL

United Kingdom

13 June 2016

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 31 MARCH 2016

	Note	2016 £'000	2015 £'000
Revenue	1	744,732	729,178
Cost of sales		(620,858)	(612,969)
<b>Gross profit</b>		<b>123,874</b>	<b>116,209</b>
Distribution expenses		(21,424)	(21,876)
Share incentive scheme charges		(36)	(151)
Total distribution expenses		(21,460)	(22,027)
Administrative expenses		(52,355)	(46,544)
Share incentive scheme (charges)/credits		(2,479)	1,173
Amortisation of intangible assets		(11,228)	(11,186)
Total administrative expenses		(66,062)	(56,557)
Other income		397	361
<b>Operating profit</b>	1,2	<b>36,749</b>	<b>37,986</b>
Financial income		126	133
Financial expenses		(1,801)	(2,066)
<b>Net financial expense</b>		<b>(1,675)</b>	<b>(1,933)</b>
Share of profit of associates	8	5,609	6,006
<b>Profit before taxation</b>		<b>40,683</b>	<b>42,059</b>
Taxation	4	(8,909)	(9,758)
<b>Profit and other comprehensive income for the year attributable to owners of the parent</b>		<b>31,774</b>	<b>32,301</b>
Basic earnings per share	16	<b>39.8p</b>	40.6p
Diluted earnings per share	16	<b>39.6p</b>	40.2p

# CONSOLIDATED BALANCE SHEET

## AS AT 31 MARCH 2016

	Note	2016 £'000	2015 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	33,063	41,800
Investment property	5	9,211	-
Intangible assets	6	198,364	209,592
Goodwill	7	3,742	3,742
Investments in associates	8	11,604	10,843
Other non-current receivables	10	13,800	13,929
<b>Total non-current assets</b>		<b>269,784</b>	<b>279,906</b>
<b>Current assets</b>			
Inventories		2,762	893
Trade and other receivables	11	27,749	28,128
Prepayments and accrued income	11	97,233	104,931
Cash		35,343	16,536
<b>Total current assets</b>		<b>163,087</b>	<b>150,488</b>
<b>Total assets</b>		<b>432,871</b>	<b>430,394</b>
<b>Current liabilities</b>			
Short term borrowings	12	-	(4,934)
Deferred consideration	13	(21,500)	-
Trade and other payables	13	(26,580)	(24,885)
Current tax payable		(936)	(1,086)
Deferred tax	9	(839)	(551)
Accrued expenses and deferred income	14	(114,583)	(115,472)
<b>Total current liabilities</b>		<b>(164,438)</b>	<b>(146,928)</b>
<b>Non-current liabilities</b>			
Long term borrowings	12	(70,152)	(64,139)
Deferred consideration	13	-	(21,500)
JSOP creditor	13	-	(1,507)
<b>Total non-current liabilities</b>		<b>(70,152)</b>	<b>(87,146)</b>
<b>Total assets less total liabilities</b>		<b>198,281</b>	<b>196,320</b>
<b>Equity</b>			
Share capital	15	4,016	4,011
Share premium		137,729	137,238
Treasury shares	15	(760)	(760)
JSOP reserve		(1,150)	(2,275)
Retained earnings		58,446	58,106
<b>Total equity</b>		<b>198,281</b>	<b>196,320</b>

These accounts were approved and authorised for issue by the Board on 13 June 2016

Andrew Lindsay  
Nick Schoenfeld

Director  
Director

## COMPANY BALANCE SHEET

### AS AT 31 MARCH 2016

	Note	2016 £'000	2015 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	33,063	41,800
Investment property	5	9,211	-
Investments in associates	8	2,294	1,668
Investments in subsidiary undertakings	8	227,097	227,097
Other non-current receivables	10	11,547	12,100
<b>Total non-current assets</b>		<b>283,212</b>	<b>282,665</b>
<b>Current assets</b>			
Inventories		2,762	893
Trade and other receivables	11	14,033	12,689
Prepayments and accrued income	11	7,159	7,139
Cash		35,002	16,279
<b>Total current assets</b>		<b>58,956</b>	<b>37,000</b>
<b>Total assets</b>		<b>342,168</b>	<b>319,665</b>
<b>Current liabilities</b>			
Short term borrowings	12	-	(4,934)
Deferred consideration	13	(21,500)	-
Trade and other payables	13	(43,937)	(45,602)
Current tax payable		(938)	-
Deferred tax	9	(845)	(561)
Accrued expenses and deferred income	14	(8,712)	(9,914)
<b>Total current liabilities</b>		<b>(75,932)</b>	<b>(61,011)</b>
<b>Non-current liabilities</b>			
Long term borrowings	12	(70,152)	(64,139)
Deferred consideration	13	-	(21,500)
JSOP creditor	13	-	(1,507)
<b>Total non-current liabilities</b>		<b>(70,152)</b>	<b>(87,146)</b>
<b>Total assets less total liabilities</b>		<b>196,084</b>	<b>171,508</b>
<b>Equity</b>			
Share capital	15	4,016	4,011
Share premium		137,729	137,238
Treasury shares	15	(760)	(760)
Retained earnings		55,099	31,019
<b>Total equity</b>		<b>196,084</b>	<b>171,508</b>

These accounts were approved and authorised for issue by the Board on 13 June 2016

Andrew Lindsay  
Nick Schoenfeld

Director  
Director

# CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2016

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
<b>Operating activities</b>				
Profit before taxation	40,683	42,059	61,461	38,521
Adjustments for:				
Share of profit/distributions from associates	(5,609)	(6,006)	(5,474)	(4,148)
Distributions from subsidiary companies	-	-	(20,000)	-
Net financial expense	1,675	1,933	1,675	1,933
Depreciation of property, plant and equipment	3,596	1,834	3,596	1,834
Profit on disposal of fixed assets	(12)	-	(12)	-
Amortisation of intangible assets	11,228	11,186	-	-
Amortisation of debt arrangement fees	985	367	985	367
(Increase)/decrease in inventories	(1,869)	878	(1,869)	878
Decrease/(increase) in trade and other receivables	8,202	14,914	(1,459)	(2,688)
Increase/(decrease) in trade and other payables	1,206	(7,427)	(145)	4,586
(Decrease)/increase in inter-company payable	-	-	(2,321)	20,628
Share incentive scheme charges/(credits)	2,515	(1,022)	2,515	(1,022)
Corporation tax paid	(8,755)	(9,058)	(5,190)	(3,587)
<b>Net cash flow from operating activities</b>	<b>53,845</b>	<b>49,658</b>	<b>33,762</b>	<b>57,302</b>
<b>Investing activities</b>				
Purchase of property, plant and equipment	(4,080)	(20,306)	(4,080)	(20,306)
Disposal of property, plant and equipment	22	47	22	47
Distributions from subsidiary companies	-	-	20,000	-
Distribution from associated company	5,474	4,148	5,474	4,148
Purchase of shares in associated company	(626)	(171)	(626)	(171)
Interest received	115	130	114	129
<b>Cash flow from investing activities</b>	<b>905</b>	<b>(16,152)</b>	<b>20,904</b>	<b>(16,153)</b>
<b>Financing activities</b>				
Dividends paid	(34,331)	(30,230)	(34,331)	(30,230)
Interest paid	(2,202)	(1,652)	(2,202)	(1,652)
Drawdown of long term borrowing facilities	71,241	-	71,241	-
Repayment of borrowing facilities	(70,000)	(30,000)	(70,000)	(30,000)
Fees associated with long term borrowing facilities	(1,147)	(315)	(1,147)	(315)
Issue of new ordinary shares	496	598	496	598
Purchase of own shares	-	(760)	-	(760)
<b>Cash flow from financing activities</b>	<b>(35,943)</b>	<b>(62,359)</b>	<b>(35,943)</b>	<b>(62,359)</b>
Increase/(decrease) in cash and cash equivalents	18,807	(28,853)	18,723	(21,210)
Net cash and cash equivalents at the beginning of the year	16,536	45,389	16,279	37,489
<b>Net cash and cash equivalents at the year end</b>	<b>35,343</b>	<b>16,536</b>	<b>35,002</b>	<b>16,279</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2016

