

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

Final results for the year ended 31 December 2017

Smart Metering Systems plc (AIM: SMS.L) is pleased to announce its final results for the 12 months to 31 December 2017, which show continued growth across all business areas.

Financial highlights

- Revenue increased by 18% to £79.6m (2016: £67.2m)
- Total annualised recurring revenue¹ increased by 38% to £57.0m (2016: £41.3m)
 - Gas: meter recurring revenue increased by 15% to £36.1m (2016: £31.5m) and data recurring revenue increased by 15% to £3.0m (2016: £2.6m)
 - Electricity: meter recurring revenue increased by 283% to £11.2m (2016: £2.9m) and data recurring revenue grew 56% to £6.7m (2016: £4.3m)
- Gross profit increased by 9% to £40.4m (2016: £36.9m)
- Gross profit margin decreased by 4% to 51% (2016: 55%)
- EBITDA increased by 19% to £38.8m (2016: £32.5m)
- EBITDA margin increased by 1% to 49% (2016: 48%)
- PBT decreased by 2% to £18.0m (2016: £18.2m)
- Earnings per share decreased to 16.17p (2016: 17.33p)
- *Pre-exceptional EBITDA² increased by 22% to £40.3m (restated 2016: £33.0m)
- *Underlying PBT^{2,3} increased by 7% to £22.2m (restated 2016: £20.7m)
- *Underlying earnings per share⁴ increased to 19.93p (restated 2016: 19.66p)
- Final dividend of 3.46p per ordinary share totalling 5.20p for the full year (2016: 4.10p), an increase of 27%
- Net debt at 31 December 2017 was £36.5m (2016: £94.2m), with access to cash and undrawn facilities of £243.5m (2016: £55.8m)

* In 2017 the Board has taken the decision to change the presentation of the underlying performance measures to now include other operating income. The Board believe this income is an integral feature of the replacement of meters, particularly prevalent during the current smart domestic rollout and will occur with greater regularity on an ongoing basis. All prior year underlying results have been restated in accordance with this new approach.

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

2 Pre-exceptional EBITDA and underlying PBT figures are presented under our revised approach to include other operating income.

3 Underlying PBT is before exceptional items and intangible amortisation.

4 Underlying earnings per share is profit after taxation but before exceptional items 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 780,000 to just over 2.03 million under management at 31 December 2017 (2016: 1.25 million)
 - Total gas meter portfolio, including 3rd party management assets, increased by 45% to 1,273,000 (2016: 881,000), with industrial and commercial (I&C) meters increasing by 14% to 163,000 (2016: 143,000). Gas data portfolio increased by 17% to 126,000 (2016: 108,000)
 - Total electricity meter portfolio increased by 301% to 309,000 (2016: 77,000). Electricity data portfolio increased by 74% to 323,000 (2016: 186,000)
- ADM™ installations up 13% to 103,000 units at 31 December 2017 (2016: 91,000)
- Capital expenditure on revenue generating assets was £122.8m (2016: £42.5m)

Alan Foy, Chief Executive Officer, commented:

"2017 has been a year of investment in our business – building capacity to grow and deliver for our customers, particularly in the domestic smart meter rollout.

We enter 2018 with a solid financial platform and are well positioned to continue making progress in our core markets."

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Notes to Editors

About Smart Metering Systems

Smart Metering Systems plc installs, owns and operates gas and electricity meters throughout the UK both in relation to domestic customers and industrial & commercial. The Company provides services for gas and electricity meter installations to help energy companies meet the UK Government's target to offer every household smart meters by 2020.

The Company's services also include full end to end energy management services, infrastructure design, installation, consultancy and project management services for new gas, electricity, water and telecoms connections for licenced energy and telecoms suppliers, end consumers and the UK's licenced electricity Distribution Network Owners (DNO's).

The Company is headquartered in Glasgow and has a network of offices in Cardiff, Cambridge, Bolton, Doncaster, Rugby, and Normanton.

Established in 1995, 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

I am pleased with the progress made in the year, another year of strong trading activity contributing to continued growth across the business.

2017 has seen us make excellent progress, investing to build capacity through our strategic plan to enable us to install, own and manage a significantly increased number of utility metering assets for our energy supplier customers – particularly in the smart domestic market. This platform and increased capacity across all aspects of our operations puts us in a strong position to continue to grow our share of the UK's smart domestic meter installation programme over the next three to four years.

Whilst continuing our profitable growth, the link to our heritage remains strong, with a focus on serving our customers. Our core values of investing in our people, systems and capacity remain as important to us today as they have been over the last 22 years. We have grown to 825 staff on a national basis and our people are key to delivering excellent customer service. I would like to thank all our employees for their highly valued contribution to serving our customers.

We now manage over two million utility metering and data assets on behalf of a continually expanding customer base of energy suppliers in both the Industrial and Commercial (I&C) and Domestic markets. This now includes a total portfolio of over 420,000 smart domestic meters.

In November 2017, we refinanced the business, extending the term of our £280m revolving credit facility and completing a £150m equity placing, providing us with a strong financial platform to help our customers complete their domestic smart meter programmes. I would like to thank our existing and new long-term investors and funders for their support.

Delivering our strategy

Last year we strategically changed our operational delivery model to gain direct control over a large proportion of our installation capacity and the end-to-end IT platform which underpins it. The value of this approach can be seen in the last year as SMS has performed strongly – deploying more capital and generating more incremental annualised recurring revenue than in the two previous years combined. This long-term annualised and index-linked recurring revenue has increased by 38% during the year, driven by the management and systems capacity in which we have invested. This enables us to provide energy suppliers with complete confidence in our ability to deliver their mandated roll out targets.

