

21 March 2017

Smart Metering Systems plc
("SMS" or "the Company" or "the Group")

Final results for the year ended 31 December 2016

Smart Metering Systems plc (AIM: SMS.L) is pleased to announce its final results for the 12 months to 31 December 2016, which show continued growth across all business areas.

Financial Highlights

- Revenue increased by 25% to £67.2m (2015: £53.9m)
- Total annualised recurring income* increased by 19% to £41.3m (2015: £34.7m)
 - Gas: meter recurring rent increased by 13% to £31.5m (2015: £27.8m) and data recurring income increased by 17% to £2.6m (2015: £2.2m)
 - Electricity: meter recurring rent increased by 125% to £2.9m (2015: £1.3m) and data recurring income grew 23% to £4.3m (2015: £3.5m)
- Gross profit increased by 23% to £36.9m (2015: £30.1m)
- Gross profit margin remained consistent at 55% (2015: 56%)
- EBITDA increased by 17% to £32.5m (2015: £27.9m)
- Underlying EBITDA** increased by 21% to £31.9m (2015: £26.3m)
- Underlying EBITDA** margin at 48% (2015: 49%)
- PBT increased by 4% to £18.2m (2015: £17.5m)
- Underlying PBT** increased by 13% to £19.6m (2015: £17.4m)
- Earnings per share decreased to 17.33p (2015: 17.46p)
- Underlying earnings per share*** increased to 19.20p (2015: 17.38p)
- Final dividend of 2.73p per ordinary share totalling 4.1p for the full year (2015: 3.3p), an increase of 24%

* Recurring revenue refers to revenue generated by meter rental and data contracts. Annualised recurring income refers to the revenue being generated at a point in time.

** Underlying PBT and EBITDA are before exceptional items, intangible amortisation and other operating income.

*** Underlying earnings per share is profit after taxation but before exceptional items, other operating income and intangible amortisation, divided by the weighted average number of ordinary shares in issue.

Operational Highlights

- Total gas and electricity metering and data assets increased by 272,000 to just over 1.25 million under management at 31 December 2016 (2015: 979,000)
 - Total gas meter portfolio increased by 22% to 881,000 (2015: 723,000), with industrial and commercial (I&C) meters increasing by 25% to 143,000 (2015: 114,000). Gas data portfolio increased by 27% to 108,000 (2015: 85,000)
 - Total electricity meter portfolio increased by 166% to 77,000 (2015: 29,000). Electricity data portfolio increased by 31% to 186,000 (2015: 142,000)
- ADM™ installations up 23% to 91,000 units at 31 December 2016 (2015: 74,000) with international trials continuing
- Capital expenditure on meters was £42.5m (2015: £41.1m), reaching a monthly run rate of approximately £4.0m in December 2016
- Completed the acquisitions of CH4 Gas Utility and Maintenance Service Limited (CH4), Trojan Utilities Limited (Trojan) and Qton Solutions Limited (Qton), to further strengthen the Group ahead of the UK's domestic smart meter rollout programme with the full UK-wide direct installation and IT support capacity

Change to Chief Financial Officer

Smart Metering Systems is also pleased to announce the appointment of David Harris as Chief Financial Officer of the Company with immediate effect. David replaces Glen Murray who served as Chief Financial Officer of the Company since 2011. Please see our separate announcement for further details.

Alan Foy, Chief Executive Officer, commented:

"2016 has been a year of transformation for the business as it grew to over 1.25 million utility metering and data assets under management generating £41.3m in annually recurring index-linked income. The strong financial position has supported three strategic acquisitions, which has delivered a scalable delivery platform with the opportunity to install and own new domestic smart utility meters (gas and electricity) mandated to be installed in every home in the UK over the next four to five years.

We have seen a strong start to 2017 and are well positioned to continue making progress in our core markets. We will continue to invest in meter and data assets and grow our recurring revenue base across both the I&C and Smart Domestic market segments. We have built the foundations to allow us to capitalise on future opportunities."

Smart Metering Systems plc 0141 249 3850
Craig McGinn, Company Secretary

Cenkos Securities plc 0131 220 6939 / 0207 397 8900
Neil McDonald
Nick Tulloch

Kreab 020 7074 1800
Matthew Jervois
Natalie Biasin
Daniel Holgersson

Notes to Editors

About Smart Metering Systems

Established in 1995, Smart Metering Systems plc, based in Glasgow, connects, owns, operates and maintains metering systems and databases on behalf of major energy companies. The Company provides a fully integrated service from beginning to end to cover the installation of a gas/electricity supply/connection to the procurement, installation and management of a gas or electricity meter asset to the collection and management of customer data and ongoing energy management services.

The Company has further applications for gas with its ADM™ device which allows "smart" functions such as remote reading and half-hourly consumption data to be offered to customers in addition to the normal metering services. The Company was admitted to the AIM market in July 2011 and is now part of the FTSE AIM 50 index. For more information on SMS please visit the Company's website: www.sms-plc.com.

Chairman's statement

Review of the year

I am delighted to be able to introduce my first Chairman's Statement. On behalf of all of my colleagues on the Board, I would like to thank my predecessor, Paul Dollman, for his contribution to SMS.

In 2016 SMS strategically changed its operational delivery model from being largely reliant on subcontractors for the installation of utility meters to gaining direct control of a large proportion of installation capacity and the end-to-end IT platform which underpins it. We are now in a position, with the acquisition and integration of smart meter installation businesses CH4 and Trojan and field services software and data security firm Qton Solutions, where we have full ownership, control and installation of our delivery model on a scalable and robust platform.

The change in our business model reinforces our credentials to install, own and manage utility metering assets for our energy supplier customers. This puts us in a strong position to increase the growth of our share of the UK's new domestic smart meter installation programme of c.30 million premises in the UK which represents c.48 million meters over the next four to five years.

In terms of our physical presence, SMS has grown from approximately 300 staff and two offices in 2015 to over 700 employees spread across twelve offices nationwide by the end of 2016.

SMS now manages over 1.25 million utility metering and data assets on behalf of an expanding customer base of energy suppliers in the Industrial and Commercial (I&C) and Domestic markets. This includes 51,000 in the new domestic smart meter market installed by the end of 2016 as we commenced our operations in this new market segment.

During 2016 SMS signed eight new contracts for the installation and ownership of gas and electricity domestic smart meters with energy suppliers that currently supply gas and electricity to over 2.5 million homes.

Our business

SMS has continued to perform strongly through what has been a period of significant change and opportunity for the business. The Group has delivered double-digit growth, increasing revenue by 25% during the year with consistent growth in recurring income in our gas and electricity business and a substantial increase in our gas and electricity meter portfolio.

The UK domestic smart meter rollout, a UK government initiative, has mandated the installation of a smart meter in every home and small business across the UK by 2020. This represents a further new opportunity to increase the utility meters under management and hence index-linked recurring income. Over 48 million new meters are planned to be installed by 2020. SMS has geared up during 2016 for this market with significant investment in its systems, people and processes. With strategic acquisitions enhancing the business' existing strong metering services propositions, industry and product knowledge and reputation for customer services established over the last 21 years in the UK utility sector.

Our energy products and services continue to perform strongly for UK utility suppliers and blue chip UK and international customers in the I&C market. These include energy data analytics optimisation, which is becoming more prevalent because of the continuing installation of smart meters and provision of Energy Performance Certificates (EPC) and Energy Savings Opportunity Scheme (ESOS) consultancy services, which are ongoing requirements for large UK companies under the Energy Performance of Buildings Regulations 2007 and the ESOS Regulations 2014. The key driver for these services is to reduce carbon emissions through identification of viable energy initiatives which may then lead to capital investment and new asset classes under management to complement the existing and growing metering assets portfolio.

Strategy

Our strategy is to increase the meter installation and management run rates with our existing customers, and continue to grow the meter asset portfolio beyond the 1.25 million assets currently under management targeting in particular the new domestic smart meter.

Our strategic priorities, in 2017, will be to:

- 1 Continue to install and own utility metering infrastructure and secure recurring rental and data income from SMS's contracted energy suppliers in the I&C market.
- 2 Build on our investment, strategic acquisitions and new operational delivery model established in 2016 to take advantage of the significant Domestic smart meter market opportunity in the UK based on SMS's proven end-to-end delivery capability, increased capacity and long-established market position.

- 3 Maintain a focus on customer delivery and innovation across all aspects of our business and in particular in our energy services division where opportunities exist to assist our partners in reducing their carbon emissions.