Consolidated	Share capital £'000	Share premium £'000	Treasury shares £'000	JSOP reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 April 2014	4,001	136,651	-	(2,275)	56,344	194,721
<b>Profit and total comprehensive income</b>	-	-	-	-	32,301	32,301
Deferred tax on share options	-	-	-	-	(1,861)	(1,861)
Dividends	-	-	-	-	(30,230)	(30,230)
Purchase of treasury shares	-	-	(760)	-	-	(760)
Credit arising on share options	-	-	-	-	1,552	1,552
Issue of new ordinary shares	10	587	-	-	-	597
<b>Balance at 31 March 2015</b>	<b>4,011</b>	<b>137,238</b>	<b>(760)</b>	<b>(2,275)</b>	<b>58,106</b>	<b>196,320</b>
<b>Profit and total comprehensive income</b>	-	-	-	-	<b>31,774</b>	<b>31,774</b>
Dividends	-	-	-	-	<b>(34,331)</b>	<b>(34,331)</b>
Credit arising on share options	-	-	-	-	<b>1,224</b>	<b>1,224</b>
Credit arising on exercise of JSOP	-	-	-	<b>1,125</b>	<b>1,673</b>	<b>2,798</b>
Issue of new ordinary shares	<b>5</b>	<b>491</b>	-	-	-	<b>496</b>
<b>Balance at 31 March 2016</b>	<b>4,016</b>	<b>137,729</b>	<b>(760)</b>	<b>(1,150)</b>	<b>58,446</b>	<b>198,281</b>

## COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2016

Company	Share capital £'000	Share premium £'000	Treasury shares £'000	Retained earnings £'000	Total £'000
Balance at 1 April 2014	4,001	136,651	-	30,094	170,746
<b>Profit and total comprehensive income</b>	-	-	-	31,464	31,464
Deferred tax on share options	-	-	-	(1,861)	(1,861)
Dividends	-	-	-	(30,230)	(30,230)
Purchase of treasury shares	-	-	(760)	-	(760)
Credit arising on share options	-	-	-	1,552	1,552
Issue of new ordinary shares	10	587	-	-	597
<b>Balance at 31 March 2015</b>	<b>4,011</b>	<b>137,238</b>	<b>(760)</b>	<b>31,019</b>	<b>171,508</b>
<b>Profit and total comprehensive income</b>	-	-	-	<b>54,389</b>	<b>54,389</b>
Dividends	-	-	-	(34,331)	(34,331)
Credit arising on share options	-	-	-	<b>1,224</b>	<b>1,224</b>
Credit arising on JSOP exercise	-	-	-	<b>2,798</b>	<b>2,798</b>
Issue of new ordinary shares	<b>5</b>	<b>491</b>	-	-	<b>496</b>
<b>Balance at 31 March 2016</b>	<b>4,016</b>	<b>137,729</b>	<b>(760)</b>	<b>55,099</b>	<b>196,084</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## SIGNIFICANT ACCOUNTING POLICIES

### GENERAL INFORMATION

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 2016 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 13 June 2016.

### PRESENTATION OF FINANCIAL STATEMENTS

As a result of the relative size and volatility of the cash-settled share incentive scheme charges it has been decided to separately disclose the amounts on the face of the Consolidated Statement of Comprehensive Income. In the prior year, as a result of the significant fall in the Company's share price, the share incentive scheme charge unusually became a credit due to the required revaluation of certain share incentives at year end. The item returned to being a significant charge in the current year and therefore separate disclosure continues to be deemed appropriate in order to provide a clearer understanding of the underlying performance of the business.

In view of the size and nature of the charge as a non-cash item, the amortisation of intangible assets has also been separately disclosed on the face of the Consolidated Statement of Comprehensive Income for the period. More information regarding the intangible asset is set out in note 6 of these financial statements.

### SIGNIFICANT ACCOUNTING POLICIES

#### (a) Statement of compliance

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

#### (b) Basis of preparation

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 36. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 21 to 25 and within notes 12 and 19 to the financial statements. In addition, notes 15 and 19 include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

Under the revised energy supply arrangements which were effective from 1 December 2013, Npower continues to be responsible for funding the principal working capital requirements relating to the supply of energy to the Company's Members. This includes funding the Budget Plans of Members who pay for their energy in equal monthly instalments and pre-funding the payment of certain energy network charges.

The Company has from Barclays Bank PLC and Lloyds Bank PLC total revolving credit facilities of £150.0 million for the period to 14 December 2020 of which only £71.2 million was drawn down as at 31 March 2016.

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

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (b) Basis of preparation (continued)

#### *Critical accounting estimates, judgements and assumptions*

In the process of applying the Group's accounting policies, which are described below, the Directors have made judgements, estimations and assumptions regarding the future. The judgements, estimations, and assumptions that have the most significant impact on the amounts recognised in the financial statements are detailed below.

Estimates and judgements are evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In future, actual results may differ from these estimates and assumptions.

#### *(i) Revenue recognition*

Revenue relating to the sale of energy includes an estimate of the value of electricity or gas supplied to customers between the date of the last meter reading and the year end. This will have been estimated by using historical consumption patterns, prevailing weather data and other industry information.

Whilst the estimation routines are currently considered appropriate, a significant change in historical consumption patterns and/or a failure to maintain the accuracy of the estimation routines could impact the amount of revenue recognised.

#### *(ii) Intangible assets*

The Group intangible assets relate to the entering into of the energy supply arrangements with Npower on improved commercial terms through the acquisition by the Company of Electricity Plus Supply Limited and Gas Plus Supply Limited from Npower Limited having effect from 1 December 2013. The valuation of intangible assets represents a significant area of judgment as certain key assumptions are required in relation to the future financial performance of the assets. Further detail regarding intangible assets is set out in note 6.

#### *(iii) Trade receivables*

Trade receivables largely represent customers who have energy debt assigned to a prepayment meter, or are in the process of having such a meter installed. This requires the Directors to make estimates and judgements as to the expected level of eventual debt recovery from these customers based on historical experience. While the provisions are currently considered to be appropriate, changes in estimation basis or in economic and regulatory conditions could lead to a change in the level of provisions recorded and consequently on the charge or credit to the statement of comprehensive income.

#### *(iv) Share incentive scheme charges*

The Group has a conventional share option scheme and a Joint Share Ownership Plan ('JSOP') for employees and Directors. The fair value of share options is estimated by using the Binomial valuation model on the date of grant based on certain assumptions. The fair value of JSOP awards is also estimated using the Binomial valuation model, however, as a cash-settled award the valuation is conducted at each reporting period end. The assumptions used in the valuations are described in note 18 and include, amongst others, the dividend yield, expected volatility, expected life of the options and number of options expected to vest.

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 £54,389,000 (2015: £31,464,000), including dividends received from subsidiary companies of £20,000,000 (2015: Nil).

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

- Annual Improvements to IFRSs 2011-2013 Cycle.

# 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 subsidiaries. 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.

Control is recognised where an investor is expected to receive, or has rights to, variable returns from its investment in the investee and has the ability to affect these returns through its power over the relevant activities of the investee. Transactions between Group companies are eliminated on consolidation.