The UK domestic smart meter rollout is a government programme, requiring each energy supplier to offer installation of a smart meter in every home and business across the UK by 2020. This represents our largest market opportunity to increase the utility meters under management and as a result grow our index linked recurring revenue, with c.43m meters still to be installed across the market. Our strategy has positioned SMS to have control over the systems, people, processes and capacity to deliver on the market opportunity.

We plan to continue to increase our metering installation and management capacity and run rates with our growing customer base to enable SMS to continue to grow the two million assets currently under management.

Our strategic priorities, in 2018, will be to:

1. Continue to install and own utility metering infrastructure and secure rental and data revenues from our contracted energy suppliers in the I&C market.
2. Build on our strategic positioning and investment in capacity to take advantage of the domestic smart market opportunity in the UK. This is founded on our proven end-to-end delivery capability, increasing capacity and track record of customer service and operational delivery.
3. Innovate our services to build big data, energy management, financing and installation capabilities that enable our customers to reduce their carbon emissions, and facilitate our investment in infrastructure asset classes which provide long-term recurring revenue.

People and systems

Our Board has evolved in 2017. In March we announced that Glen Murray, who had served as Chief Financial Officer of SMS since 2011, had decided to step down from the Board and leave the business. I would like to thank Glen, on behalf of the Board, for his significant contribution to SMS over the last six years. We appointed David Harris as his replacement, who unfortunately resigned in August for health reasons. In September, we welcomed to the Board David Thompson as Chief Financial Officer. David had already made a significant contribution to the SMS success story in his previous role as Group Finance Director and is ideally placed to help drive the continued growth of the Company. In January 2018, Kelly Olsen joined us as a Non-executive Director, bringing a wealth of experience as an information technology specialist. Kelly is chairing a newly created Information and Technology Committee of the Board, with a remit to review and provide strategic guidance on development of the Company's technology programmes. This is recognition of the importance of technology, information security and IT systems in providing the platform for our business to deliver a first-class customer experience. It will also provide a solid foundation for future IT investment, ultimately contributing to future shareholder returns.

We have continued to invest heavily in our people during 2017, most notably through our in-house training academy to increase and develop our capacity for the domestic smart meter rollout. This capability is also key to our leading Health & Safety and technical assurance management controls, which are at the heart of everything we do.

The business continues to operate with a market-focused structure, with three main service lines:

Asset management: We fund, at highly competitive rates, new meter and data assets which we install direct or adopt from third parties.

Asset installation: We have built one of the largest independent and national dual fuel metering installation services, enabling energy suppliers to achieve their mandated obligations under the government's smart meter programme.

Energy Management: We have an extensive team of experts who provide a full range of energy services, including risk management, bureau, energy efficiency, carbon reduction, generation and storage.

Our technology, IT development and data security capabilities underpin all of these service lines and also provide new opportunities to innovate our services to the benefit of our customers beyond smart metering, particularly as we consider opportunities to install other long-term assets.

The safety of everyone involved in or associated with our business is of the utmost critical importance to us. "Safety Matters" has been put at the heart of our business culture. We are proud of our assurance activities which always ensure that health and safety is our top agenda item. However, we are not complacent and continue to invest and rigorously challenge, evaluate and assess the risks within our business to ensure that we are doing everything possible to ensure the health and safety of all our stakeholders.

Dividend

We are pleased to announce a proposed final cash dividend of 3.46p for the year ended 31 December 2017 (2016: 2.73p). In addition to the interim dividend of 1.74p (2016: 1.37p), this will make a total dividend of 5.20p (2016: 4.10p), a 27% increase. The final dividend will be paid on 31 May 2018 to those shareholders on the register (record date) on 27 April 2018 with an ex-dividend date of 26 April 2018.

Outlook

We enter 2018 with a solid financial platform, a strong and growing utility metering installation capacity and ownership proposition, and the capability to innovate our services for our customers' benefit over the long term.

We are in a strong position to continue to benefit from the domestic smart metering market and are continuing to increase the range of services to reduce customers' carbon emissions and transform the UK energy system for the future.

We are committed to investing in metering installation and our ownership capacity, listening to and serving our customers' needs and innovating our service proposition.

We are confident that our proven and established leadership team will continue to build on our success as we deliver our strategic plan and take the business to the next phase of growth.

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 2017.

2017 has been a year of investment in our business – building capacity to grow and deliver for our customers in the domestic smart meter rollout which stipulates that smart electricity and gas meters are to be offered to every home in the UK by the end of 2020. After transforming our business model in 2016 through three strategic acquisitions to take control of our delivery services, we have accelerated our installation activities throughout 2017. As a result we have grown to have over two million utility metering and data assets under management (+62%), generating £57.0m in annually recurring index-linked revenue (+38%). The scale of this opportunity is clear: we invested more capital in meter assets and added more annualised recurring revenue in 2017 than in the two previous years combined. This is illustrated by continued progress to the end of February 2018 where our portfolio of meter and data assets stood at 2.26 million generating £60.7m of annualised recurring revenue.

In order to grow these installation run rates we have continued to invest in capacity across our business. We have invested in inventory to ensure we are able to meet customer demand, we have invested in a new operational delivery hub in Doncaster, we have invested in our IT systems and in our contact centre, we have invested in our health and safety and compliance management, and we continue to invest in our field engineer capacity through our accredited training school. We were particularly pleased to also add further financial capacity to the business through the successful completion of a £150m equity placement in November 2017.

During 2017 we materially began to roll out smart meter installations from the eight non-exclusive framework agreements with UK domestic energy suppliers signed the previous year, and were pleased to add another significant framework contract to this list in August. These nine customers supply c.2.5 million consumers and on their behalf we installed over 370,000 smart meters to take our total smart portfolio to over 420,000 meters.

Operational review

During 2017 our gas and electricity meter and data portfolio under management increased by 62% from 1.25 million to over 2 million assets. Meter assets grew by 65% from 958,000 to 1,583,000 and data assets grew by 53% from 294,000 to 449,000 data points.