People and systems

I am pleased to announce Graeme Bissett's appointment as Non-executive Director and Chairman of the Audit Committee. Miriam Greenwood has become the Senior Independent Non-executive Director and Chair of the Remuneration Committee and we have recently appointed Craig McGinn as Company Secretary.

During the year SMS completed the strategic acquisitions of CH4, Trojan and Qton. This enabled the business to strengthen its position by having control over a directly employed dedicated installation field force, supported by two training academies ensuring the Group can conduct in-house training and increase its installation capacity further, particularly for the domestic smart meter rollout. This has been supported by market-leading internal IT work management systems.

All of these businesses have been brought under the SMS brand and the business has worked hard during the year to integrate the three businesses and establish a market-focused structure, with three main service lines:

- **Asset Management:** SMS secures funding at a commercially attractive rate for the purchase of metering assets that it installs directly or adopts from third parties in the energy market.
- **Asset Installation:** SMS offers a nationwide, large scale dual fuel metering installation service, aimed at helping energy suppliers achieve their obligations under the Government's smart meter programme. As pressure builds to deliver the programme so will the value of the installation capability that SMS has developed.
- **Energy Management:** SMS has a large team of experts which provides a full range of energy services, including risk management, billing, energy efficiency, carbon compliance, renewables and new energy networks. The increasing switch to smart metering in the I&C market now provides granularity of meter reads and consumptions; SMS is able to utilise these capabilities more efficiently and address its partners' challenges of reducing carbon emissions and as such provide revenue growth opportunity for the business.

The acquisition of Qton has created significant IT software and data security capabilities and capacity, not only to support our Asset Management, Asset Installation and Energy Management businesses but also to develop new applications and technologies to the ongoing benefit of our customers.

The safety of our staff and the general public is our primary concern, and as such the Group has a proactive operational culture that puts health and safety at the top of its agenda in order to reduce the likelihood of an accident. We work very closely with our customers, employees and Health and Safety authorities to evaluate and assess risks to ensure that health and safety procedures are rigorously followed.

Dividend

SMS is pleased to announce a proposed final cash dividend of 2.73p for the year ended 31 December 2016 (2015: 2.2p) to shareholders. In addition to the interim dividend of 1.37p (2015: 1.1p), this will make a total dividend of 4.1p (2015: 3.3p). The final dividend will be paid on 1 June 2017 to those shareholders on the register (record date) on 28 April 2017 with an ex-dividend date of 27 April 2017.

Outlook

SMS enters 2017 in a strong financial position with a strengthened and differentiated utility metering installation and ownership service proposition, and positive growth drivers in all of the markets it operates in.

SMS expects to make further investment to increase metering installation and ownership capacity, to be in a strong position to benefit from both the new domestic smart metering market. In addition we will establish opportunities for its existing energy products and services to reduce carbon emissions in the I&C market as more and more meter reading information at a granular level becomes available due to the installation of smart meters.

With the domestic smart meter market due to enter a period of increased take-up in 2017, we are confident the leadership team will continue to build on our success story.

Chief Executive Officer's statement

I am pleased to report on the continued strong business and financial performance of SMS for the year ended 31 December 2016.

2016 has been a year of transformation for the business as it grew to over 1.25 million utility metering and data assets under management generating £41.3m in annually recurring index-linked income. The strong financial position has supported three strategic acquisitions, which have delivered a scalable delivery platform with the opportunity to install and own new domestic smart utility meters (gas and electricity) mandated to be installed in every home in the UK over the next four to five years. The acquisitions were part of our strategy to obtain control over the installation element of asset ownership. These installation businesses by their nature typically operate at a lower margin to the core asset business. Combined with our strategic decision to invest for growth in additional engineering capacity, ahead of time, to ensure we are best placed to serve our energy supplier customers, the installation division has incurred planned training and investment costs in the period post acquisition. As we look to the 2017 financial year, these acquisitions are now well placed in the market and provide us with full control of a UK-wide installation workforce, training schools, ownership of end to end software IPR rights and scalability of the installed operating platform.

All our acquisitions have now been fully integrated into the business under the three functional divisions:

- **Asset Management:** investing in utility metering and data infrastructure assets in the UK for long-term recurring rental income.
- **Asset Installation:** high capacity, nationwide utility meter installation workforce, offering full-service end-to-end meter installation, utility connections and emergency support services in the Industrial and Commercial and now the Domestic smart metering market in the UK.
- **Energy Management:** expert engineering, data and energy management services, through long-term contracts with UK and international blue chip customers with the potential to create future energy related asset owning opportunities.

During the year we signed eight non-exclusive framework agreements with UK domestic energy suppliers, which currently supply over 2.5 million homes with energy, to install and own domestic smart meters. Installation began late in 2016 adding 51,000 meters by the year end and contributing £1.5m in recurring revenue to the Group's total recurring revenue from meters and data assets of £41.3m.

Operational review

During 2016 our gas and electricity meter and data portfolio increased 28% from just under 1 million to 1.25 million assets. Meter assets grew 27% from 752,000 to 958,000 and data assets grew by 29% from 227,000 data points to 294,000 data points.

Our two key financial metrics both demonstrated substantial growth in the year. Our total revenue increased by 25% from £53.9m to £67.2m, and our annualised long-term recurring revenue for recurring rental income from the installed meter and data assets increased by 19% from £34.7m at December 2015 to £41.3m at December 2016.

These metrics are core to our long-term annuity financial model and once installed these meters will provide recurring rental revenue for the lifetime of the assets.

Industrial and Commercial meter market

This remains an active market segment for SMS and we expect it to remain so over the short to medium term. SMS has a proven track record in the Industrial and Commercial market and we benefit from continued demand from existing contracted energy supplier customers to complete their mandated meter exchange programmes particularly in the small business segment.

The ADM™ device is SMS's industrial and commercial metering solution which allows for remote meter reading on a half-hourly basis and has been designed specifically to meet our customer and industry/market requirements. SMS continues to deploy the ADM™ devices in the UK's Industrial and Commercial metering market.

In 2016 the number of ADM™ installations increased to 91,000, up from 74,000 in 2015, and SMS remains confident that its ADM™ device technology has potential applications in other utility metering solutions in the UK and internationally.

UK Domestic smart meter market

SMS has now commenced installation of domestic smart meters as part of the UK government's domestic smart meter programme, with every home and small business in the UK to be provided with smart meter functionality by 2020.

There are over 30 million homes in the UK representing over 48 million gas and electricity meters that will be changed during the programme, of which less than 11% have been exchanged to date.

Whilst there is continued scepticism in the press and industry to programme completion timescales, energy suppliers have begun to place contracts to commence their rollouts. SMS's size and increased capacity as a result of our acquisitions, together with our proven track record, position the business well to enable energy suppliers to meet their obligations.

We are well funded with a £280m revolving credit facility to fund our remaining industrial and commercial metering order book and the new domestic smart meter installations.

Energy management services

The Energy Management division continues to provide services to new retail, residential, commercial, and industrial and energy generation projects on a nationwide basis. SMS provides end-to-end design and delivery capability across all utilities for projects including one-off major and minor commercial connections and some of the largest long-term master plan mixed-use residential and commercial projects in the UK, as well as supporting a number of major national infrastructure projects.

The division also provides a full range of energy management services, including comprehensive bureau, energy efficiency, performance management, procurement and environmental compliance. It processed and analysed over 700,000 billing points and performed over 170 energy audits and compliance surveys, identifying potential opportunities for SMS to deliver turnkey energy reduction projects.

SMS works with some of the largest corporate multi-site energy users in the country and is increasingly focused on the turnkey funding and implementation of such energy reduction measures, often identified through SMS's own auditing services.

Consolidated statement of comprehensive income

For the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000 restated
Revenue	1	67,188	53,945
Cost of sales	2	(30,257)	(23,805)
Gross profit		36,931	30,140
Administrative expenses	2	(17,438)	(12,106)
Other operating income	2	1,075	1,546
Profit from operations	2	20,568	19,580
Attributable to:			
Operating profit before exceptional items, other operating income and amortisation of intangibles		21,939	19,493
Amortisation of intangibles		(1,991)	(1,459)
Other operating income		1,075	1,546
Exceptional items and fair value adjustments	2	(455)	—
Finance costs	5	(2,327)	(2,118)
Finance income	5	2	3
Profit before taxation		18,243	17,465
Taxation	6	(2,998)	(2,463)
Profit for the year attributable to equity holders		15,245	15,002
Other comprehensive income		—	—
Total comprehensive income		15,245	15,002

The profit from operations arises from the Group's continuing operations.