#### *(ii) Associates*

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

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

#### *(iii) Employee Benefit Trusts*

In accordance with IFRS 10 Consolidated Financial Statements, the assets and liabilities of employee benefit trusts are consolidated in the Group financial statements. Employee benefit trusts are treated as a legal entity separate from the Company but as subsidiaries of the Company. Any loans made by the Company to employee benefit trusts are accounted for as loans in accordance with the relevant terms. When the trust transfers shares to employees to satisfy share incentive scheme awards, this is considered to be, in substance, two transactions: a distribution of the shares from the employee benefit trust back to the Company as treasury shares, followed by a distribution of those shares to the employees.

### **(d) Business combinations**

The acquisition of subsidiaries is accounted for in accordance with the guidance set out in IFRS 3 Business Combinations ('IFRS 3'). An analysis of whether any subsidiaries acquired constitute businesses in their own right is initially undertaken with reference to the guidance in IFRS 3.

Where an acquired subsidiary does not constitute a business under IFRS 3 (i.e. it does not have, inter alia, the inputs, processes and outputs to function on a standalone basis) the acquisition of the subsidiary is treated as an acquisition of assets. The assets acquired are recorded at cost and no goodwill is recognised. Transaction costs are capitalised as part of the cost of acquisition.

Where an acquired subsidiary constitutes a business under IFRS 3, the assets, liabilities and contingent liabilities of the subsidiary are measured at their fair value at the date of acquisition. Any excess of the fair value of consideration 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (e) Revenue

#### *Overview*

Revenue is the value of goods and services supplied to external customers and independent distributors excluding value added tax and other sales related taxes. For each of the Group'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 or the supply of goods takes place. The Group's customers are invoiced in the month following that in which the services are provided.

The Group also generates revenue as a result of providing bill payment protection and accidental death cover to customers for a monthly fee. The Group does not retain the insurance risk for these services.

Tariffs are set by Member, by service, and these can vary depending on the number of services provided. Each element of any package is priced independently to arrive at the total package price.

#### *Revenue recognition – Energy services*

The recognition of revenue associated with the provision of gas and electricity services to customers by the Group relies on estimates of usage where meter readings are not available. These estimates are based on historical usage information adjusted for known factors such as variations in weather. Revenue is recognised during the period in which the services are supplied and any unbilled revenue is accrued at each period end.

#### *Revenue recognition – Telephony services*

The Group principally generates revenue from providing the following telecommunications services: (i) fixed telephony line rental, call and broadband data charges; and (ii) mobile telephony call and data charges, and mobile handset sales. Revenue is recognised during the period in which the services are supplied and any unbilled revenue is accrued at each period end. Revenue for mobile handset sales are recognised when the devices are delivered to the end customer and the sale is considered complete.

#### *Revenue recognition – Other services*

The Group also generates revenues from providing Members with bill protection cover, and CashBack cards. In addition the Group generates revenues from providing services to its network of independent distributors. Revenue is recognised during the period in which the services are supplied and any unbilled revenue is accrued at each period end.

### (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.

### (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 or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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
Freehold and leasehold improvements	3 to 25 years
Plant and machinery	15 years
Fixtures, fittings and office equipment	
- Fixtures and fittings	7 to 10 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) Investment properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at cost less accumulated depreciation. Rental income from investment properties is accounted for on an accruals basis.

### (l) Intangible assets

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

### (m) Goodwill

Goodwill arising on the acquisition of a business, representing the difference between the fair value of consideration 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.

### (n) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (o) 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.

### (p) Inventories

Inventories principally include mobile telephones and other electronic equipment and are valued at the lower of cost 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.

### (q) 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 the 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 the trade date when the Group is no longer a party to the contractual provisions of the instrument.

### (r) Trade receivables

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

### (s) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits with banks and, for the purposes of the Cash Flow Statement, short term revolving credit facilities.

### (t) Borrowings

Short and long term borrowings comprise revolving credit facilities and bank loans. The fees associated with entering into borrowing facilities are capitalised and netted off against borrowings and amortised over the term of the borrowings.

### (u) 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.

### (v) Share based payments

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

The Company established a Joint Share Ownership Plan (the 'JSOP') on 30 March 2011. On vesting, any gains made on awards granted under the JSOP may be settled at the discretion of the Remuneration Committee 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

### (w) Segmental reporting

Financial information on operating segments that corresponds with information regularly reviewed by the chief operating decision maker, Chief Executive Mr Andrew Lindsay, is disclosed in note 1 to the accounts.

### (x) 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.

### (y) 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.

### (z) 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.

### (aa) New standards issued but not yet effective

The Group has not yet applied the following standards and amendments as these are not yet effective in the consolidated Group financial statements and remain subject to endorsement by the EU:

- IFRS 9: Financial instruments, effective for the year ending 31 March 2019;
- IFRS 15: Revenue from contracts with customers, effective for the year ending 31 March 2019; and
- IFRS 16: Leases, effective for the year ending 31 March 2020.

The following standards and amendments are not yet effective in the consolidated Group financial statements but have been endorsed by the EU:

- IAS 1: Presentation of financial statements, related to the disclosure initiative and effective from 1 January 2016;
- Amendment to IAS 16: Property, plant and equipment and IAS 38: Intangible assets, related to the clarification of acceptable methods of depreciation and amortisation and effective from 1 January 2016;
- Annual Improvement Project 2010-2012, effective from 1 January 2016; and
- Annual Improvement Project 2012-2014, effective from 1 January 2016.

The Directors do not anticipate that the application of the Annual Improvement Projects and the Amendments to IAS 1, IAS 16 and IAS 38 will have a material impact on the amounts reported and disclosed. In respect of IFRS 9, IFRS 15 and IFRS 16 exercises are underway to assess the impacts that these standards will have on the Group's revenue recognition, assets and liabilities.

# 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 2016			Year ended 31 March 2015		
	Customer Management £'000	Customer Acquisition £'000	Total £'000	Customer Management £'000	Customer Acquisition £'000	Total £'000
Revenue	727,936	16,796	744,732	712,652	16,526	729,178
Segment result	51,305	(14,556)	36,749	53,451	(15,465)	37,986
Operating profit			36,749			37,986
Net financing expense			(1,675)			(1,933)
Share of profit of associates			5,609			6,006
Profit before taxation			40,683			42,059
Taxation			(8,909)			(9,758)
Profit for the year			31,774			32,301
Segment assets	411,292	9,975	421,267	410,842	8,709	419,551
Investment in associates	11,604	-	11,604	10,843	-	10,843
Total assets	422,896	9,975	432,871	421,685	8,709	430,394
Segment liabilities	(231,553)	(3,037)	(234,590)	(231,048)	(3,026)	(234,074)
Net assets			198,281			196,320
Capital expenditure	(3,988)	(92)	(4,080)	(19,845)	(461)	(20,306)
Depreciation	3,515	81	3,596	1,792	42	1,834
Amortisation	11,228	-	11,228	11,186	-	11,186

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. SEGMENT REPORTING (CONTINUED)

### Revenue by service

	2016 £'000	2015 £'000
Customer Management		
- Electricity	313,689	304,713
- Gas	273,889	278,367
- Fixed communications	102,085	93,706
- Mobile	24,434	20,334
- Other	13,839	15,532
	<b>727,936</b>	712,652
Customer Acquisition	16,796	16,526
	<b>744,732</b>	729,178

The Group operates solely in the United Kingdom.