Our primary financial KPI is our annualised long-term index-linked recurring revenue (derived from our recurring rental revenue from our installed meter and data asset base) which increased by 38% from £41.3m to £57.0m as of the end of 2017. This increase of £15.7m compares to an increase of £6.6m in 2016, demonstrating the size of the opportunity ahead of us, and is the primary rationale behind the £150m equity placement which provides us with the financial capacity to take advantage of this opportunity.

This financial KPI is central to our long-term annuity financial model as, once installed, these meters provide recurring rental revenue for the lifetime of the assets, alongside providing maintenance, support and ongoing service opportunities.

Industrial & Commercial (I&C) market

SMS has a strong and proven track record in the I&C market and we continue to benefit from continued demand for our services, particularly as the government has extended the date for which advanced meters contribute to its smart rollout obligations to October 2018 in the small business segment. This means that not only do we support our contracted energy supplier customers to complete their meter exchange programmes, but we also then collect and provide meter consumption data to them and the end users for billing and energy management purposes. Demand for these services remains strong, particularly in the micro business category, and we expect that to remain the case throughout 2018.

In the I&C gas market we continue to deploy the ADM device, our advanced metering solution, which provides half-hourly meter read information and we now have 103,000 of these operational across the UK (increased from 91,000 at the end of 2016). We continue to see opportunities for our ADM device as part of other UK and international utility metering solutions.

UK Domestic market

2017 saw SMS materially embark on the rollout of smart meters as part of the UK government's mandated smart meter programme, which requires all UK households and small businesses to be offered a smart meter by the end of 2020.

There are c.53 million gas and electricity meters in the UK and, as of the end of September 2017, there were 9.44 million smart and advanced meters installed in homes and businesses across the country. The market share of "challenger" energy suppliers in the domestic market has increased to c.17% at the start of 2017 (c.9 million meters) and SMS has framework agreements with nine such independent energy suppliers, equivalent to up to five million of these meter points. We continue to engage with all energy suppliers in the market and believe we provide an attractive proposition to meet their installation deadlines, as we have both the financial and operational capacity to provide certainty to deliver their mandated obligations.

Energy management services

We provide the tools, expertise and knowledge to help our customers make better energy decisions, increase their control over their energy expenditure and reduce their costs and carbon footprints. Our innovative approach to monitoring and managing consumption data allows us to extract additional value for our customers and enables us to provide an integrated service covering collection and analysis of meter consumption data and the utilisation of that data to identify and deliver energy reduction activity. Our energy services therefore both take advantage of and provide opportunities for increased data recurring revenue, as well as providing a full range of energy management services in their own right. In 2017 we processed and analysed 630,000 billing points, delivered over 300 energy audits and compliance surveys and continued to identify significant opportunities for SMS to deliver turnkey energy reduction projects which we expect to accelerate in 2018.

We also provide and manage multi-utility infrastructure solutions throughout the UK. Our services cover the entire connections process from the initial feasibility stages and procurement to the final installation works, ranging from one-off gas and electricity connections, to multi-utility major projects. Our unrivalled customer service and years of expertise continue to make us the utility connections provider of choice and we see continued and increasing demand for these services.

Consolidated statement of comprehensive income

For the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Revenue	1	79,593	67,188
Cost of sales	2	(39,164)	(30,257)
Gross profit		40,429	36,931
Administrative expenses	2	(21,270)	(17,438)
Other operating income	2	3,446	1,075
Profit from operations	2	22,605	20,568
Attributable to:			
Operating profit before exceptional items, other operating income and amortisation of intangibles		22,825	21,939
Amortisation of intangibles		(2,151)	(1,991)
Other operating income		3,446	1,075
Exceptional items	2	(1,515)	(455)
Finance costs: exceptional	5	(524)	—
Finance costs: other	5	(4,137)	(2,327)
Finance income	5	21	2
Profit before taxation		17,965	18,243
Taxation	6	(3,306)	(2,998)
Profit for the year attributable to equity holders		14,659	15,245
Other comprehensive income		—	—
Total comprehensive income		14,659	15,245

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

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

	Notes	2017	2016
Basic earnings per share (pence)	7	16.17	17.33
Diluted earnings per share (pence)	7	15.89	17.02

Consolidated statement of financial position

As at 31 December 2017

	Notes	2017 £'000	2016 £'000
Assets			
Non-current assets			
Intangible assets	9	13,870	14,611
Property, plant and equipment	10	265,346	157,977
Investments	11	118	118
Trade and other receivables	14	594	628
		279,928	173,334
Current assets			
Inventories	13	16,575	6,121
Trade and other receivables	14	25,708	15,794
Cash and cash equivalents	15	150,600	7,999
		192,883	29,914
Total assets		472,811	203,248
Liabilities			
Current liabilities			
Trade and other payables	16	48,182	26,742
Bank loans and overdrafts	17	23,197	14,530
Commitments under hire purchase agreements	18	—	28
		71,379	41,300
Non-current liabilities			
Bank loans	17	163,887	87,646
Commitments under hire purchase agreements	18	—	1
Deferred tax liabilities	20	9,924	7,885
		173,811	95,532
Total liabilities		245,190	136,832
Net assets		227,621	66,416
Equity			
Share capital	22	1,124	892
Share premium		158,592	10,861
Other reserve	24	9,562	8,447
Treasury shares	23	(697)	(327)
Retained earnings		59,040	46,543
Total equity attributable to equity holders of the parent company		227,621	66,416

Company registration number

SC367563

Consolidated statement of changes in equity

For the year ended 31 December 2017

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 2016	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
Total comprehensive income for the year	—	—	—	—	14,659	14,659
Transactions with owners in their capacity as owners						
Dividends (note 8)	—	—	—	—	(4,028)	(4,028)
Shares issued	232	147,731	1,115	—	—	149,078
Shares held by SIP	—	—	—	(370)	70	(300)
Share options	—	—	—	—	446	446
Income tax effect of share options	—	—	—	—	1,350	1,350
As at 31 December 2017	1,124	158,592	9,562	(697)	59,040	227,621

See notes 23 and 24 for details of the treasury shares and other reserve. The movement in share premium is net of £4.0m of permissible costs in relation to the equity placing.