Earnings per share attributable to owners of the parent during the year:

	Notes	2016	2015
Basic earnings per share (pence)	7	17.33	17.46
Diluted earnings per share (pence)	7	17.02	16.78

Consolidated statement of financial position

As at 31 December 2016

	Notes	2016 £'000	2015 £'000
Assets			
Non-current assets			
Intangible assets	9	14,611	10,028
Property, plant and equipment	10	157,977	125,700
Investments	11	118	83
Trade and other receivables	14	628	901
		173,334	136,712
Current assets			
Inventories	13	6,121	1,099
Trade and other receivables	14	15,794	10,205
Cash and cash equivalents	15	7,999	5,711
Other current financial assets	19	—	—
		29,914	17,015
Total assets		203,248	153,727
Liabilities			
Current liabilities			
Trade and other payables	16	26,742	15,364
Bank loans and overdrafts	17	14,530	8,496
Commitments under hire purchase agreements	18	28	64
Other current financial liabilities	19	—	46
		41,300	23,970
Non-current liabilities			
Bank loans	17	87,646	76,219
Commitments under hire purchase agreements	18	1	14
Deferred tax liabilities	21	7,885	6,139
		95,532	82,372
Total liabilities		136,832	106,342
Net assets		66,416	47,385
Equity			
Share capital	23	892	861
Share premium		10,861	9,650
Other reserve	25	8,447	4,258
Treasury shares	24	(327)	(231)
Retained earnings		46,543	32,847
Total equity attributable to equity holders of the parent company		66,416	47,385

Company registration number

SC367563

Consolidated statement of changes in equity

For the year ended 31 December 2016

Attributable to the owners of the parent company:	Share capital £'000	Share premium £'000	Other reserve £'000	Treasury shares £'000	Retained earnings £'000	Total £'000
As at 1 January 2015	856	9,291	4,258	(92)	20,096	34,409
Total comprehensive income for the year	—	—	—	—	15,002	15,002
Transactions with owners in their capacity as owners:						
Dividends (note 8)	—	—	—	—	(2,564)	(2,564)
Shares issued	5	359	—	—	—	364
Shares held by SIP	—	—	—	(139)	—	(139)
Share options	—	—	—	—	410	410
Income tax effect of share options	—	—	—	—	(97)	(97)
As at 31 December 2015	861	9,650	4,258	(231)	32,847	47,385
Total comprehensive income for the year	—	—	—	—	15,245	15,245
Transactions with owners in their capacity as owners:						
Dividends (note 8)	—	—	—	—	(3,145)	(3,145)
Shares issued	31	1,211	4,189	—	—	5,431
Shares held by SIP	—	—	—	(96)	—	(96)
Share options	—	—	—	—	444	444
Income tax effect of share options	—	—	—	—	1,152	1,152
As at 31 December 2016	892	10,861	8,447	(327)	46,543	66,416

See notes 24 and 25 for details of the treasury shares and other reserve.

Consolidated statement of cash flows

For the year ended 31 December 2016

	2016 £'000	2015 £'000
Cash flow from operating activities		
Profit before taxation	18,243	17,465
Finance costs	2,327	2,118
Finance income	(2)	(3)
Fair value movement on derivatives	(46)	(24)
Depreciation	9,977	6,816
Amortisation	1,991	1,459
Share-based payment expense	348	271
Movement in inventories	(4,773)	112
Movement in trade and other receivables	(2,646)	(1,689)
Movement in trade and other payables	6,330	(1,776)
Cash generated from operations	31,749	24,749
Taxation	(401)	(304)
Net cash generated from operations	31,348	24,445
Investing activities		
Payments to acquire property, plant and equipment	(42,904)	(41,474)
Disposal of property, plant and equipment	2,499	235
Payments to acquire intangible assets	(1,084)	(555)
Acquisition of subsidiary	(35)	—
Cash acquired with subsidiary	452	—
Finance income	2	3
Net cash used in investing activities	(41,070)	(41,791)
Financing activities		
New borrowings	30,442	33,059
Capital repaid	(12,845)	(9,893)
Hire purchase repayments	(1,028)	(76)
Finance costs	(2,646)	(2,118)
Net proceeds from share issue	1,232	364
Dividend paid	(3,145)	(2,564)
Net cash generated from financing activities	12,010	18,772
Net increase in cash and cash equivalents	2,288	1,426
Cash and cash equivalents at the beginning of the financial year	5,711	4,285
Cash and cash equivalents at the end of the financial year (note 15)	7,999	5,711

Accounting policies

The consolidated financial statements of the Group for the year ended 31 December 2016 were approved and authorised for issue in accordance with a resolution of the Directors on 21 March 2017. Smart Metering Systems plc is a public limited company limited by shares and incorporated in Scotland, with its registered office at 2nd Floor, 48 St. Vincent Street, Glasgow G2 5TS. The Company's ordinary shares are traded on AIM.

Basis of preparation

The consolidated financial statements have been prepared in accordance with EU-endorsed International Financial Reporting Standards (IFRSs), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRSs.

The consolidated financial statements are presented in British Pounds Sterling (£) and all values are rounded to the nearest thousand (£'000) except where otherwise indicated.

During the year the Directors decided to reallocate meter asset depreciation of £9.2m (2015: £6.4m) from administrative costs to cost of sales to reflect all associated costs with generating recurring revenue and also bring in line with other operators in the industry. If meter asset depreciation had not been reallocated during the year gross profit for 2016 would have been £46,166k (2015: £36,518k).

Going concern

Management prepares budgets and forecasts on a rolling 24-month basis. These forecasts cover operational cash flows and investment capital expenditure. The Group has committed bank facilities of £280m which extend to March 2019.

Based on the current projections and facilities in place, the Directors consider it appropriate to continue to prepare the financial statements on a going concern basis.

Basis of consolidation

The consolidated accounts of the Group include the assets, liabilities and results of the Company and subsidiary undertakings in which Smart Metering Systems plc has a controlling interest. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has all of the following: power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee); exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect its returns.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Use of estimates and judgements

The preparation of the financial statements requires the use of estimates and assumptions. Although these estimates are based on management's best knowledge, actual results ultimately may differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

- Recognition of installation revenue in advance of the work being performed
- Capitalisation of internal installation costs.
- Impairment of goodwill
- Useful life of a meter assets

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts and VAT.

Revenue is recognised when the significant rewards and risk of ownership have been passed to the buyer. The risk and rewards of ownership transfer when the Group fulfils its contractual obligations to customers by supplying services.

Meter rental income

Rental income represents operating lease payments receivable from gas and electricity suppliers. Revenue is recognised on a straight line basis over the lease term. Rental income is calculated on a daily basis and invoiced monthly. Rental contracts do not operate on a fixed-term basis and are cancellable at any time by the lessee, in which case termination payments are levied and recognised as other operating income in accordance with the terms of the contract with immediate effect and do not transfer risks and rewards of ownership of the underlying asset. They are therefore considered as operating lease arrangements and accounted for as such.

In line with the underlying contractual terms, termination fees due are recognised at fair value upon notification of de-appointment and are classified as other operating income.

Utility connection

Revenue from connection contracts is recognised upon delivery of the related service.

Data management

Data income is recognised on a straight line basis over the contract period. Amounts invoiced in advance are recorded as deferred income.

Financial assets***Initial recognition and measurement***

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets or derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables, quoted and unquoted financial instruments and derivative financial instruments.

Financial liabilities***Initial recognition and measurement***

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings or derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts and derivative financial instruments.

Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the Consolidated statement of financial position, if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. The Group has not designated any derivatives for hedge accounting.

Exceptional items and separately disclosed items

The Group presents as exceptional items on the face of the Consolidated statement of comprehensive income those material items of income and expense which, because of the nature or expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in that year, so as to facilitate comparison with prior periods and to assess better trends in financial performance. Termination fee income is reported as a separately disclosed given the materiality and nature.

Research and development

Expenditure on pure and applied research activities is recognised in the Consolidated statement of comprehensive income as an expense as incurred.

Expenditure on product development activities is capitalised if the product or process is technically and commercially feasible and the Group intends and has the technical ability and sufficient resources to complete development; if future economic benefits are probable; and if the Group can measure reliably the expenditure

attributable to the intangible asset during its development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads.

Capitalised development expenditure is stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is calculated, when the product or system is available for use, so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Amortisation	10% on cost straight line
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Intangible assets

Intangible assets acquired separately from third parties are recognised as assets and measured at cost.