## 2. OPERATING PROFIT

Operating profit is stated after charging/(crediting):

	2016 £'000	2015 £'000
Depreciation and amortisation	14,824	13,020
Profit on disposal of fixed assets	(12)	(6)
Operating lease rentals - land and buildings	150	197
Auditor's remuneration - audit of Company and consolidated accounts	139	111
- audit of subsidiaries of the Company	39	39
- audit related assurance services	-	25
- other services	16	58
Inventories expensed	14,538	12,675
Receivables and accrued income impairment cost	8,398	10,682
Rental income	(397)	(361)

Total fees paid to the auditor KPMG LLP during the year were £194,000 (2015: £233,000).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. PERSONNEL EXPENSES

The total charge in the Statement of Comprehensive Income comprised the following:

	2016 £'000	2015 £'000
Wages and salaries	27,495	23,698
Social security costs	2,649	2,443
Pension contributions	654	604
	30,798	26,745
Share incentive scheme charges/(credits)	2,479	(1,173)
	33,277	25,572

Average number employed by the Group during the year (excluding directors):

	2016	2015
Customer Acquisition	109	102
Customer Management	799	685
	908	787

The aggregate remuneration of the directors (included above) was as follows:

	2016 £'000	2015 £'000
Salaries, fees and other benefits	1,377	1,202
Pension contributions	80	83
	1,457	1,285
Share incentive scheme charges/(credits)	1,555	(2,402)
	3,012	(1,117)

The emoluments of the highest paid director were £472,979 (2015: £458,451) and pension costs were £40,000 (2015: £40,000). Two (2015: three) directors had contributions paid to their personal pension schemes.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4. TAXATION

### (i) Recognised in the Statement of Comprehensive Income

	2016 £'000	2015 £'000
<b>Current tax charge</b>		
Current year	9,673	8,605
Adjustments for prior years	(1,052)	64
	8,621	8,669
<b>Deferred tax charge</b>		
Decelerated capital allowances	296	905
Other temporary differences	-	18
Increase in respect of share options	9	370
Reduction in rate of future taxes	(60)	(150)
Adjustment for prior years	43	(54)
	288	1,089
<b>Total tax charge</b>	<b>8,909</b>	<b>9,758</b>

### (ii) Reconciliation of total tax charge

	2016 £'000	2015 £'000
Profit before tax	40,683	42,059
Corporation tax using the UK corporation tax rate of 20% (2015: 21%)	8,136	8,832
Expenses not deductible for taxation purposes	2,548	2,555
Adjustment in respect of share options	433	(600)
Share of associate's tax charge	(1,122)	(1,261)
Reduction in rate of future taxes	(77)	(150)
Adjustments in respect of prior years - current tax	(1,052)	64
- deferred tax	43	(54)
Deferred tax charged to equity	-	372
<b>Total tax charge</b>	<b>8,909</b>	<b>9,758</b>

### (iii) Tax on items credited directly to equity

	2016 £'000	2015 £'000
Deferred tax on share options	-	(1,861)

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the Company's future current tax charge accordingly. The deferred tax liability at 31 March 2016 has been calculated based on these rates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5. PROPERTY, PLANT AND EQUIPMENT

	Investment property £'000	Freehold land & buildings £'000	Freehold & Leasehold improvements £'000	Assets under construction £'000	Plant & machinery £'000	Fixtures, fittings & office equipment £'000	Motor vehicles £'000	Total £'000
<b>Group and Company</b>								
<b>2016</b>								
<b>Cost</b>								
At 1 April 2015	-	15,774	713	22,723	1,043	9,622	451	50,326
Transfers – Investment property	12,593	(9,019)	(8)	-	(1,044)	(2,522)	-	-
Transfers – Assets under construction	-	20,322	-	(23,704)	638	2,744	-	-
Additions	85	275	45	981	52	1,561	1,081	4,080
Disposals	-	-	-	-	-	-	(11)	(11)
At 31 March 2016	12,678	27,352	750	-	689	11,405	1,521	54,395
<b>Depreciation</b>								
At 1 April 2015	-	(940)	(577)	-	(406)	(6,348)	(255)	(8,526)
Transfers – Investment property	(3,192)	858	4	-	441	1,889	-	-
Charge for the year	(275)	(906)	(58)	-	(79)	(2,108)	(170)	(3,596)
Disposals	-	-	-	-	-	-	1	1
At 31 March 2016	(3,467)	(988)	(631)	-	(44)	(6,567)	(424)	(12,121)
<b>Net book amounts</b>								
At 31 March 2016	9,211	26,364	119	-	645	4,838	1,097	42,274

During the period the operations of the Company were transferred into newly refurbished head offices at Merit House and the former head office building, Southon House, was vacated. Southon House is therefore now held as an investment property and separately disclosed on the balance sheet of the Company.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold land & buildings £'000	Freehold & Leasehold improvements £'000	Assets under construction £'000	Plant & machinery £'000	Fixtures, fittings & office equipment £'000	Motor vehicles £'000	Total £'000
<b>Group and Company</b>							
<b>2015</b>							
<b>Cost</b>							
At 1 April 2014	15,774	685	3,685	1,043	8,510	387	30,084
Additions	-	28	19,038	-	1,112	128	20,306
Disposals	-	-	-	-	-	(64)	(64)
At 31 March 2015	15,774	713	22,723	1,043	9,622	451	50,326
<b>Depreciation</b>							
At 1 April 2014	(782)	(515)	-	(336)	(4,881)	(191)	(6,705)
Charge for the year	(158)	(62)	-	(70)	(1,467)	(77)	(1,834)
Disposals	-	-	-	-	-	13	13
At 31 March 2015	(940)	(577)	-	(406)	(6,348)	(255)	(8,526)
<b>Net book amounts</b>							
At 31 March 2015	14,834	136	22,723	637	3,274	196	41,800
At 31 March 2014	14,992	170	3,685	707	3,629	196	23,379

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 6. INTANGIBLE ASSETS

	2016 £'000	2015 £'000
<b>Group</b>		
<b>Cost</b>		
At 1 April	224,563	224,563
Additions	-	-
At 31 March	224,563	224,563
<b>Amortisation</b>		
At 1 April	(14,971)	(3,785)
Charge for the year	(11,228)	(11,186)
At 31 March	(26,199)	(14,971)
<b>Carrying amount</b>		
At 31 March	198,364	209,592

The Group intangible assets primarily relate to the entering into of the new energy supply arrangements with Npower on improved commercial terms through the acquisition by the Company of Electricity Plus Supply Limited and Gas Plus Supply Limited ('the Companies') from Npower Limited having effect from 1 December 2013 ('the Transaction').

The total consideration for the Transaction comprised a payment to Npower of £196.5 million on 20 December 2013, a deferred amount of £21.5 million payable on 20 December 2016 and a payment of £2.5 million made in January 2014 for the net assets acquired in the Companies which comprised cash and short term working capital balances.

The addition to intangible assets of £221.6 million in 2014 therefore represented the total consideration paid and payable to Npower, excluding the payment for net assets acquired in the Companies, plus certain transaction costs of £3.6 million which in accordance with the relevant accounting standards were recognised as a cost of acquisition.

The intangible asset is being amortised evenly over the 20 year life of the new energy supply agreement reflecting the period over which the Company will benefit from the agreement.

The Board regularly monitors the carrying amount of the intangible assets. A review was undertaken at 31 March 2016 to assess whether the carrying amount of intangible assets was supported by their value in use determined by the net present value of the future cash flows derived from the assets using cash flow projections based on current levels of profitability.

A post-tax discount rate of 7.0% was used which was considered appropriate given the expectation that, for term of the contract, the Group will continue to derive significant value from supplying energy to its customers. The result of the review undertaken at 31 March 2016 indicated that no impairment was necessary. No reasonably possible change in the assumptions used in the impairment calculation would give rise to an impairment of intangible assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7. GOODWILL

	£'000
<b>Group</b>	
<b>2016</b>	
<b>Cost</b>	
At 1 April 2015 and 31 March 2016	4,558
<b>Impairment</b>	
At 1 April 2015 and 31 March 2016	816
<b>Carrying amounts</b>	
At 31 March 2016	3,742
<b>2015</b>	
<b>Cost</b>	
At 1 April 2014 and 31 March 2015	4,558
<b>Impairment</b>	
At 1 April 2014 and 31 March 2015	816
<b>Carrying amounts</b>	
At 31 March 2015	3,742
At 31 March 2014	3,742

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

The Group regularly monitors the carrying amount of its goodwill. A review was undertaken at 31 March 2016 to assess whether the carrying amount of assets was supported by their value in use determined by the net present value of the future cash flows derived from the assets using cash flow projections based on current levels of profitability.