Consolidated statement of cash flows

For the year ended 31 December 2017

	2017 £'000	2016 £'000
Operating activities		
Profit before taxation	17,965	18,243
Finance costs	4,661	2,327
Finance income	(21)	(2)
Fair value movement on derivatives	—	(46)
Depreciation	14,061	9,977
Amortisation	2,151	1,991
Share-based payment expense	146	348
Movement in inventories	(10,454)	(4,773)
Movement in trade and other receivables	(9,300)	(2,646)
Movement in trade and other payables	22,031	6,330
Cash generated from operations	41,240	31,749
Taxation	(1,008)	(401)
Net cash generated from operations	40,232	31,348
Investing activities		
Payments to acquire property, plant and equipment	(123,864)	(42,904)
Disposal of property, plant and equipment	3,335	2,499
Payments to acquire intangible assets	(1,416)	(1,084)
Acquisition of subsidiary	—	(35)
Cash acquired with subsidiary	—	452
Finance income	21	2
Net cash used in investing activities	(121,924)	(41,070)
Financing activities		
New borrowings	104,075	30,442
Capital repaid	(19,167)	(12,845)
Hire purchase repayments	(29)	(1,028)
Finance costs	(4,521)	(2,646)
Net proceeds from share issue	147,963	1,232
Dividend paid	(4,028)	(3,145)
Net cash generated from financing activities	224,293	12,010
Net increase in cash and cash equivalents	142,601	2,288
Cash and cash equivalents at the beginning of the financial year	7,999	5,711
Cash and cash equivalents at the end of the financial year (note 15)	150,600	7,999

Reconciliation of net cash flow to movement in net debt

For the year ended 31 December 2017

	2017 £'000	2016 £'000
Increase in cash and cash equivalents	142,601	2,288
Cash outflow from movement in debt	(84,908)	(17,460)
Changes in net debt arising from cash flows	57,693	(15,172)
Net debt at beginning of year	(94,176)	(79,004)
Net debt at end of year	(36,483)	(94,176)

Accounting policies

The consolidated financial statements of the Group for the year ended 31 December 2017 were approved and authorised for issue in accordance with a resolution of the Directors on 13 March 2018. 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.

The financial information set out above does not constitute the Group's statutory accounts for the years ended 31 December 2017 or 2016, but is derived from those accounts. Statutory accounts for 2016 have been delivered to the Register of Companies, and those for 2017 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

Whilst the financial information included in this announcement has been computed in accordance with IFRS as adopted by the European Union, this announcement does not itself contain sufficient information to comply with IFRS.

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 November 2020.

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 intra-Group 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 Directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. These estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or if the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting judgements

The following are the critical judgements, that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Financial Statements.

- capitalisation of internal installation costs;
 - a significant level of in-house installation of customers' meter assets is carried out by the Group, the costs of which are capitalised and depreciated as part of fixed asset depreciation. Judgement is required by management to ascertain the appropriate categories and proportion of overheads and other expenses that are directly attributable to installation of meter assets.
- Recoverability of termination income and the impact on traditional domestic meter assets residual values
 - The timing of the removal of traditional domestic meters during the smart meter rollout and the associated termination fees impacts the residual value of these meters on subsequent disposal. Judgement is required around the expected pace of the smart meter replacement programme to ensure any gains or losses on disposal are minimised.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that may have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- impairment of goodwill;
 - Management reviews the valuation of goodwill for impairment annually or if events and changes in circumstances indicate that the carrying value may not be recoverable. The recoverable amount is determined based on value in use.

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.

Energy management

Energy advice is provided and revenue is recognised when risk and reward transfers. Advice is normally quite specific so recognised on a transactional basis.

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 and available-for-sale financial assets. 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.

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 or loans and borrowings, 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 and financial guarantee contracts.

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 has used 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 item 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

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 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
- Customer contracts 20%

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 (CGU) for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose identified according to its 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 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 used in the annual impairment tests 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 27) 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 2016, the Directors reassessed the useful life of domestic meters that were due to be replaced before the end of their useful life as part of the smart meter roll out programme. An exercise was undertaken to identify all meters affected and their useful life was 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 was also reflected in a revision to residual values. These factors resulted in a net increase to the overall depreciation charge of £685,000 in 2016.

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 is initially recorded at cost.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprises 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

IFRS 2 "Share-based Payment" has been applied to all grants of equity instruments. The Group issues equity-settled share-based payments to certain employees under the terms of the Group's various employee-share and option schemes. Equity-settled share-based payments are measured at fair value at the date of the grant. The fair value determined at the grant date of equity settled share-based payments is expensed on a straight-line basis over the vesting period, based on an estimate of the shares that will ultimately vest. Own shares held under trust for the Group's employee share schemes are classed as Treasury shares and deducted in arriving at Shareholders' equity. Purchases of own shares are disclosed as changes in Shareholders' equity.