Following initial recognition, intangible assets are measured at cost at the date of acquisition less any amortisation and any impairment losses. Amortisation costs are included within the net administrative expenses disclosed in the Consolidated statement of comprehensive income.

Intangible assets acquired as part of a business combination are recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably.

Intangible assets are amortised over their useful lives as follows:

Software	12.5% and 20% straight line
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Customer contracts	20%
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Useful lives are examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Longer life software is related to underlying meter assets.

Goodwill

Goodwill arising on consolidation represents the excess of the consideration transferred and the fair value of the identifiable assets and liabilities of the acquiree at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but is tested annually for impairment and is carried at cost less accumulated impairment losses. See note 12 for detailed assumptions and methodology. Impairment losses are not subsequently reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

Provisional fair values are adjusted against goodwill if additional information is obtained within one year of the acquisition date about facts or circumstances existing at the acquisition date. Other changes in provisional fair values are recognised through profit or loss.

Changes in contingent consideration arising from additional information, obtained within one year of the acquisition date, about facts or circumstances that existed at the acquisition date are recognised as an adjustment to goodwill. Other changes in contingent consideration are recognised through profit or loss, unless the contingent consideration is classified as equity. In such circumstances, changes are recognised within equity.

Impairment

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangibles to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised as income immediately.

Detailed assumptions with regard to discount, growth and inflation rates are set out in note 12 to the accounts.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Pursuant to the acquisition of the meter installation businesses on 18 March 2016 (see Note 28) certain internal costs to the group are also capitalised where they are demonstrated as being directly attributable to bringing the meter rental assets into their useable condition.

All other repair and maintenance costs are recognised in the Consolidated statement of comprehensive income as incurred.

Depreciation is calculated on a straight line basis over the estimated useful life of the asset as follows:

Freehold property	2% on cost
Short leasehold property	Shorter of the lease term or 15% and 20% on cost
Plant and machinery	5%, 10% and 20% on cost
Fixtures, fittings and equipment	15% and 33% on cost
Motor vehicles	25% on cost

Land is not depreciated.

During the year, the Directors reassessed the useful life of domestic meters that are due to be replaced before the end of their useful life as part of the Smart Meter rollout programme. An exercise was undertaken to identify all meters affected and their useful life has been shortened from 20 years to 5 years. In addition, the receipt of termination income under certain circumstances when meter rental assets are removed before the end of their useful life has also been reflected in a revision to residual values. These factors have resulted in a net increase to the overall depreciation charge that amounted to £685,000 in the current year. As this change is prospective, there is no corresponding change to depreciation in prior years.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Consolidated statement of comprehensive income when the asset is derecognised. The asset's residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Property, plant and equipment are initially recorded at cost.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Cash and cash equivalents

Cash and cash equivalents in the Consolidated statement of financial position comprises cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the Consolidated statement of cash flows, cash and cash equivalents consists of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

Hire purchase agreements

Assets held under hire purchase agreements are capitalised and disclosed under property, plant and equipment at their fair value. The capital element of the future payments is treated as a liability and the notional interest is charged to the Consolidated statement of comprehensive income in proportion to the remaining balance outstanding.

Leased assets and obligations as lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets acquired under finance leases are capitalised in the balance sheet at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is recorded in the balance sheet as a finance lease obligation. The lease payments are apportioned between finance charges to the income statement and a reduction of the lease obligations.

Rental payments under operating leases are charged to the income statement on a straight line basis over the applicable lease periods.

Group as lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of assets are classified as operating leases with meter income recognised in line with the meter rental income policy.

Pension costs

The Group operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Group. The annual contributions payable are charged to the Consolidated statement of comprehensive income.

Share-based payments

The costs of equity-settled share-based payments are charged to the Consolidated statement of comprehensive income over the vesting period. The charge is based on the fair value of the equity instrument granted and the number of equity instruments that are expected to vest.

Taxation

Tax currently payable is based on the taxable profit for the year. Taxable profit differs from accounting profit as reported in the Consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is measured using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The deferred tax balance is calculated based on tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax assets include temporary differences related to employee benefits settled via the issue of share options. Recognition of the deferred tax assets assumes share options will have a positive value at the date of vesting, which is greater than the exercise price.

Standards and interpretations

The following standards and interpretations have been adopted in these financial statements and have not had a material impact on the Group's accounts in the period of initial application.

Standard or interpretation		Periods commencing on or after
Amendment to IAS 27	Equity Method in Separate Financial Statements	1 January 2016
Amendments to IAS 1	Disclosure Initiative	1 January 2016
Annual Improvements to IFRSs	2012 to 2014 Cycle*	1 January 2016
IFRS 5	Non-current Assets held for Sale and discontinued Operations	1 January 2016
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to IFRS 11	Accounting for Acquisitions of Interests and Joint Operations	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities – Applying the Consolidation Exception	1 January 2016

Standard or interpretation		Periods commencing on or after
Amendment to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017*
Amendments to IAS 7	Disclosure Initiative	1 January 2017*
IFRS 15	Revenue from contracts with Customers	1 January 2018
Clarifications to IFRS 15	Revenue from contracts with Customers	1 January 2018*
IFRS 9	Financial Instruments	1 January 2018
IFRS 16	Leases	1 January 2019*
Amendments to IFRS 2	Classifications and Measurement of Share-based Payment Transactions	1 January 2018*
Annual Improvements to IFRS standards	2014-2016 Cycle	1 January 2017/2018*
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration	1 January 2018*

* Not yet adopted for use in the European Union.

The above standards and interpretations will be adopted in accordance with their effective dates and have not been adopted in these financial statements.

For standards with a future effective date, the Directors are in the process of assessing the likely impact and look to finalise the standards before formalising their view.

Notes to the financial statements

For the year ended 31 December 2016

1 Segmental reporting

For management purposes, the Group is organised into three core divisions, Asset Management, Asset Installation and Energy Management, which form the basis of the Group's reportable operating segments, and operating segments within those divisions are combined on the basis of their similar long-term economic characteristics and similar nature of their products and services, as follows:

Asset Management comprises regulated management of gas meters, electric meters and ADM™ units within the UK.

Asset Installation comprises installation of domestic and I&C gas meters and electricity meters throughout the UK.

Energy Management comprises the provision of energy advice.

Management monitors the operating results of its divisions separately for the purpose of making decisions about resource allocation and performance assessment. The operating segments disclosed in the financial statements are the same as reported to the Board. Segment performance is evaluated based on gross profit.

At the most granular level of information presented to the CODM, Asset Management aggregates four operating segments (gas meter rental, electricity meter rental, gas data and electricity data) principally on the basis that they derive from the same asset using similar processes for consistent customers and are often provided together. Asset Installation aggregates two operating segments (gas transactional and electricity transactional) due to the consistent nature of the services, customers and delivery processes.

The following segment information is presented in respect of the Group's reportable segments together with additional balance sheet information:

	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Unallocated £'000	Total operations £'000
31 December 2016					
Segment/Group revenue	37,359	26,115	3,714	—	67,188
Cost of sales	(14,441)	(13,735)	(2,081)	—	(30,257)
Segment profit – Group gross profit	22,918	12,380	1,633	—	36,931
Items not reported by segment:					
Other operating costs/income	—	—	—	(13,174)	(13,174)
Depreciation	—	(22)	—	(721)	(743)
Amortisation	(1,991)	—	—	—	(1,991)
Exceptional items and fair value adjustments	—	—	—	(455)	(455)
Profit from operations	20,927	12,358	1,633	(14,350)	20,568
Net finance costs	(2,325)	—	—	—	(2,325)
Profit before tax	18,602	12,358	1,633	(14,350)	18,243
Tax expense	—	—	—	—	(2,998)
Profit for year					15,245

	Asset Management restated £'000	Asset Installation £'000	Energy Management £'000	Unallocated £'000	Total operations restated £'000
31 December 2015					
Segment/Group revenue	30,233	19,535	4,177	—	53,945
Cost of sales	(10,526)	(10,891)	(2,388)	—	(23,805)
Segment profit – Group gross profit	19,707	8,644	1,789	—	30,140
Items not reported by segment:					
Other operating costs/income	—	—	—	(8,663)	(8,663)
Depreciation	—	—	—	(438)	(438)
Amortisation	(121)	—	—	(1,338)	(1,459)
Exceptional items and fair value adjustments	—	—	—	—	—
Profit from operations	19,586	8,644	1,789	(10,439)	19,580
Net finance costs	(2,127)	—	4	8	(2,115)
Profit before tax	17,459	8,644	1,793	(10,431)	17,465
Tax expense	—	—	—	—	(2,463)
Profit for year					15,002

Depreciation associated with meter assets has been reported within cost of sales as the meter assets directly drive revenue.