A post-tax discount rate of 10% into perpetuity was used which was considered appropriate given the relatively small size of the business and the expectation that, for the foreseeable future, TML will continue to operate as a going concern. However, no growth has been assumed in the review given the relative maturity of the business. The result of the review undertaken at 31 March 2016 indicated that no impairment was necessary. No reasonably possible change in the assumptions used in the impairment calculation would give rise to an impairment of goodwill.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 8. INVESTMENTS

### Fixed asset investments

The investment in the associate represents the cost of purchasing a 20% (2015: 20%) equity interest in the ordinary share capital of Opus Energy Group Limited ('Opus'), together with the Group's share of retained reserves. Opus is a supplier of gas and electricity to a range of businesses in the UK. Opus is incorporated in England and Wales.

### Associated undertaking

	2016 £'000	2015 £'000
<b>Cost</b>		
At 1 April	1,668	1,497
Additions	626	171
At 31 March	2,294	1,668
<b>Share of profit</b>		
At 1 April	9,175	7,317
Share of profit after taxation for the year	5,609	6,006
Dividends received in the year	(5,474)	(4,148)
At 31 March	9,310	9,175
<b>Carrying amounts</b>		
At 31 March	11,604	10,843

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 8. INVESTMENTS (CONTINUED)

#### Associated undertaking

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

	2016 £'000	2015 £'000
Non-current assets	4,822	2,499
Current assets	129,942	108,387
Cash and cash equivalents	22,310	25,118
Total assets	157,074	136,004
Current liabilities	(104,586)	(85,786)
Total liabilities	(104,586)	(85,786)
Net assets	52,488	50,218
Revenue	571,985	523,510
Depreciation and amortisation	(926)	(727)
Net interest	(415)	(224)
Other expenses	(535,566)	(484,565)
Total expenses	(536,907)	(485,516)
Profit before tax	35,078	37,994
Taxation	(7,035)	(7,965)
Profit after tax	28,043	30,029

#### 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.

The Company also owns 100% of the ordinary share capital of Electricity Plus Supply Limited ('Electricity Plus') and Gas Plus Supply Limited ('Gas Plus'), being one £1 share in each company. Electricity Plus and Gas Plus are incorporated in England and Wales. The principal activity of Electricity Plus and Gas Plus is to hold the licences for the supply of energy services to residential and business customers in the UK.

The cost of investment in subsidiary undertakings represents capitalised transaction costs of approximately £3.6 million and the total consideration for the entering into of the new energy supply arrangements with Npower through the acquisition of Electricity Plus and Gas Plus, comprising a cash payment to Npower of £196.5 million on 20 December 2013, a deferred cash amount of £21.5 million payable on 20 December 2016 and a cash payment of £2.5 million made in January 2014 for the net assets acquired in Electricity Plus and Gas Plus which comprised cash and short term working capital balances. The cost of investment in subsidiary undertakings also includes the £2.9 million opening intangible asset which related to the preceding energy supply agreement with Npower entered into in May 2011.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 8. INVESTMENTS (CONTINUED)

As at 31 March 2016, the Company also owned 100% of the ordinary share capital of twelve dormant, non-trading subsidiaries registered in England and Wales as listed below:

Broadcallplus Limited	Utilities Plus Limited
Broadcalls Limited	Utility Debt Collectors Limited
Freetalk Limited	Utility House Limited
Mobile Xtra Limited	Utility Warehouse Limited
Savings Plus Limited	Value Group Limited
The Peoples Champion Limited	Value Plus Limited

The Company also has an investment in the JSOP Share Trust. Included within Company Trade and other receivables is a loan receivable from the JSOP Share Trust of £2,275,000 (2015: £2,275,000), which represents the maximum exposure to loss from its interest in the JSOP Share Trust.

### 9. DEFERRED TAX

Deferred tax recognised in the financial statements is as follows:

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Tax effect of temporary differences:				
Accelerated capital allowances	(1,166)	(927)	(1,172)	(937)
Other short term temporary differences	16	21	16	21
Employee benefits expected in excess of amount expensed	311	355	311	355
	(839)	(551)	(845)	(561)

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
At 1 April	(551)	2,399	(561)	2,389
Charged to the Statement of Comprehensive Income	(288)	(1,089)	(284)	(1,089)
Taken to equity	-	(1,861)	-	(1,861)
At 31 March	(839)	(551)	(845)	(561)

### 10. OTHER NON-CURRENT RECEIVABLES

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Hire purchase agreements receivable	3,330	3,295	3,330	3,295
Loan to JSOP Share Trust	-	-	2,275	2,275
Trade receivables	7,020	6,845	2,492	2,741
Other non-current receivables	3,450	3,789	3,450	3,789
	13,800	13,929	11,547	12,100

No amounts receivable under hire purchase agreements are due after five years. The loan receivable from the JSOP Share Trust does not bear interest and is repayable on demand. There is no current expectation that the loan will be recalled by the Company within the next 12 months.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11. RECEIVABLES AND ACCRUED INCOME

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Trade and other receivables	27,749	28,128	14,033	12,043
Current tax receivable	-	-	-	646
Trade and other receivables	27,749	28,128	14,033	12,689
Accrued income	94,009	101,542	4,533	4,938
Prepayments	3,224	3,389	2,626	2,201
Prepayments and accrued income	97,233	104,931	7,159	7,139
Trade and other receivables	27,749	28,128	14,033	12,689
Accrued income	94,009	101,542	4,533	4,938
Receivables and accrued income (net)	121,758	129,670	18,566	17,627

Gross accrued income of £95,058,000 (2015: £102,861,000) includes March revenue invoiced in April of £56,313,000 (2015: £58,096,000), unbilled energy debtors of £38,738,000 (2015: £44,753,000) and accrued income relating to property of £7,000 (2015: £12,000). Offset against this figure is an allowance for future credit losses of £1,049,000 (2015: £1,319,000), which is included in the allowance for credit losses of £16,626,000 (2015: £17,236,000). Other receivables include amounts due within one year relating to hire purchase agreements of £2,451,000 (2015: £2,312,000).

### Allowance for credit losses on receivables and accrued income

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Allowances as at 1 April	17,236	16,038	4,754	3,909
Transfers from/(to) subsidiaries	-	-	-	249
Additions – charged to Statement of Comprehensive Income	8,398	10,682	3,173	2,042
Allowances used on fully written down receivables	(9,008)	(9,484)	(3,639)	(1,446)
Allowances as at 31 March	16,626	17,236	4,288	4,754

### Analysis of receivables and accrued income

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Receivables and accrued income (gross)	138,384	146,906	22,854	22,381
Allowance for credit losses	(16,626)	(17,236)	(4,288)	(4,754)
Receivables and accrued income (net)	121,758	129,670	18,566	17,627

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 11. RECEIVABLES AND ACCRUED INCOME (CONTINUED)

At 31 March 2016 and 31 March 2015 the Group had no trade receivables that were passed due and not individually impaired.

