Smart Metering Systems plc
Annual report and accounts 2013

smart approach
smart systems

smart metering
systems plc

Smart Metering Systems plc (SMS) connects, owns, operates and maintains metering systems and databases on behalf of major energy companies.

STRATEGIC REPORT

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

MORE ONLINE

Read more about SMS online at our investor website sms-plc.com

Our highlights

A year of growth across all business areas and, in particular, a strong performance in the UK Gas Connection division.

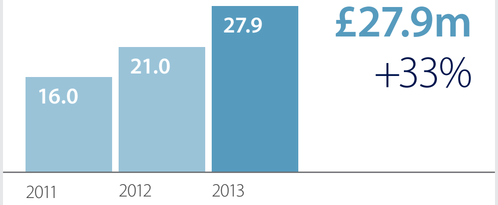
FINANCIAL HIGHLIGHTS

- Revenue increased by 33% to £27.9m (2012: £21.0m)
- Total annualised recurring meter rental increased by 44% to £15.5m (2012: £10.8m)
- Gross profit increased by 34% to £17.8m (2012: £13.3m)
- Gross profit margin at 64% (2012: 63%)
- Adjusted EBITDA* increased by 31% to £11.8m (2012: £9.0m)
- EBITDA margin at 42% (2012: 43%)
- Basic earnings per share increased by 52% to 7.86p (2012: 5.18p)
- Final dividend of 1.61p per ordinary share making 2.31p for the full year (2012: 1.65p), an increase of 40%
- Available cash resources of £11.7m at 31 December 2013
- New long term debt facilities announced on 12 March 2014 with £105.0m revolving credit agreement with Barclays Bank plc (lead bank), Clydesdale Bank plc and Bank of Scotland plc, replacing all existing facilities

OPERATIONAL HIGHLIGHTS

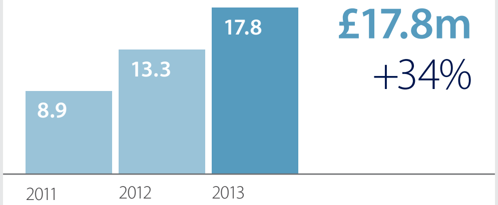
- Total meter portfolio increased by 38% to 469,000 with the number of meters in its industrial and commercial portfolio growing by over 118%
- Capital expenditure on meters increased by 46% to £23.3m, reaching a monthly run-rate of approximately £2.5m in December 2013
- The gas supplier client base grew from 13 to 17 representing over 80% of the industrial and commercial market, and the number of energy broker contracts increased from 10 to 24
- Over 16,000 ADM devices deployed in the UK by 31 December 2013 up from 2,000 in December 2012
- 17 trials of the ADM device in 5 different countries, with further trials now committed in 3 additional countries

Revenue £m



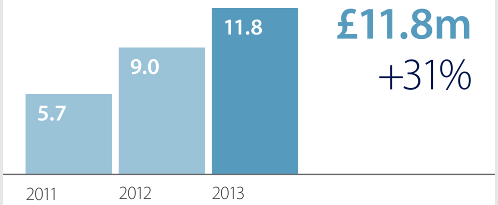
£27.9m
+33%

Gross profit £m



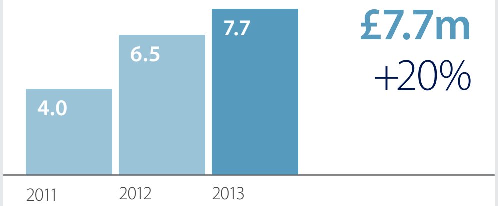
£17.8m
+34%

EBITDA* £m



£11.8m
+31%

EBT* £m



£7.7m
+20%

* Excluding exceptional items and fair value adjustments.

Our strategy p04
Chief Executive Officer's statement p10

Business model

Our business operation is based on connecting, owning, operating and maintaining metering systems and databases on behalf of major energy companies and energy brokers as part of an integrated service offering in the gas connection and metering services market.

We have contracts with gas suppliers that provide recurring revenues and visibility of earnings backed by robust termination payment arrangements.

The Company has three wholly owned subsidiaries:

Gas Connection

Infrastructure facilitator: management of gas connections and meter installations

UK Gas Connection is one of the UK's largest independent operators. We work in partnership with many of the leading providers in the UK gas industry to deliver meter installations, removals and exchanges, new gas supplies and increases in capacity.

Meter Asset Management

Meter asset manager: operations for every UK gas supplier

UK Meter Assets is an Ofgem accredited meter asset management company which owns, operates and manages commercial and domestic gas meters on behalf of the UK's leading gas suppliers and independent meter asset managers.