All revenues and operations are based and generated in the UK.

The Group has one major customer that generated turnover within each segment as listed below:

	2016 £'000	2015 £'000
Customer 1 – Asset Management	10,752	11,865
Customer 1 – Asset Installation	4,991	4,704
	15,743	16,569

Segment assets and liabilities

	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Unallocated £'000	Total operations £'000
31 December 2016					
Assets reported by segment					
Intangible assets	11,114	3,497	—	—	14,611
Property, plant and equipment	155,131	66	—	2,780	157,977
Inventories	5,569	446	106	—	6,121
	171,814	4,009	106	2,780	178,709
Assets not by segment					24,539
Total assets					203,248
Liabilities by segment					
Bank loans	102,176	—	—		102,176
Obligations under hire purchase agreements	—	29	—		29
	102,176	29	—		102,205
Liabilities not by segment					34,627
Total liabilities					136,832

	Asset Management restated £'000	Asset Installation £'000	Energy Management restated £'000	Total operations £'000
31 December 2015				
Assets reported by segment				
Intangible assets	10,028	—	—	10,028
Property, plant and equipment	125,700	—	—	125,700
Inventories	996	—	103	1,099
	136,724	—	103	136,827
Assets not reported by segment				16,900
Total assets				153,727
Liabilities reported by segment				
Bank loans	84,715	—	—	84,715
Obligations under hire purchase agreements	63	—	15	78
	84,778	—	15	84,793
Liabilities not reported by segment				21,549
Total liabilities				106,342

The prior year asset by segment has been restated to show a reallocation of £6.2m property plant and equipment from Energy Management to Asset Management as these assets are attributable to the operations of Asset Management.

2 Income statement by nature and items of expenditure included in the Consolidated statement of comprehensive income

	2016 £'000	2015 £'000
Revenue	67,188	53,945
Direct rental costs	(4,684)	(4,148)
Direct subcontractor costs	(4,054)	(6,504)
Other direct sales costs and systems rental	(12,285)	(6,775)
Staff costs	(9,710)	(7,166)
Depreciation:		
– owned assets	(9,898)	(6,751)
– leased assets	(79)	(65)
Amortisation	(1,991)	(1,459)
Other operating income	1,075	1,546
Auditor's remuneration:		
– as auditor	(136)	(80)
– other services	(9)	—
Exceptional costs	(455)	—
Operating lease costs:		
– plant and equipment	—	—
Other operating charges	(4,394)	(2,963)
Profit from operations	20,568	19,580
Finance costs	(2,327)	(2,118)
Finance income	2	3
Profit before taxation	18,243	17,464

Included in exceptional items are £455,000 (2015: £Nil) of acquisition costs. Included within depreciation – owned asset is £9,235,000 (2015: £6,378,000) of depreciation that has been allocated and reported in cost of sales.

Auditor's remuneration can be analysed as:

	2016 £'000	2015 £'000
Statutory Group audit	136	80
Other services	9	—
	145	80

3 Particulars of employees

The average number of staff employed by the Group, including Executive Directors, during the financial year was:

	2016 Number	2015 Number
Number of administrative staff	100	17
Number of operational staff	580	276
Number of sales staff	2	3
Number of IT staff	30	12
Number of Directors	2	2
	714	310

The aggregate payroll costs, including Executive Directors, of the employees were:

	2016 £'000	2015 £'000
Wages and salaries	18,880	9,205
Social security costs	1,895	935
Staff pension costs	240	192
Share-based payment	444	410
Director pension costs	19	20
	21,478	10,762

Included with wages and salaries are £8,432,000 (2015: £Nil) of costs from the new acquisitions.

4 Directors' emoluments

The Directors' aggregate remuneration in respect of qualifying services were:

	2016 £'000	2015 £'000
Emoluments receivable	858	821
Value of Group pension contributions to money purchase schemes	6	5
Other pension	13	16
	877	842

During the year one of the directors exercised 500,000 unapproved share options, resulting in a gain of £1,725,000.

	2016 £'000	2015 £'000
Emoluments of highest paid Director		
Total emoluments	513	488
Pension contributions	13	16
	526	504

The number of Directors who accrued benefits under Company pension schemes was as follows:

	2016 Number	2015 Number
Money purchase schemes	2	2

5 Finance costs and finance income

	2016 £'000	2015 £'000
Finance costs		
Bank loans and overdrafts	2,323	2,134
Interest rate hedge fair value	(46)	(24)
Hire purchase	50	8
Total finance costs	2,327	2,118
Finance income		
Bank interest receivable	2	3
Total finance income	2	3

6 Taxation

	2016 £'000	2015 £'000
Analysis of charge in the year		
Current tax:		
Current income tax expense	1,362	1,159
Adjustment to tax charge in respect of previous periods	450	(163)
Total current income tax	1,812	996
Deferred tax:		
Origination and reversal of temporary differences	1,186	1,467
Tax on profit on ordinary activities	2,998	2,463

The charge for the period can be reconciled to the profit per the Consolidated statement of comprehensive income as follows:

	2016	2015
Profit before tax	18,243	17,465
Tax at the UK corporation tax rate of 20.00% (2015: 20.25%)	3,649	3,536
Expenses not deductible for tax purposes	11	(62)
Adjustments to tax charge in respect of previous periods	123	(107)
Change in tax rate	(785)	(904)
Tax expense in the income statement	2,998	2,463

Current tax credit through equity in the year was £1,250k (2015: £180k).

7 Earnings per share

The calculation of EPS is based on the following data and number of shares:

	2016 £'000	2015 £'000
Profit for the year used for calculation of basic EPS	15,245	15,002
Amortisation of intangible assets	1,991	1,459
Other operating income	(1,075)	(1,546)
Exceptional costs	455	—
Tax effect of adjustments	274	19
Earnings for the purpose of adjusted EPS	16,890	14,934
Number of shares	2016	2015
Weighted average number of ordinary shares for the purposes of basic EPS	87,955,744	85,928,114
Effect of potentially dilutive ordinary shares:		
– share options	1,604,623	3,463,275
Weighted average number of ordinary shares for the purposes of diluted EPS	89,560,367	89,391,389
Earnings per share:		
– basic (pence)	17.33	17.46
– diluted (pence)	17.02	16.78
Adjusted earnings per share:		
– basic (pence)	19.20	17.38
– diluted (pence)	18.86	16.70

The Directors consider that the adjusted earnings per share calculation gives a better understanding of the Group's earnings per share as the adjusted earnings basis better reflects the Groups underlying sustainable business performance.

8 Dividends

	2016 £'000	2015 £'000
Equity dividends		
Paid during the year:		
Interim paid in respect of 2016, 1.37p per share	1,226	—
Final paid in respect of 2015, 2.20p per share	1,919	—
Interim paid in respect of 2015, 1.10p per share	—	947
Final paid in respect of 2014, 1.88p per share	—	1,617
Total dividends	3,145	2,564

A final dividend of 2.73p per share for the year ended 31 December 2016 has been proposed and due to be paid in June 2017.