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

### 12. INTEREST BEARING LOANS AND BORROWINGS

Group and Company	2016 £'000	2015 £'000
Bank loans	71,241	70,000
Unamortised bank loan arrangement fees	(1,089)	(927)
	<b>70,152</b>	<b>69,073</b>
Due within one year	-	5,000
Due after one year	71,241	65,000
	<b>71,241</b>	<b>70,000</b>

In December 2015 the Group entered into new five-year £150,000,000 revolving debt facilities with Barclays Bank PLC and Lloyds Bank PLC ('the Revolving Debt Facilities').

Interest is charged on the facilities in accordance with the schedule set out in the table below. As at 31 March 2016 the interest rate was LIBOR + 1.40%.

Net Debt/EBITDA	Three month LIBOR +
>2.5x	2.20%
<2.5x	1.90%
<2.0x	1.65%
<1.5x	1.40%
<1.0x	1.15%

All bank loans are secured through a floating charge on the assets of the Group.

The Revolving Debt Facilities are stated net of unamortised arrangement fees of £1,089,000 (2015: £927,000) on the face of the Balance sheet. These costs have been capitalised and are being amortised over the term of the Revolving Debt Facilities.

In addition, as at 31 March 2016 the Company had letters of credit in place relating to certain energy distribution charges with a total value covered of £12,340,500 (2015: £12,023,500).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 12. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

#### Maturity analysis

Group and Company	2016 £'000	2015 £'000
<b>Bank loans</b>		
Due in one year or less	-	5,094
Due in more than one year but not more than two years	-	10,381
Due in more than two years but not more than five years	<b>75,409</b>	59,004
	<b>75,409</b>	74,479

The analysis of maturity above includes interest to be paid during the term of the loans in accordance with IFRS 7 Financial Instruments: Disclosures.

### 13. TRADE AND OTHER PAYABLES

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
<b>Current</b>				
Trade payables	<b>20,773</b>	20,771	<b>4,042</b>	5,340
Inter-company payables	-	-	<b>35,466</b>	37,787
Other taxation and social security	<b>5,807</b>	4,114	<b>4,429</b>	2,475
	<b>26,580</b>	24,885	<b>43,937</b>	45,602
Deferred consideration	<b>21,500</b>	-	<b>21,500</b>	-
<b>Non-current</b>				
Deferred consideration	-	21,500	-	21,500
JSOP creditor	-	1,507	-	1,507
	-	23,007	-	23,007

The JSOP creditor represented amounts accrued in respect of certain share-based payments (see note 18). The deferred consideration is payable to Npower Limited on 20 December 2016 and relates to the entering into of new energy supply arrangements with Npower on 20 December 2013.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 14. ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Accrued expenses	113,684	114,437	8,037	9,127
Deferred income	899	1,035	675	787
	114,583	115,472	8,712	9,914

All accrued expenses are payable within one year.

## 15. CAPITAL AND RESERVES

### Issued share capital – ordinary shares of 5p each

	2016		2015	
	Number (’000)	£’000	Number (’000)	£’000
<b>Authorised share capital</b>	160,000	8,000	160,000	8,000
<b>Allotted, called up and fully paid share capital:</b>				
At 1 April	80,221	4,011	80,014	4,001
Issue of new ordinary shares	96	5	207	10
At 31 March	80,317	4,016	80,221	4,011

At the year end the Company’s share price was 920.5p and the range during the financial year was 752.5p to 1,214.0p.

At 31 March 2016, the Company had 80,316,387 (2015: 80,220,628) shares in issue. The total number of voting rights of 5p ordinary shares in the Company was 80,256,387 (2015: 80,160,628), excluding shares held in treasury. Since the year end a further 465 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 80,256,852.

As at 31 March 2016 there were 60,000 ordinary shares held in treasury (2015: 60,000).

There are 252,638 ordinary shares held in the JSOP Share Trust, representing approximately 0.3% 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 80,256,387. The JSOP reserve in the Group accounts represents ordinary shares in the Company held by the JSOP Share Trust.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 15. CAPITAL AND RESERVES (CONTINUED)

### Capital management

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

Total shareholder equity at 31 March 2016 was £198.3 million (2015: £196.3 million).

The Group's current capital management strategy is to retain sufficient working capital for day to day operating requirements. In addition, as a result of the entering the energy supply arrangements with Npower in December 2013, and the consequent drawdown of transaction debt facilities, the Group's capital management strategy is also to ensure that interest costs are minimised.

Under the revised energy supply arrangements which were effective from 1 December 2013, Npower continues to be responsible for funding the principal working capital requirements relating to the supply of energy to the Company's customers. This includes funding the Budget Plans of customers who pay for their energy in equal monthly instalments and pre-funding the payment of certain energy network charges.

### Dividends

	2016 £'000	2015 £'000
Prior year final paid 21p (2015: 19p) per share	16,734	15,105
Interim paid 22p (2015: 19p) per share	17,596	15,125

The Directors have proposed a final dividend of 24p per ordinary share totalling approximately £19.2 million, payable on 29 July 2016, to shareholders on the register at the close of business on 8 July 2016. In accordance with the Group's accounting policies the dividend has not been included as a liability as at 31 March 2016. This dividend will be subject to income tax at each recipient's individual marginal income tax rate.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 15.

### 16. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following data

	<b>2016</b> <b>£'000</b>	<b>2015</b> <b>£'000</b>
Earnings for the purpose of basic and diluted earnings per share	<b>31,774</b>	32,301
Share incentive scheme charges/(credits) (net of tax)	<b>2,278</b>	(1,316)
Amortisation of intangible assets	<b>11,228</b>	11,186
Earnings excluding share incentive scheme charges and amortisation of intangibles for the purpose of adjusted basic and diluted earnings per share	<b>45,280</b>	42,171
	<b>Number</b> <b>('000)</b>	<b>Number</b> <b>('000)</b>
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>79,789</b>	79,581
Effect of dilutive potential ordinary shares (share incentive awards)	<b>363</b>	783
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>80,152</b>	80,364
Adjusted basic earnings per share <sup>1</sup>	<b>56.7p</b>	53.0p
Basic earnings per share	<b>39.8p</b>	40.6p
Adjusted diluted earnings per share <sup>1</sup>	<b>56.5p</b>	52.5p
Diluted earnings per share	<b>39.6p</b>	40.2p

<sup>1</sup> Adjusted basic and diluted earnings per share exclude share incentive scheme charges and the amortisation of the intangible asset recognised as a result of the new energy supply arrangements entered into with Npower in December 2013.

It has been deemed appropriate to present the analysis of adjusted earnings per share excluding share incentive scheme charges, and the amortisation of intangible assets arising from the energy supply agreement with Npower, in order to present a clearer picture of the underlying trading performance of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 17. COMMITMENTS

### Operating lease commitments

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

#### Company and Group

	2016 £'000	2015 £'000
Amounts payable:		
Less than one year	117	91
Between one and five years	193	248
	310	339

The principal lease arrangements relate to office premises.

### Capital commitments

At 31 March 2016 the Company had capital commitments of approximately £285,000 (2015: £2,481,000).

### Energy supply arrangements

The Group entered into a 20 year energy supply agreement with Npower ('the SSA') on 20 December 2013.

In the event that the SSA is terminated by Npower in certain circumstances, including on a material breach by the Group or on the insolvency of the Company, additional consideration of up to £191 million may become payable by the Company to Npower. Full details of the termination provisions of the SSA were set out in paragraph 4 of Part VIII on page 38 of the prospectus issued to shareholders on 20 November 2013.

However, given the energy supply agreement termination rights are either, in the directors' view, very unlikely to occur or entirely within the control of the Group, the directors believe the likelihood of this type of termination event is remote.