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

These new accounting standards and amendments are applicable to the Group for the first time in 2017. However, they do not impact the annual consolidated financial statements of the Group. These are:

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

Standard or interpretation		Periods commencing on or after
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 IFRSs	2014–2016 Cycle	1 January 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, Management are reviewing the impact on the Group's financial statements. The key considerations are as follows:

IFRS 15

An impact assessment has been performed on new standard IFRS 15 Revenue from Contracts with Customers ("IFRS 15") which SMS plc will adopt from 1 January 2018. IFRS 15 introduces a five-step approach to the timing of revenue recognition based on the delivery of performance obligations and an assessment of when control is transferred. This differs from existing IAS 11/18 which focuses on the transfer of "risk and reward" as the point of recognition. The Group will adopt the modified retrospective method where the cumulative effect of initially applying the standard is recognised as an adjustment to the opening balance sheet in the period of initial application.

Scoping of our revenue streams has been considered as follows;

- **Asset Management (Meter rental):** This makes up around 50% of total SMS revenue; rental income from suppliers is recognised as revenue based on operating lease accounting and therefore falls in scope for IFRS 16 and is discussed below.
- **Asset Management (Data):** This involves the provision of data recording and transmission services from meters to supplier. Revenue is recognised straight line over the period of the contract. All data revenue is in scope for IFRS 15.
- **Asset Installations:** Transactional revenue is billed to the customer on completion of the installation - which is when "control" passes and revenue is recognised. This segment also includes Connections revenue which is a subset of installations but includes some longer-term projects. All installations revenue is in scope for IFRS 15.
- **Energy Services:** Provision of energy advice which is specific to the customer, revenue is recognised on a transactional basis when "control" is transferred and is fully in scope for IFRS 15.

For revenue which is in scope for IFRS 15, a review has been carried out on existing customer contracts. Within SMS plc no existing contracts have been identified where more than one performance obligation exists. The majority of revenue comes from the simple installation of a meter asset, where there is only one performance obligation and control is deemed to transfer at the same point in time as risk and reward previously. Occasionally, SMS plc also engages in some longer-term contracts which fall under Connections revenue within the Asset Installation business – SMS Connections accounts for approximately 7% of Group revenue and only a small proportion of this comprise longer-term contracts. In such longer-term instances there may be various elements or stages to the contracts however these elements are not deemed to be "distinct" as defined by the standard and therefore only one performance obligation is considered to exist in such instances too. Our assessment concludes that no impact is expected when transitioning to IFRS 15.

IFRS 16

SMS plc will adopt IFRS 16 Leases ("IFRS 16") on 1 January 2019, as such a full impact assessment has been carried out. All meter rental revenue within the Meter Assets business is treated as an operating lease with SMS plc as the lessor and is therefore in scope for IFRS 16. As a lessor, the new standard does not make any significant changes to the way leases are accounted for currently under IAS 17 but it does provide additional guidance on what is defined as a lease. With regards to the definition of leases, SMS plc will continue to treat existing leases as operating leases and "grandfather" this assessment into the new standard. Any new contracts entered into following 1 January 2019 will be considered on their own merits under IFRS 16, however all meter rental revenue is expected to continue to be classified as a lease and as such the new standard is not expected to have any impact on the way SMS plc accounts for its meter rental revenue.

SMS plc also holds some operating leases for buildings and office equipment as the lessee. Under IFRS 16, a lease liability will have to be recognised on the balance sheet for each and they will be depreciated over the period of the lease. Please refer to note 25 for details on the Group's operating lease commitments.

IFRS 9

Ahead of the adoption of IFRS 9 Financial Instruments ("IFRS 9") on 1 January 2018, management has reviewed the impact of the standard to ensure compliance with the new standard. Management expects the impact on accounting for loan modifications and

the unlisted investment to be minimal, and the expected credit loss model for impairment review will not have an overall impact on the Group. The expected credit loss approach may impact the individual retained earnings of individual entities within the Group due to potential additional impairment provision for long term intercompany receivables. These potential impairments would not impact the Group as they would be intra-group items.

Notes to the financial statements

For the year ended 31 December 2017

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 2017					
Segment/Group revenue	48,655	27,517	3,421	—	79,593
Cost of sales	(18,958)	(17,970)	(2,236)	—	(39,164)
Segment profit – Group gross profit	29,697	9,547	1,185	—	40,429
Items not reported by segment					
Other operating costs/income	—	—	—	(13,465)	(13,465)
Depreciation	—	(24)	—	(669)	(693)
Amortisation	(2,151)	—	—	—	(2,151)
Exceptional items	—	—	—	(1,515)	(1,515)
Profit from operations	27,546	9,523	1,185	(15,649)	22,605
Net finance costs: exceptional	—	—	—	(524)	(524)
Net finance costs: other	(4,116)	—	—	—	(4,116)
Profit before tax	23,430	9,523	1,185	(16,173)	17,965
Tax expense	—	—	—	—	(3,306)
Profit for year					14,659

	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	—	—	—	(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

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:

	2017 £'000	2016 £'000
Customer 1 – Asset Management	10,175	10,752
Customer 1 – Asset Installation	3,541	4,991
	13,716	15,743

Segment assets and liabilities

	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Unallocated £'000	Total operations £'000
31 December 2017					
Assets reported by segment					
Intangible assets	10,373	3,497	—	—	13,870
Property, plant and equipment	261,992	251	—	3,103	265,346
Inventories	16,056	410	109	—	16,575
	288,421	4,158	109	3,103	295,791
Assets not by segment					177,020
Total assets					472,811
Liabilities by segment					
Bank loans	187,084	—	—	—	187,084
	187,084	—	—	—	187,084
Liabilities not by segment					58,106
Total liabilities					245,190