9 Intangible assets

	Goodwill £'000	Software £'000	Development £'000	Customer contracts £'000	Total £'000
Cost					
As at 1 January 2015	4,112	2,160	1,548	5,251	13,071
Additions	—	—	525	30	555
As at 31 December 2015	4,112	2,160	2,073	5,281	13,626
Additions	—	—	454	630	1,084
Additions from acquisitions	3,497	6	—	2,000	5,503
Disposals	—	—	(13)	—	(13)
As at 31 December 2016	7,609	2,166	2,514	7,911	20,200
Amortisation					
As at 1 January 2015	—	332	121	1,686	2,139
Charge for year	—	666	121	672	1,459
As at 31 December 2015	—	998	242	2,358	3,598
Charge for year	—	432	228	1,331	1,991
As at 31 December 2016	—	1,430	470	3,689	5,589
Net book value					
As at 31 December 2016	7,609	736	2,044	4,222	14,611
As at 31 December 2015	4,112	1,162	1,831	2,923	10,028
As at 1 January 2015	4,112	1,828	1,427	3,565	10,932

10 Property, plant and equipment

	Freehold/ leasehold property £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Total £'000
Cost					
As at 1 January 2015	2,131	98,646	1,162	112	102,051
Additions	13	41,192	256	—	41,461
Disposals	—	(222)	—	(32)	(254)
As at 31 December 2015	2,144	139,616	1,418	80	143,258
Additions	20	42,503	381	—	42,904
Additions from acquisitions	75	69	309	1,384	1,837
Disposals	—	(1,479)	—	(1,295)	(2,774)
As at 31 December 2016	2,239	180,709	2,108	169	185,225
Depreciation					
As at 1 January 2015	106	10,142	492	34	10,774
Charge for year	64	6,378	340	34	6,816
Disposals	—	(21)	—	(11)	(32)
As at 31 December 2015	170	16,499	832	57	17,558
Charge for year	93	9,235	508	141	9,977
Disposals	—	(217)	—	(70)	(287)
As at 31 December 2016	263	25,517	1,340	128	27,248
Net book value					
As at 31 December 2016	1,976	155,192	768	41	157,977
As at 31 December 2015	1,974	123,117	586	23	125,700
As at 1 January 2015	2,025	88,504	670	78	91,277

Hire purchase agreements

Included within the net book value of £157,977,000 (2015: £125,700,000) is £16,839 (2015: £73,258) relating to assets held under hire purchase agreements. The depreciation charged to the consolidated financial statements in the year in respect of such assets amounted to £79,578 (2015: £65,060).

The assets are secured by a bond and floating charge (note 17).

11 Financial asset investments

	Shares in Group undertaking £'000	Unlisted investments £'000	Total £'000
Cost			
As at 1 January 2016	43	40	83
Additions as part of acquisitions	—	35	35
As at 31 December 2016	43	75	118

Financial asset investments are not consolidated on the basis they are not material to the Group.

Subsidiary undertakings

	Registered office	Holding	Proportion of shares held	Nature of business
All held by the Company:				
SMS Connections Limited	1	Ordinary shares	100%	Gas utility management
SMS Meter Assets Limited	1	Ordinary shares	100%	Gas utility management
SMS Data Management Limited	1	Ordinary shares	100%	Data management
UKMA (AF) Limited*	2	Ordinary shares	100%	Leasing
SMS Energy Services Limited	3	Ordinary shares	100%	Electricity utility management
SMS Italia SRL*	4	Ordinary shares	100%	Electricity utility management
CH4 Gas Utility and Maintenance Services Limited	3	Ordinary shares	100%	Meter installation
Trojan Utilities Limited	3	Ordinary shares	100%	Meter installation
Qton Solutions Limited	3	Ordinary shares	100%	Business and domestic software development

* The shareholding in this company is indirect via a subsidiary company.

1. Registered office address: 2nd Floor, 48 St. Vincent Street, Glasgow G2 5TS.

2. Registered office address: CMS Cameron McKenna LLP Cannon Place, 78 Cannon Street, London EC4N 6AF.

3. Registered office address: Prennau House Copse Walk, Cardiff Gate Business Park, Cardiff CF23 8XH.

4. Registered office address: Via Gaudenzio Ferrari, 21/C 21047 Saronno VA, Italy.

12 Impairment of goodwill

The goodwill acquired in business combinations is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. The goodwill is allocated to the Asset Management and Asset Installation segments which are the segments that are expected to benefit from combining gas and electricity offerings. The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The annual impairment test was performed and no evidence of impairment was found as at the balance sheet date.

Goodwill has been tested for impairment by comparing the carrying amount of each CGU, including goodwill, with the recoverable amount. The recoverable amounts are determined from value-in-use calculations.

The key assumptions for the value-in-use calculations are those regarding pre-tax cash flow projections, discount rates and growth rates. The pre-tax cash flow is based in past performance and expectations as set out in the latest projections based on financial budgets approved by management. This discount rate reflects the current market assessment of the time value of money. Long-term growth is assumed at 2% and the estimated cash flows are derived by discounting future cash flows that are based on conservative growth and attrition rates and discounted at a pre-tax rate of 8.2%.

Base case forecast show significant headroom above carrying value of each CGU, there is no reasonably possible change that would cause the carrying values to exceed recoverable amounts.

13 Inventories

	2016 £'000	2015 £'000
Finished goods	5,569	996
Consumables	552	103
	6,121	1,099

14 Trade and other receivables

	2016 £'000	2015 £'000
Trade receivables	7,610	4,815
Prepayments	1,369	221
Accrued income	5,248	5,145
Other receivables	617	24
VAT recoverable	892	—
Income tax recoverable	58	—
	15,794	10,205

Amounts falling due after more than one year:

	2016 £'000	2015 £'000
Accrued income	628	901

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

The Group's credit risk is primarily attributable to trade receivables and accrued income. The amounts presented in the consolidated statement of financial position are net of allowances for doubtful receivables. The allowance for doubtful receivables or provision against accrued income in the year was £1,081,541 (2015: £367,253). The ageing profile of trade receivables past due date is shown below:

	2016 £'000	2015 £'000
31–60 days	1,039	1,168
61–90 days	391	321
Over 90 days	1,883	776
	3,313	2,265
Allowance for doubtful receivables	(1,082)	(367)
	2,231	1,898

Trade receivables are non-interest bearing and are generally on 30–90-day terms.

Trade receivables due from related parties at 31 December 2016 amounted to £Nil (2015: £Nil).

Receivables are all in Sterling denominations.

The Directors are of the opinion that £1,082,000 of the overdue debts as at 31 December 2016 require impairment.

Accrued income is invoiced periodically and customers are the same as those within trade receivables. Due to its nature there is no accrued income past due.

15 Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group. The carrying amount of the asset approximates the fair value. All balances are held in Sterling.

During each period, there were no amounts of cash placed on short-term deposit.

For the purposes of the cash flow statement, cash and cash equivalents comprise:

	2016 £'000	2015 £'000
Cash	7,999	5,711
	7,999	5,711

16 Trade and other payables

	2016 £'000	2015 £'000
Current		
Trade payables	11,421	5,324
Other payables	2,913	94
Advance payments	2,700	3,105
Other taxes	1,782	827
Deferred income	790	602
Accruals	6,411	4,967
Income tax payable	725	445
	26,742	15,364

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

Trade payables are non-interest bearing and are normally settled on 30–45-day terms.

All trade liabilities are Sterling denominated.

17 Bank loans and overdrafts

	2016 £'000	2015 £'000
Current		
Bank loans	14,530	8,496
	14,530	8,496
Non-current		
Bank loans	87,646	76,219
	87,646	76,219

Bank loans at 31 December 2016 relate to a revolving credit facility of £150.0m that was finalised in March 2016.

The loan is available for 24 months, is payable in equal quarterly instalments based on a ten-year repayment profile, with a final repayment date of 14 March 2019. The loan attracts interest at a rate of 1.9% over the three-month LIBOR. 0.76% is paid on undrawn funds.

Since the year end a new £280m revolving credit facility has been agreed with a syndicate of banks which comprises Barclays Bank PLC, Santander UK PLC, HSBC UK, Clydesdale Bank PLC and Bank of Scotland PLC. The revolving credit facility replaces the Group's existing £150m revolving credit facility.

The banks have a bond and floating charge over current and future property and assets.

18 Commitments under hire purchase agreements

Future minimal commitments under hire purchase agreements are as follows:

	2016 £'000	2015 £'000
Current		
Amounts payable within one year	28	64
Non-current		
Amounts payable between two and five years	1	14

The Group has hire purchase contracts for various items of computer equipment. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

The Directors consider that the future minimum lease payments under hire purchase contracts approximate to the present value of the minimum payments. Obligations under hire purchase contracts are secured on the underlying assets.

19 Other financial liabilities and assets

The Group's treasury policy and management of financial instruments, which form part of these financial statements, are set out in the Financial Review.

	2016 £'000	2015 £'000
Other financial assets	—	—
Non-current liabilities		
Other financial liabilities	—	46

Other financial assets and liabilities relate to the fair value adjustment on interest rate swaps. In December 2015 the fair value of financial instruments were valued using Level 2 techniques.

The interest rate swaps cover an interest rate swap for an amount of £Nil as at 31 December 2016 (2015: £26,400,000).

The interest rate swap was settled on 15 September 2016.

20 Financial risk management

The Board reviews and agrees policies for managing the risks associated with interest rate, credit and liquidity risk. The Group has in place a risk management policy that seeks to minimise any adverse effect on the financial performance of the Group by continually monitoring the following risks:

Interest rate risk

The Group's interest rate risk arises as a result of both its long and short-term borrowing facilities.