The amount of the additional consideration reduces from £191 million to £11 million over the remaining life of the supply agreement. Furthermore, depending on the circumstances giving rise to a termination event, the additional consideration (if payable) may be spread over the unexpired term of the supply agreement. Following any such termination event, the Group would have direct access to the wholesale energy markets and the opportunity to earn additional margin from sourcing energy directly for the Group's customer base.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 18. SHARE-BASED PAYMENTS

The Company has two share option plans, one of which is available to employees, the other to distributors of the Company. The Company has also established a new Save As You Earn share option plan ('the 2015 Employee SAYE Share Option Plan') for employees during the year.

All new employees who have passed the requisite probationary period are issued with market price 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 2015 Employee SAYE Share Option Plan enables employees of the group to acquire shares in the Company in a tax efficient manner using monies saved from salary over a three or five year period. A summary of the principal terms of the SAYE Share Option Plan were set out in the Appendix to the 2015 AGM circular sent to all shareholders.

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 Zedra Trust Company (Guernsey) Limited (formerly Barclays Wealth (Guernsey) Limited).

On 30 November 2015 Andrew Lindsay, Chief Executive Officer, exercised his rights over the 500,000 ordinary shares previously jointly held with the JSOP Share Trust. Under the rules of the JSOP, Mr Lindsay was entitled to receive any increase in the value of the 500,000 shares over the share price at the date of grant on 31 March 2011 of £4.55, plus an annual compound growth rate of five per cent which together equated to £5.71 per share on 30 November 2015.

In accordance with the rules of the JSOP, the Company elected to satisfy the exercise of Mr Lindsay's rights under the JSOP by instructing the transfer of 247,362 of the 500,000 Ordinary Shares to Mr Lindsay, representing the value of the gain made on these rights at the closing market price for Ordinary Shares on 30 November 2015 of £11.31.

In the current year the share incentive charge relating to the JSOP was approximately £1,291,000. In addition, approximately £1,507,000 of charges had been accrued as at 31 March 2015.

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

	2016		2015	
	Number	Weighted average exercise price	Number	Weighted average exercise price
At 1 April	2,269,104	991p	1,921,149	855p
Options granted	1,176,001	999p	1,040,900	1,294p
Options exercised	(103,813)	556p	(231,895)	407p
Options lapsed/expired	(852,098)	1,273p	(461,050)	1,405p
At 31 March	2,489,194	916p	2,269,104	991p

The weighted average share price at the date of exercise for the options exercised during the year was 1,063.3p (2015: 1,329.0p).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 18. SHARE-BASED PAYMENTS (CONTINUED)

During the year ended 31 March 2016, the Group issued share options to employees on three occasions and to distributors on two occasions as set out below.

	<b>2007 Employee Share Option Plan</b>	<b>2015 Employee SAYE Share Option Plan</b>	<b>2007 Employee Share Option Plan</b>
Date of grant	13/07/2015	25/09/2015	10/12/2015
Number of options originally granted	955,100	68,051	121,500
Contractual life	10 years	3.5 years	10 years
Exercise price (pence)	985p	1,058p	1,074p
Share price at date of grant (pence)	1,044p	1,070p	1,085p
Number of employees	252	113	140
Expected volatility	43.57%	46.31%	46.47%
Expected option life	10 years	3.5 years	10 years
Risk free rate	0.80%	0.79%	0.65%
Expected dividend yield	4.67%	4.35%	4.28%
Fair value per option (pence)	255p	269p	316p

	<b>2007 Networkers and Consultants Share Option Plan</b>	<b>2007 Networkers and Consultants Share Option Plan</b>
Date of grant	13/07/2015	10/12/2015
Number of options originally granted	29,850	1,500
Contractual life	10 years	10 years
Exercise price (pence)	985p	1,074p
Share price at date of grant (pence)	1,044p	1,085p
Number of distributors	32	1
Expected volatility	43.57%	46.47%
Expected option life	10 years	10 years
Risk free rate	0.80%	0.65%
Expected dividend yield	4.67%	4.28%
Fair value per option (pence)	255p	316p

As explained in the Directors' Remuneration Report in the 2015 Annual Report, employees and distributors holding options with an exercise price above the prevailing market price at the time of the announcement of the Company's previous annual results in June 2015, were offered the opportunity to have their existing options cancelled and receive new options in their place. As a result, of the options issued on 13 July 2015 set out in the tables above, 746,950 represent replacement options issued to employees (including 300,000 to Chief Financial Officer Nick Schoenfeld) and 29,850 to distributors.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 18. SHARE-BASED PAYMENTS (CONTINUED)

During the previous year ended 31 March 2015, the Group issued share options to employees on three occasions and to distributors on two occasions as set out below. The options issued to distributors on 1 July 2014 include 24,700 options which have performance conditions attached relating to customer gathering activity to be achieved during the vesting period.

	<b>2007 Employee Share Option Plan</b>	<b>2007 Employee Share Option Plan</b>	<b>2007 Employee Share Option Plan</b>
Date of grant	01/07/2014	16/12/2014	07/01/2015
Number of options originally granted	442,950	253,250	300,000
Contractual life	10 years	10 years	10 years
Exercise price (pence)	1,337p	1,254p	1,262p
Share price at date of grant (pence)	1,325p	1,280p	1,233p
Number of employees	127	99	1
Expected volatility	42.41%	36.45%	36.58%
Expected option life	10 years	10 years	10 years
Risk free rate	1.22%	0.65%	0.83%
Expected dividend yield	2.99%	3.19%	3.17%
Fair value per option (pence)	448p	332p	341p

	<b>2007 Networkers and Consultants Share Option Plan</b>	<b>2007 Networkers and Consultants Share Option Plan</b>
Date of grant	01/07/2014	16/12/2014
Number of options originally granted	28,200	16,500
Contractual life	10 years	10 years
Exercise price (pence)	1,337p	1,254p
Share price at date of grant (pence)	1,325p	1,280p
Number of distributors	43	11
Expected volatility	42.41%	36.45%
Expected option life	10 years	10 years
Risk free rate	1.22%	0.65%
Expected dividend yield	2.99%	3.19%
Fair value per option (pence)	448p	332p

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 18. SHARE-BASED PAYMENTS (CONTINUED)

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

	Number 1 April 2015	Number 31 March 2016	Exercise price per share	Exercisable from	Expiry date
<b>2007 Employee Share Option Plan</b>					
30 Aug 2007	20,565	14,335	171p	30 Aug 2010	29 Aug 2017
17 Jan 2008	17,000	17,000	198p	17 Jan 2011	16 Jan 2018
12 Jun 2008	28,570	25,070	330.5p	12 Jun 2011	11 Jun 2018
10 Dec 2008	3,800	3,800	340p	10 Dec 2011	9 Dec 2018
26 Jun 2009	40,170	38,220	278p	26 Jun 2012	25 Jun 2019
9 Dec 2009	3,900	3,000	305p	9 Dec 2012	8 Dec 2019
5 Jul 2010	62,207	50,207	338p	5 Jul 2013	3 Jul 2020
17 Dec 2010	20,890	15,990	442p	17 Dec 2013	16 Dec 2020
14 Jun 2011	166,380	157,330	603p	14 Jun 2014	11 Jun 2021
15 Dec 2011	57,400	44,360	774p	15 Dec 2014	14 Dec 2021
26 Jun 2012	133,400	112,854	828p	26 Jun 2015	25 Jun 2022
10 Dec 2012	66,100	57,800	878p	10 Dec 2015	9 Dec 2022
17 Jun 2013	230,500	97,300	1,219p	17 Jun 2016	16 Jun 2023
16 Dec 2013	49,000	16,500	1,739p	16 Dec 2016	15 Dec 2023
1 Jul 2014	431,950	328,750	1,337p	1 Jul 2017	30 Jun 2024
16 Dec 2014	250,250	34,500	1,254p	16 Dec 2017	15 Dec 2024
7 Jan 2015	300,000	-	1,262p	7 Jan 2018	6 Jan 2025
13 Jul 2015	-	932,100	985p	13 Jul 2018	12 Jul 2025
10 Dec 2015	-	116,500	1,074p	10 Dec 2018	9 Dec 2025
	1,882,082	2,065,616			
<b>2015 Employee SAYE Share Option Plan</b>					
25 Sep 2015	-	63,953	1,058p	1 Nov 2018	30 Apr 2019
	-	63,953			
Total employees	1,882,082	2,129,569			
Weighted average exercise price	1,067.8p	969.9p			