	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

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

	2017 £'000	2016 £'000
Revenue	79,593	67,188
Direct rental costs	(5,408)	(4,684)
Direct subcontractor costs	(4,667)	(4,054)
Other direct sales costs and systems rental	(14,360)	(11,429)
Stock expense	(1,360)	(855)
Staff costs	(14,400)	(9,710)
Depreciation:		
– owned assets	(14,044)	(9,898)
– leased assets	(17)	(79)
Amortisation	(2,151)	(1,991)
Other operating income	3,446	1,075
Auditor's remuneration:		
– as auditor	(202)	(136)
– audit related assurance services	(59)	(9)
Exceptional costs	(1,515)	(455)
Operating lease rentals	(1,621)	(1,152)
Other operating charges	(630)	(3,242)
Profit from operations	22,605	20,568
Finance costs: exceptional	(524)	—
Finance costs: other	(4,137)	(2,327)
Finance income	21	2
Profit before taxation	17,965	18,243

Included in exceptional items are £300,000 (2016: £Nil) of refinance costs and £1,215,000 (2016: £Nil) of redundancy, other personnel, and property dilapidations costs relating to the reorganisation of subsidiaries acquired in the prior year. Included within depreciation – owned assets is £13,368,000 (2016: £9,235,000) of depreciation that has been allocated and reported in cost of sales. Exceptional finance costs of £524,000 relate to the refinancing.

Auditor's remuneration can be analysed as:

	2017 £'000	2016 £'000
Statutory Group audit	202	136
Other services - audit related assurance services	59	9
	261	145

3 Particulars of employees

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

	2017 Number	2016 Number
Number of administrative staff	188	100
Number of operational staff	563	580
Number of sales staff	3	2
Number of IT staff	35	30
Number of Directors	2	2
	791	714

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

	2017 £'000	2016 £'000
Wages and salaries	26,615	18,880
Social security costs	2,754	1,895
Staff pension costs	400	240
Share-based payment	446	444
Director pension costs	9	19
	30,224	21,478

4 Directors' emoluments

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

	2017 £'000	2016 £'000
Emoluments receivable	1,046	858
Value of Group pension contributions to money purchase schemes	4	6
Other pension	1	13
	1,051	877

During the year, £139,605 was payable to two Directors as settlements following resignation.

During the year, no Directors exercised share options (2016: One Director exercised 500,000 unapproved share options, resulting in a gain of £1,725,000).

A pension contribution is paid into a private pension plan for the CEO.

	2017 £'000	2016 £'000
Emoluments of highest paid Director		
Total emoluments	619	513
Pension contributions	1	13
	620	526

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

	2017 Number	2016 Number
Money purchase schemes	2	2

5 Finance costs and finance income

	2017 £'000	2016 £'000
Finance costs		
Bank loans and overdrafts	4,134	2,323
Interest rate hedge fair value	—	(46)
Hire purchase	3	50
Exceptional finance costs	524	—
Total finance costs	4,661	2,327
Finance income		
Bank interest receivable	21	2
Total finance income	21	2

6 Taxation

	2017 £'000	2016 £'000
Analysis of charge in the year		
Current tax:		
Current income tax expense	971	1,362
Adjustment to tax charge in respect of previous periods	(83)	450
Total current income tax	888	1,812
Deferred tax:		
Origination and reversal of temporary differences	2,705	1,514
Adjustment to tax charge in respect of prior periods	(287)	(328)
Tax on profit	3,306	2,998

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

Profit before tax	17,965	18,243
Tax at the UK corporation tax rate of 19.25% (2016: 20.00%)	3,458	3,649
Expenses not deductible for tax purposes	(7)	11
Deferred tax not recognised	2	—
Adjustments to tax charge in respect of previous periods	140	123
Change in tax rate	(287)	(785)
Tax expense in the income statement	3,306	2,998

Current tax credit through equity in the year was £0.97m (2016: £1.25m).

7 Earnings per share (EPS)

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

	2017 £'000	2016 £'000 restated
Profit for the year used for calculation of basic EPS	14,659	15,245
Amortisation of intangible assets	2,151	1,991
Exceptional costs	2,039	455
Tax effect of adjustments	(780)	(401)
Earnings for the purpose of adjusted EPS	18,069	17,290

	2017	2016
Number of shares		
Weighted average number of ordinary shares for the purposes of basic EPS	90,655,868	87,955,744
Effect of potentially dilutive ordinary shares:		
– share options	1,615,280	1,604,623
Weighted average number of ordinary shares for the purposes of diluted EPS	92,271,148	89,560,367
EPS:		
– basic (pence)	16.17	17.33
– diluted (pence)	15.89	17.02
Adjusted EPS:		
– basic (pence)	19.93	19.66
– diluted (pence)	19.58	19.31

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

The 2016 EPS figures have been restated to reflect the Board's decision to change the presentation of the underlying performance measures to include other operating income.

8 Dividends

	2017 £'000	2016 £'000
Equity dividends		
Paid during the year:		
Interim paid in respect of 2017, 1.74p per share	1,576	—
Final paid in respect of 2016, 2.73p per share	2,452	—
Interim paid in respect of 2016, 1.37p per share	—	1,226
Final paid in respect of 2015, 2.20p per share	—	1,919
Total dividends	4,028	3,145

A final dividend of 3.46p per share for the year ended 31 December 2017 has been proposed and is due to be paid in May 2018.