The Group seeks to manage exposure to interest rate fluctuations through the use of fixed interest rate swaps.

Interest rate sensitivity

The following table demonstrates the sensitivity to a change in interest rates on loans and borrowings after the impact of hedge accounting. The Group's profit before tax is affected through the impact on floating rate borrowings as follows:

	Increase/decrease in basis points	Effect on profit before tax £'000
Pound Sterling		
2016	—	46
2015	1%	329

Interest rate risk profile of financial liabilities

The interest rate profile of the financial liabilities of the Group (being bank loans and overdrafts, obligations under finance leases and other financial liabilities) as at each period end is as follows:

	Fixed rate financial liabilities £'000	Variable rate financial liabilities £'000	Total £'000
2016	—	112,796	112,796
2015	26,400	58,556	84,956
1 January 2015	30,153	31,550	61,703

The fixed rate financial liabilities relate to the portion of the banking facility that is fixed through hedging instruments.

Interest rate risk profile of financial assets

The Group's financial assets at 31 December 2016 comprise cash and trade receivables. The cash balance of £7,999,000 (2015: £5,711,000) is a floating rate financial asset.

Fair values of financial liabilities and financial assets

The fair values, based upon the market value or discounted cash flows of financial liabilities and financial assets held in the Group, were not materially different from their book values.

Foreign currency risk

The Group's exposure to the risk of changes in foreign exchange is insignificant as primarily all of the Group's operating activities are denominated in Pound Sterling.

Liquidity risk

The Group manages its cash in a manner designed to ensure maximum benefit is gained whilst ensuring security of investment sources. The Group's policy on investment of surplus funds is to place deposits at institutions with strong credit ratings, this is considered to be institutions with a credit rating of AA- and above. Currently, all of the chosen investment institutions are in line with his criteria.

The ageing and maturity profile of the Group's material liabilities is covered within the relevant liability note or below.

	2016 £'000	2015 £'000
Fixed rate		
Less than one year	—	3,392
Two to five years	—	12,497
Over five years	—	14,119
	—	30,008
Variable rate		
Less than one year	16,574	6,728
Two to five years	62,792	25,597
Over five years	33,430	35,096
	112,796	67,421

Credit risk

Credit risk with respect to trade receivables and accrued income is due to the Group trading with a limited number of companies which are generally large utility companies or financial institutions. Therefore, the Group does not expect, in the normal course of events, that these debts are at significant risk. The Group's maximum exposure to credit risk equates to the carrying value of cash held on deposit and trade, other receivables and accrued income.

The Group's maximum exposure to credit risk from its customers is £12,858,000 (2015: £9,960,000) as disclosed in note 14 – trade and other receivables, and accrued income.

The Group regularly monitors and updates its cash flow forecasts to ensure it has sufficient and appropriate funds to meet its ongoing operational requirements whilst maintaining adequate headroom on its facilities to ensure no breach in its banking covenants.

Capital management

Capital is the equity attributable to the equity holders of the parent. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure, and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, sell assets, return capital to shareholders or issue new shares.

The Group monitors capital on the basis of a leverage ratio. This ratio is calculated as net debt divided by EBITDA. Net debt is calculated as total borrowings less cash. EBITDA is calculated as operating profit before any significant non-recurring items, interest, tax, depreciation and amortisation.

The objective of SMS's strategy is to deliver long-term value to its shareholders whilst maintaining a balance sheet structure that safeguards the Group's financial position. From an ordinary dividend perspective our objective is to provide a progressive, through cycle dividend that reflects the potential volatility of our business.

21 Deferred taxation

The movement in the deferred taxation liability during the period was:

	2016 £'000	2015 £'000
Opening deferred tax liability	6,139	4,395
Increase in provision through Consolidated statement of comprehensive income	1,186	1,467
Increase in provision through equity	98	97
Deferred tax on intangibles acquired as part of acquisitions	462	—
Other	—	180
Closing deferred tax liability	7,885	6,139

All movements identified have gone through the statement of comprehensive income.

The Group's provision for deferred taxation consists of the tax effect of temporary differences in respect of:

	2016 £'000	2015 £'000
Excess of taxation allowances over depreciation on property, plant and equipment	8,934	7,029
Tax losses available	(265)	—
Deferred tax asset on share options	(1,643)	(1,708)
Deferred tax on intangible acquired	679	828
Fair value of interest rate swaps (net)	—	(10)
Other	180	—
	7,885	6,139

The deferred tax included in the Consolidated statement of comprehensive income is as follows:

	2016 £'000	2015 £'000
Accelerated capital allowances	1,690	1,736
Tax losses	(175)	—
Deferred tax asset on share options	(33)	36
Movement in fair value of intangibles	(491)	(309)
Movement in fair value of interest rate swaps	10	4
Other	184	—
	1,185	1,467

Finance Bill 2016, which was substantively enacted on 6 September 2016, includes legislation reducing the main rate of UK corporation tax from 20% to 17%. This decrease is to be phased in with a reduction to 19% effective from 1 April 2017, then a further reduction to 17% effective from 1 April 2020. Consequently deferred tax has been provided at the tax rates at which temporary differences are expected to reverse.

22 Related party transactions

A number of key management personnel hold positions in other entities that result in them having control or significant influence over the financial or operating policies.

A number of these entities transacted with the Group in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel and related entities on an arm's length basis.

During the period, the Group entered into the following transactions with related parties:

During the year the Group paid rent amounting to £41,500 (2015: £41,500) to the Directors' pension scheme, Eco Retirement Benefit Scheme, for the use of certain premises. Alan Foy is a trustee of the scheme. At the year-end date, an amount of £4,150 (2015: £4,150) was outstanding in this regard.

The Group also paid rent of £28,417 (2015: £32,000) to another individual classified as key management for the use of certain premises.

During the year, the Group paid dividends to Alan Foy of £269,548 (2015: £252,178) and Miriam Greenwood of £401 (2015: £298).

At the year end Trojan Utilities Limited had a balance with Utilities Academy Limited of £26,442 with transactions during the year amounting to £49,508.

Remuneration of key management, which includes Executive and Non-executive Directors together with certain management personnel, was as follows:

	2016 £'000	2015 £'000
Salaries and other short-term employee benefits	1,622	1,227

23 Share capital

	2016 £'000	2015 £'000
Allotted and called up:		
89,203,739 ordinary shares of £0.01 each (2015: 86,112,912 ordinary shares of £0.01 each)	892	861

On 11 January 2016, 6,579 ordinary share options were exercised, 5,008 retained and 1,571 subsequently sold by staff.

On 31 March 2016, 17,598 ordinary share options were exercised, 11,722 retained and 5,876 subsequently sold by staff.

On 5 April 2016, 1,072,055 ordinary shares were issued as consideration for the acquisition of CH4 Gas Utility and Maintenance Services Limited (CH4), Trojan Utilities Limited (Trojan) and Qton Solutions Limited (Qton). See note 28 for further information.

On 12 April 2016, 35,378 ordinary share options were exercised, 26,560 retained and 8,818 subsequently sold by staff.

On 25 April 2016, 4,079 ordinary share options were exercised, 2,704 retained and 1,375 subsequently sold by staff.

On 23 June 2016, 1,452,725 ordinary share options were exercised, 412,912 retained and 1,039,812 subsequently sold by staff.

On 8 July 2016, 500,000 ordinary share options were exercised and subsequently sold by staff.

On 12 July 2016, 713 ordinary share options were exercised and subsequently sold by staff.

On 10 November 2016, 1,700 ordinary share options were exercised and subsequently sold by staff.

24 Share-based payments

On 20 June 2011, the Company adopted both an Approved Company Share Option Plan (CSOP) and an Unapproved Company Share Option Plan ("the Unapproved Plan").

CSOP

The CSOP is open to any employee of any member of the Group up to a maximum value of £30,000 per employee. No option can be exercised within three years of its date of grant. The performance conditions for awards are based on market capitalisation and individual performance targets.

Unapproved Plan

The Unapproved Plan is open to any employee, Executive Director or Non-executive Director of the Company or any other Group company who is required to devote substantially the whole of his time to his duties under his contract of employment. Except in certain specified circumstances no option will be exercisable within five years of its grant. The performance conditions for awards are based on market capitalisation and individual performance targets. The options granted on 28 June 2013 were granted following the surrender of previously vested awards held by the non-executive directors and became exercisable immediately on the date of grant.