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 18. SHARE-BASED PAYMENTS (CONTINUED)

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

	Number 1 April 2015	Number 31 March 2016	Exercise price per share	Exercisable from	Expiry date
<b>2007 Networkers and Consultants Share Option Plan</b>					
30 Aug 2007	6,000	6,000	171p	30 Aug 2010	29 Aug 2017
10 Dec 2008	21,250	15,250	340p	10 Dec 2011	9 Dec 2018
26 Jun 2009	12,000	9,000	278p	26 Jun 2012	25 Jun 2019
9 Dec 2009	10,000	7,350	305p	9 Dec 2012	8 Dec 2019
5 Jul 2010	152,763	145,088	338p	5 Jul 2013	3 Jul 2020
17 Dec 2010	6,759	6,687	442p	17 Dec 2013	16 Dec 2020
14 Jun 2011	5,000	3,000	603p	14 Jun 2014	11 Jun 2021
15 Dec 2011	12,000	11,000	774p	15 Dec 2014	14 Dec 2021
1 Jun 2012	58,000	53,000	721p	1 Jun 2015	31 May 2022
26 Jun 2012	11,000	10,000	828p	26 Jun 2015	25 Jun 2022
20 Nov 2012	24,000	24,000	854.5p	20 Nov 2015	19 Nov 2022
10 Dec 2012	17,000	17,000	878p	10 Dec 2015	9 Dec 2022
17 Jun 2013	7,000	5,000	1,219p	17 Jun 2016	16 Jun 2023
16 Dec 2013	9,750	2,000	1,739p	16 Dec 2016	15 Dec 2023
1 Jul 2014	18,000	7,900	1,337p	1 Jul 2017	30 Jun 2024
16 Dec 2014	16,500	6,000	1,254p	16 Dec 2017	15 Dec 2024
13 Jul 2015	-	29,850	985p	13 Jul 2018	12 Jul 2025
10 Dec 2015	-	1,500	1,074p	10 Dec 2018	9 Dec 2025
Total distributors	387,022	359,625			
Weighted average exercise price	615.4p	594.7p			

At 31 March 2016, a total of 847,341 share options were exercisable (2015: 650,404) at a weighted average exercise price of 566.0p (2015: 443.1p). The average remaining contractual life of the outstanding options was 7.4 years (2015: 7.9 years).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19. 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 £169,444,000 (2015: £158,593,000) and for the Company of £65,201,000 (2015: £46,008,000).

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 £227,857,000 (2015: £227,546,000) and for the Company £140,930,000 (2015: £143,488,000).

### Credit risk

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

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

The Group has identified specific balances for which it has provided an impairment allowance on a line by line basis across all ledgers, in both years. No general impairment allowance has been provided in either year.

The allowance accounts in respect of trade receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the financial asset directly.

The maximum credit risk for the Group is £169,444,000 (2015: £158,593,000) and for the Company £65,201,000 (2015: £46,008,000).

### Interest rate risk

The Group finances its day to day operations primarily through cash generated within the business. Cash surpluses are placed on deposit with Barclays Bank PLC and Lloyds 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.

### Commodity price risk

The Group is not materially 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19. FINANCIAL INSTRUMENTS (CONTINUED)

### Liquidity risk

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

### Foreign currency risk

The Group does not have any significant foreign currency exposure.

### Interest rate and currency profile of financial assets and liabilities

All financial assets and liabilities are denominated in Sterling. Receivables due after one year include £3,940,000 (2015: £3,971,000) due mainly from distributors elements of which earn interest at varying rates above Base Rate.

### Borrowing facilities

At 31 March 2016, the Group had total revolving credit facilities of £150,000,000 (2015: working capital facility of £35,000,000 and transaction loan facility of £70,000,000). These facilities are available to the Group until 14 December 2020. As at 31 March 2016 £71,241,000 of the facilities was drawn down (2015: £70,000,000 transaction facility fully drawn down). As at 31 March 2016 the Company also had letters of credit in place relating to certain energy distribution charges with a total value covered of £12,340,500 (2015: £12,023,500).

The facilities are secured by fixed and floating charges over the assets of the Company and through a cross guarantee with the Company's subsidiaries Electricity Plus Supply Limited, Gas Plus Supply Limited and Telecommunications Management Limited. Further details of the facilities are set out in note 12 of these financial statements.

### Fair values

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20. RELATED PARTIES

### Identity of related parties

The Company has related party relationships with its subsidiaries (see note 8), its associate (see note 8) and with its directors and executive officers.

### Transactions with key management personnel

Directors of the Company and their immediate relatives control approximately 23.8% of the voting shares of the Company.

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

	2016 £'000	2015 £'000
Short term employee benefits	1,377	1,202
Social security costs	184	296
Post employment benefits	80	83
	1,641	1,581
Share incentive scheme (credits)/charges	1,555	(2,402)
	3,196	(821)

During the year, the Company acquired goods and services worth approximately £59,000 (2015: £16,000) from companies in which directors have a beneficial interest. No amounts were owed to these companies by the Company as at 31 March 2016. During the year, the Company sold goods and services worth approximately £33,000 (2015: £33,000) to companies in which directors have a beneficial interest.

During the year directors purchased goods and services on behalf of the Company worth approximately £161,000 (2015: £375,000). The directors were fully reimbursed for the purchases and no amounts were owing to the directors by the Company as at 31 March 2016.

## OTHER RELATED PARTY TRANSACTIONS

### Associates

During the year ended 31 March 2016, the associate supplied goods to the Group which amounted to £1,371,000 (2015: £1,054,000) and at 31 March 2016 the associate was owed £78,000 by the Group which is recognised within trade payables (2015: £78,000). Transactions with the associate are priced on an arm's length basis. Dividends received during the year from the associate amounted to £5,474,000 (2015: £4,148,000) relating to the financial year to 31 March 2015.

### Subsidiary companies

During the year ended 31 March 2016, the Company's subsidiaries purchased goods and services from the Company in the amount of £50,519,000 (2015: £49,262,000). At 31 March 2016 the Company owed the subsidiaries £35,466,000 which is recognised within trade payables (2015: £37,787,000 owed by the Company to the subsidiaries).



**COMPANY NUMBER**

3263464

**REGISTERED OFFICE**

Network HQ,  
508 Edgware Road,  
The Hyde,  
London NW9 5AB

**SECRETARY**

David Baxter ACA

**STOCKBROKERS**

Peel Hunt Ltd  
Moor House,  
120 London Wall,  
London EC2Y 5ET

JP Morgan Cazenove  
25 Bank Street,  
Canary Wharf,  
London E14 5JP

**SOLICITORS**

Nabarro LLP  
125 London Wall,  
London EC2Y 5AL

**AUDITORS**

KPMG LLP  
15 Canada Square,  
Canary Wharf,  
London E14 5GL

**BANKERS**

Barclays Bank PLC  
1 Churchill Place,  
London E14 5HP

Lloyds Bank PLC  
25 Gresham Street,  
London EC2V 7HN

**REGISTRARS**

Capita Asset Services  
The Registry,  
34 Beckenham Road,  
Beckenham,  
Kent BR3 4TU



HOME PHONE



BROADBAND



MOBILE



GAS



ELECTRICITY