9 Intangible assets

	Goodwill £'000	Customer contracts £'000	Development £'000	Software £'000	Total £'000
Cost					
As at 1 January 2016	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
Additions	—	—	206	1,210	1,416
Disposals	—	—	—	(28)	(28)
As at 31 December 2017	7,609	2,166	2,720	9,093	21,588
Amortisation					
As at 1 January 2016	—	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
Charge for year	—	171	159	1,820	2,150
Disposals	—	—	—	(21)	(21)
As at 31 December 2017	—	1,601	629	5,488	7,718
Net book value					
As at 31 December 2017	7,609	565	2,091	3,605	13,870
As at 31 December 2016	7,609	736	2,044	4,222	14,611
As at 1 January 2016	4,112	1,162	1,831	2,923	10,028

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 2016	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
Additions	61	122,782	1,020	1	123,864
Disposals	—	(3,359)	(63)	(87)	(3,509)
As at 31 December 2017	2,300	300,132	3,065	83	305,580
Depreciation					
As at 1 January 2016	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
Charge for year	129	13,368	540	24	14,061
Disposals	—	(994)	(12)	(69)	(1,075)
As at 31 December 2017	392	37,891	1,868	83	40,234
Net book value					
As at 31 December 2017	1,908	262,241	1,197	—	265,346
As at 31 December 2016	1,976	155,192	768	41	157,977
As at 1 January 2016	1,974	123,117	586	23	125,700

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

Hire purchase agreements

Included within the net book value of £265,346,000 (2016: £157,977,000) is £Nil (2016: £16,839) 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 £16,839 (2016: £79,578).

11 Financial asset investments

	Shares in Group undertaking £'000	Unlisted investments £'000	Total £'000
Cost			
As at 1 January and 31 December 2017	43	75	118

Share in Group undertakings are not consolidated on the basis that they are not material to the Group.

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 on 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 forecasts show significant headroom above the carrying value of each CGU; there is no reasonably possible change that would cause the carrying values to exceed recoverable amounts.

13 Inventories

	2017 £'000	2016 £'000
Finished goods	16,049	5,569
Consumables	526	552
	16,575	6,121

14 Trade and other receivables

	2017 £'000	2016 £'000
Trade receivables	10,959	7,610
Prepayments	1,421	1,369
Accrued income	9,812	5,248
Other receivables	1,263	617
VAT recoverable	1,827	892
Income tax recoverable	426	58
	25,708	15,794

Amounts falling due after more than one year:

	2017 £'000	2016 £'000
Accrued income	594	628

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 in the year was £1,812,000 (2016: £1,082,000). The ageing profile of trade receivables past due date is shown below:

	2017 £'000	2016 £'000
31–60 days	2,572	1,039
61–90 days	114	391
Over 90 days	3,055	1,883
	5,741	3,313
Allowance for doubtful receivables	(1,812)	(1,082)
	3,929	2,231

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

Trade receivables due from related parties at 31 December 2017 amounted to £Nil (2016: £Nil).

Receivables are all in Sterling denominations.

The Directors are of the opinion that £1,812,000 of the overdue debts as at 31 December 2017 require impairment.

Accrued income is presented net of allowances for provisions, with accrued income being invoiced periodically and customers being the same as those within trade receivables.

15 Cash and cash equivalents

Cash and cash equivalents comprises 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 comprises:

	2017 £'000	2016 £'000
Cash	150,600	7,999
	150,600	7,999

16 Trade and other payables

	2017 £'000	2016 £'000
Current		
Trade payables	23,923	11,421
Other payables	1,396	2,913
Advance payments	2,032	2,700
Other taxes	2,718	1,782
Deferred income	2,311	790
Accruals	15,802	6,411
Income tax payable	—	725
	48,182	26,742

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

	2017 £'000	2016 £'000
Current		
Bank loans	23,197	14,530
	23,197	14,530
Non-current		
Bank loans	163,887	87,646
	163,887	87,646

Bank loans at 31 December 2017 relate to a revolving credit facility of £280m. In November 2017, SMS plc agreed a refinancing of this facility with its existing syndicate of banks. This extended debt Facility extended the maturity date of the existing facility from March 2019 to November 2020 on similarly attractive terms to the existing facility. The extension of the facility results in £0.5m of finance costs that have been expensed through the profit and loss as exceptional.

The loan is available for 36 months, is payable in equal quarterly instalments based on a ten-year repayment profile, with final repayment due in November 2020. The loan attracts interest at a rate of 1.85% over the three-month LIBOR. 0.65% is paid on undrawn funds. The syndicate of banks comprise Barclays Bank plc, Santander UK plc, HSBC UK, Clydesdale Bank plc and Bank of Scotland plc.

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:

	2017 £'000	2016 £'000
Current		
Amounts payable within one year	—	28
Non-current		
Amounts payable between two and five years	—	1

The Group no longer holds any hire purchase commitments. In 2016, the Group held hire purchase contracts for various items of computer equipment.

19 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:

Pounds Sterling	Increase/decrease in basis points	Effect on profit before tax £'000
2017	+70bps	(741)
2016	—	46

The Group can fix its variable rate borrowings for an additional premium of 70bps and we accordingly show the annual impact on our profit before tax. As mentioned in note 28 we have repaid £100 million of the debt on 28 February 2018.

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
2017	—	206,568	206,568
2016	—	112,796	112,796
1 January 2016	26,400	58,556	84,956

The fixed rate financial liabilities present at the start of 2016 related to the portion of the banking facility that was fixed through hedging instruments.

Interest rate risk profile of financial assets

The Group's financial assets at 31 December 2017 comprise cash and trade receivables. The cash balance of £150,600,000 (2016: £7,999,000) 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 Pounds 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 this criteria.

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

	2017 £'000	2016 £'000
Variable rate		
Less than one year	27,500	16,574
Two to five years	104,664	62,792
Over five years	74,404	33,430
	206,568	112,796

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 £20,771,000 (2016: £12,858,000) as disclosed in note 14 – trade 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 pre-exceptional EBITDA. Net debt is calculated as total borrowings less cash. Pre-exceptional EBITDA is calculated as operating profit before any significant exceptional 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.