Plan	At 1 January 2016	Granted	Exercised	Lapsed	At 31 December 2016	Exercise price (pence)	Date exercisable	Expiry Date
CSOP	179,961	—	(93,834)	—	86,127	76.0	15/07/14	15/07/21
CSOP	3,500	—	(3,500)	—	—	153.5	28/05/15	28/05/22
Unapproved	2,560,393	—	(1,920,725)	(50,002)	589,666	60.0	20/06/16	20/06/21
Unapproved	1,150,737	—	—	(49,548)	1,101,189	153.5	28/05/17	28/05/22
Unapproved	28,700	—	—	—	28,700	60.0	28/06/13	28/06/23
Unapproved	1,337,935	—	(713)	(36,152)	1,301,070	350.0	12/11/19	12/11/24
Unapproved	—	317,382	—	—	317,382	391.8	20/03/21	19/03/26
Unapproved	—	172,634	—	—	172,634	470.0	18/08/21	17/08/26

The average weighted average share price at the date of exercise was £4.90.

Valuation

The fair value of all options granted has been estimated using appropriate option pricing models, taking into account the terms upon which the options were granted, including the market-based performance conditions. The fair value per share of the outstanding options were estimated as follows.

Grant date	Plan	Fair value (pence)
15 July 2011	CSOP	17.1
28 May 2012	CSOP	31.5
20 June 2011	Unapproved	17.4
20 June 2011	Unapproved	13.0
28 May 2012	Unapproved	40.0
28 June 2013	Unapproved	244.0
12 Nov 2014	Unapproved	84.8
20 March 2016	Unapproved	61.5
18 August 2016	Unapproved	87.2

The total fair value of these options is recognised over the period from their grant date until they become exercisable.

Share Incentive Plan (SIP)

The Company introduced the Smart Metering Systems Share Incentive Plan (SIP) in October 2014. All employees of the Group (including executive Directors) are eligible to participate in the SIP. Participants may each acquire "Partnership Shares" worth up to £1,800 per year from their pre-tax earnings at market value. The Company awards participants one Matching Share for each Partnership Share which they acquire. Dividends received on shares held in the SIP are reinvested to acquire Dividend Shares at market value. (Matching Shares may be forfeited if the participant disposes of the corresponding Partnership Shares or leaves the employment of the Group within three years of the award date.)

SIP awards

The table below shows the number of shares held in the SIP at the beginning and end of the financial year.

Type of award	At 1 January 2016	Awarded shares	Sold	Lapsed	At 31 December 2016	Weighted average acquisition price
Partnership	60,895	35,662	(2,450)	—	94,107	£4.90
Matching	60,549	35,662	(624)	(1,880)	93,707	£4.90
Dividend	317	1,200	(20)	—	1,497	£3.58
Total	121,761	72,524	(3,094)	(1,880)	189,311	

25 Other reserve

This is a non-distributable reserve that initially arose by applying merger relief under section 162 of the Companies Act 2006 to the shares issued in 2009 in connection with the Group restructuring. This was previously recognised as a merger reserve under UK GAAP. Under IFRS, this has been classed as an "other reserve". Additionally, the premium of £4,189,000 arising on the issue of shares as part of the acquisitions of CH4 Gas Utility and Maintenance Services Limited (CH4), Trojan Utilities Limited (Trojan) and Qton Solutions Limited (Qton) has been credited to this reserve.

26 Commitments under operating leases

The Group has entered into commercial leases for office space. These leases have lives between one and 15 years with no renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at each year end are as follows:

	2016 £'000	2015 £'000
Future minimal commitments under operating lease agreements are as follows:		
Payable within one year	1,543	271
Payable within two and five years	2,144	375
Payable after five years	162	259
	3,849	905

During the year vehicles acquired as part of Trojan Utilities Limited that were previously financed under Hire Purchase agreements were subject to a sale and operating leaseback arrangement with a third party at arms length rates.

27 Ultimate controlling party

There is no ultimate controlling party by virtue of the structure of shareholdings in the Group.

28 Business combinations

Acquisitions of Trojan, CH4 and Qton

On 18 March 2016, the Group acquired 100% of the issued share capital of CH4 Gas Utility and Maintenance Services Limited ("CH4"), 100% of the issued share capital of Trojan Utilities Limited ("Trojan") and 100% of the issued share capital of Qton Solutions Limited ("Qton").

CH4 and Trojan are meter suppliers and they will enhance SMS's capability to be a key participant in the substantial new Domestic smart meter market for homes and small businesses in the UK.

Alongside these installation businesses, Qton will help to serve SMS's existing and future contracts, most of which use its systems already. This will ensure full confidence to energy suppliers throughout the domestic smart meter rollout.

CH4 is a specialist in traditional and smart gas and electricity metering installations to the Domestic and I&C sectors. It operates throughout the UK and is a current service provider to SMS.

Trojan is a leading installation service provider to energy suppliers in the UK and delivers domestic smart has and electricity trained and accredited installation services.

Qton has a team of IT professionals specialising in the provision of work and field management IT systems applications for gas and electricity metering installations. The customers for the company's solutions are energy

suppliers, installations contractors and meter asset managers and owners in the UK with specific applications tailored for domestic dual fuel smart installations.

The acquisition has been accounted for using the acquisition method. The fair value of the identifiable assets and liabilities of each company as at the date of acquisition was as follows:

	CH4 £'000	Trojan £'000	Qton £'000	Total £'000
Property, plant and equipment	366	1,459	18	1,843
Software	—	500	1,500	2,000
Customer contracts	—	—	—	—
Other financial assets	—	109	—	109
Inventories	175	73	—	248
Trade and other receivables	1,622	673	228	2,523
Cash and cash equivalents	167	88	197	452
Total assets	2,330	2,902	1,943	7,175
Trade and other payables	(551)	(516)	(38)	(1,105)
Accruals and deferred income	(1,046)	(1,624)	(564)	(3,234)
Obligations under hire purchase agreements	(92)	(923)	—	(1,015)
Total liabilities	(1,689)	(3,063)	(602)	(5,354)
Acquisition date fair value of the assets	641	(161)	1,341	1,821
Goodwill arising on acquisition	1,359	579	1,559	3,497
Total consideration transferred (as equity instruments)	2,000	418	2,900	5,318

Analysed as

	CH4 £'000	Trojan £'000	Qton £'000	Total £'000
Ordinary Shares	4	—	7	11
Merger reserve	1,596	—	2,593	4,189
Deferred consideration (included within other creditors)	400	418	300	1,118
Total consideration	2,000	418	2,900	5,318

On 5 April 2016 1,072,055 ordinary shares were issued as consideration for the acquisition of CH4, Trojan and Qton at a price of 391.775p.

The fair value of the equity instruments (ordinary shares) issued as consideration paid was determined on the basis of the closing market price of SMS ordinary shares on the date of acquisition.

There are no contingent consideration arrangements in any of the acquisitions.

The financial information included the results of CH4, Trojan and Qton for the period 18 March 2016 to 31 December 2016, during which time:

	CH4 £'000	Trojan £'000	Qton £'000	Total £'000
The contribution to revenue by each company was:	907	5,115	871	6,893
And to Group profit for the period was:	(1,224)	(1,502)	351	(2,376)

If the combinations had each taken place at the beginning of the period:

	CH4 £'000	Trojan £'000	Qton £'000	Total £'000
The contribution to Group profit from each would have been:	(1,521)	(1,698)	(158)	(3,377)
And the contribution to revenue from continuing operations from each would have been:	2,140	6,576	1,163	9,879

The acquisitions of CH4 and Trojan are part of the Group's strategy to gain direct control of a large proportion of our installation capacity for ongoing delivery of our customer contracts in the I&C and Domestic meter markets. This will provide confidence to our customers in our delivery model for the new Domestic smart metering market. In addition, the acquisition of Qton allows the Group to gain direct control and ownership of all software applications used by SMS for asset installation and ongoing management.

The goodwill recognised above is attributed to the expected benefits of securing our installation capacity and controlling our software applications.

None of the goodwill recognised is expected to be deductible for income tax purposes.

The primary components of this residual goodwill comprise:

- the workforce;
- the software capability;
- revenue synergies from dual fuel; and
- new opportunities available to each company as part of the larger AIM-listed Group.

The identifiable intangible assets will be amortised as follows:

- Software – 20%
- Customer contracts – 20%

Transaction costs and expenses directly relating to the acquisitions of £455,000 have been disclosed as exceptional items in the consolidated financial statements and are included within administrative expenses.