20 Deferred taxation

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

	2017 £'000	2016 £'000
Opening deferred tax liability	7,885	6,139
Increase in provision through Consolidated statement of comprehensive income	2,418	1,186
Increase in provision through equity	(379)	98
Deferred tax on intangibles acquired as part of acquisitions	—	462
Closing deferred tax liability	9,924	7,885

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

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

	2017 £'000	2016 £'000
Excess of taxation allowances over depreciation on property, plant and equipment	11,559	8,934
Tax losses available	(61)	(265)
Deferred tax asset on share options	(1,998)	(1,643)
Deferred tax on intangible acquired	427	679
Other	(3)	180
	9,924	7,885

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

	2017 £'000	2016 £'000
Accelerated capital allowances	2,431	1,690
Tax losses	204	(175)
Deferred tax asset on share options	22	(33)
Movement in fair value of intangibles	(252)	(491)
Movement in fair value of interest rate swaps	—	10
Other	13	184
	2,418	1,185

Finance Bill 2016 which, was substantively enacted on 15 September 2016, included legislation reducing the main rate of UK corporation tax from 20% to 17%. This decrease is being phased in with the reduction to 19% effective from 1 April 2017, and 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.

21 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 £49,800 (2016: £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 £8,300 (2016: £4,150) was outstanding in this regard.

The Group also paid rent of £Nil (2016: £28,417) to another individual classified as key management for the use of certain premises.

During the year, the Group paid dividends to Alan Foy of £320,973 (2016: £269,548), Miriam Greenwood of £723 (2016: £421), Willie MacDiarmid¹ of £265 (2016: £Nil) and Graeme Bissett of £237 (2016: £Nil). At the year end Trojan Utilities Limited had a balance with Utilities Academy Limited of £26,442 (2016: £26,442) with transactions during the year amounting to £3,165 (2016: £49,508).

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

	2017 £'000	2016 £'000
Salaries and other short-term employee benefits	2,073	1,622

1 Paid to a connected person.

22 Share capital

	2017 £'000	2016 £'000
Allotted and called up:		
112,450,800 ordinary shares of £0.01 each (2016: 89,203,739 ordinary shares of £0.01 each)	1,124	892

On 24 November 2017 the Company completed a placing of new shares (21,739,131 ordinary shares at 690p per ordinary share) to raise gross proceeds of £150m. The net proceeds of the placing are to be utilised alongside the extended debt facility to give SMS plc the financial and operational flexibility to fully fund the installation of approximately 2.5 million meters.

During the year 1,222,563 (2016: 2,018,772) ordinary share options were exercised in relation to the Group's employee share plans which are described in note 23. The ordinary shares issued have a nominal value of £12,226 (2016: £20,188), and aggregate consideration of £1,985,487 (2016: 1,231,617) was received.

On 5 April 2016 and on 15 September 2016, 1,072,055 ordinary shares and 285,367 ordinary shares were issued respectively as consideration for the acquisition of CH4 Gas Utility and Maintenance Services Limited ("CH4"), Trojan Utilities Limited ("Trojan") and Qton Solutions Limited ("Qton").

23 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 2017	Granted	Exercised	Lapsed	At 31 December 2017	Exercise price (pence)	Date exercisable	Expiry date
CSOP	86,127	—	(57,674)	—	28,453	76.0	15/07/14	15/07/21
Unapproved	589,666	—	(268,000)	—	321,666	60.0	20/06/16	20/06/21
Unapproved	1,101,189	—	(651,189)	—	450,000	153.5	28/05/17	28/05/22
Unapproved	28,700	—	(28,700)	—	—	60.0	28/06/13	28/06/23
Unapproved	1,301,070	—	(217,000)	(301,785)	782,285	350.0	12/11/19	12/11/24
Unapproved	317,382	—	—	(18,033)	299,349	391.8	20/03/21	19/03/26
Unapproved	36,586	—	—	—	36,586	410.0	04/07/21	03/07/26
Unapproved	172,634	—	—	(14,630)	158,004	470.0	18/08/21	17/08/26
Unapproved	100,000	—	—	—	100,000	529.0	01/09/21	31/08/26
Unapproved	50,000	—	—	—	50,000	529.0	26/09/21	25/09/26

The average weighted average share price at the date of exercise was £6.20.

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
20 June 2011	Unapproved	13.0
28 May 2012	Unapproved	40.0
28 June 2013	Unapproved	244.0
12 November 2014	Unapproved	84.8
20 March 2016	Unapproved	61.5
4 July 2016	Unapproved	114.3
18 August 2016	Unapproved	87.2
1 September 2016	Unapproved	141.5
26 September 2016	Unapproved	142.4

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 2017	Awarded shares	Sold	Lapsed	At 31 December 2017	Weighted average acquisition price
Partnership	94,107	43,849	(13,628)	—	124,328	£4.79
Matching	93,707	43,849	(4,632)	(6,264)	126,660	£4.79
Dividend	1,497	1,419	(154)	—	2,762	£5.22
Total	189,311	89,117	(18,414)	(6,264)	253,750	

24 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 and £1,115,000 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.

25 Commitments under operating leases

The Group has entered into commercial leases for office space and various items of office equipment. These leases have lives between one and 15 years and some have renewal options 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:

	2017 £'000	2016 £'000
Future minimal commitments under operating lease agreements are as follows:		
Payable within one year	1,262	1,543
Payable within two and five years	1,884	2,144
Payable after five years	477	162
	3,623	3,849

26 Ultimate controlling party

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

27 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 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 helps to serve SMS's existing and future contracts and helps to 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 was a service provider to SMS prior to acquisition.

Trojan is a leading installation service provider to energy suppliers in the UK and delivers domestic smart gas 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 was 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

On 5 April 2016 1,072,055 ordinary shares were issued as consideration for the acquisitions 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's ordinary shares on the date of acquisition.

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

The comparative financial information for 2016 includes 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 were 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 continues to provide confidence to our customers in our delivery model for the new Domestic smart metering market. In addition, the acquisition of Qton allowed 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 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 2016 comparative figures.

28 Post balance sheet events

In February 2018, the Company paid its revolving credit facility down by £100m.