Data Management

Smart meter data collector: supply and installation of smart meter devices

Smart metering is seen as the key to the future efficiency of the UK's energy system. UK Data Management delivers the Company's patented ADM™ smart metering solution which is very simple to install and is highly cost effective and competitive. We strive to maintain our client centric culture and we focus on client needs, not product features.

OUR STORY

SMS is the only independent business providing gas infrastructure connection services, gas meter asset management services and the development of advanced smart metering technology solutions to key gas suppliers in the UK industrial and commercial (I&C) markets.

With over 19 years' experience operating at the heart of the gas industry, we provide a comprehensive package of solutions encompassing all aspects of the gas connections and smart metering markets through our subsidiary companies, based on our in-depth market knowledge and insight.

The Group was established in 1995 to provide services in the gas infrastructure connections market which emerged following Ofgem's move to deregulation and liberalisation of the gas industry. Since that period, the UK gas market has evolved from the original British Gas single monopoly to an unbundled market.

In the early years, SMS started a UK-wide contracting services business using subcontractors from a main base in Scotland. In 2004, a meter asset management division was established and became an Ofgem approved Meter Asset Manager (MAM).

In the period 2009–2011, a meter asset portfolio was created and built with all gas suppliers in the UK, followed by a new smart metering and data management division serving the I&C market in addition to preparing for the roll out of smart metering in the domestic market. The UK government's objective is to have all domestic gas and electricity consumers installed with a smart metering solution by 2020.

SMS was successfully floated on AIM in 2011.

UK GAS MARKET AND THE SMS INTEGRATED SERVICE OFFERING

End consumers

UK licensed gas suppliers

SMS plc

Gas suppliers are obligated to arrange gas connections for their customers

smart metering systems
uk gas connection

Infrastructure facilitator: administration and management of gas connections and meter installations

Gas suppliers have an obligation for metering services

smart metering systems
uk meter assets

Ofgem approved Meter Asset Manager (MAM)

Gas suppliers are now mandated to provide smart metering services

smart metering systems
uk data management

ESTA approved smart metering data collector and aggregator

Our strategy

Our strategy is to be the market leader in the independent ownership of gas meters in the UK.

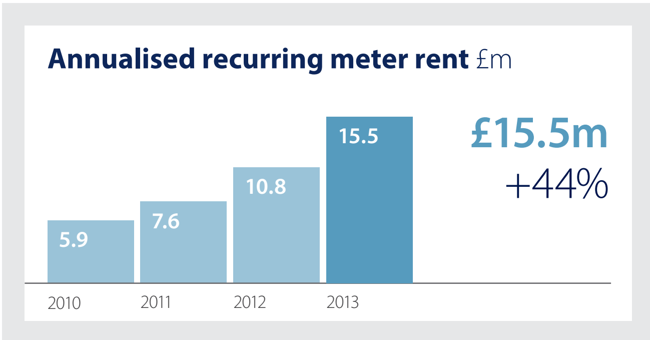
KEY PRIORITIES

Strategic priorities	Our progress in 2013	Our focus for 2014
Increase growth rate Grow our domestic meters business organically and through new contracts.	› Annualised recurring meter rental increased by 44% to £15.5m › Total meter portfolio increased by 38% to 469,000 (Domestic and I&C)	› Increase recurring rental › Increase meter installations in domestic and I&C market
Up sell the ADM solution Establish our technology ADM™ as the industry standard smart metering solution for industrial and commercial (I&C) clients.	› Annualised recurring ADM rental income increased by 328% to £0.3m › Total meter portfolio increased by 617% to 16,000 (Domestic and I&C)	› Increase recurring rental › Explore markets ex-UK › Explore markets for water, electricity and LPG applications

MEASURING OUR PROGRESS

Our key performance indicators monitor our progress and keep our focus on delivery.

We monitor our performance by measuring and tracking key performance indicators (KPIs) that we believe are important to our longer-term success. Long-term sustainable performance of these KPIs is linked to the remuneration arrangements of our Management team.



Market size and outlook

SMS operates in a large UK market with few operators currently. We focus on the I&C markets throughout the UK whilst also operating in the domestic market. The market size is estimated to be circa 1.6m I&C gas meters and 22m domestic gas meters.

While the largest customers in the I&C market are required to have advanced metering solutions in place by 2014, the government's Smart Metering initiative currently requires every home and business in the UK to have smart or advanced meter functionality by 2020. This will form the foundation of the smart grid and will require significant investments for rolling out and replacing approximately 22 million domestic gas meters.

SMS is well positioned for this new market segment. Since gas suppliers will be required by regulation to appoint a MAM (Meter Asset Manager), the UKMA division (UK Meter Assets) of SMS will be one of the few competing participants in the market. Nevertheless, the growth of our business in the domestic market is not predicated on this potential roll out from 2015, which is subject to a timeframe set by the UK government.

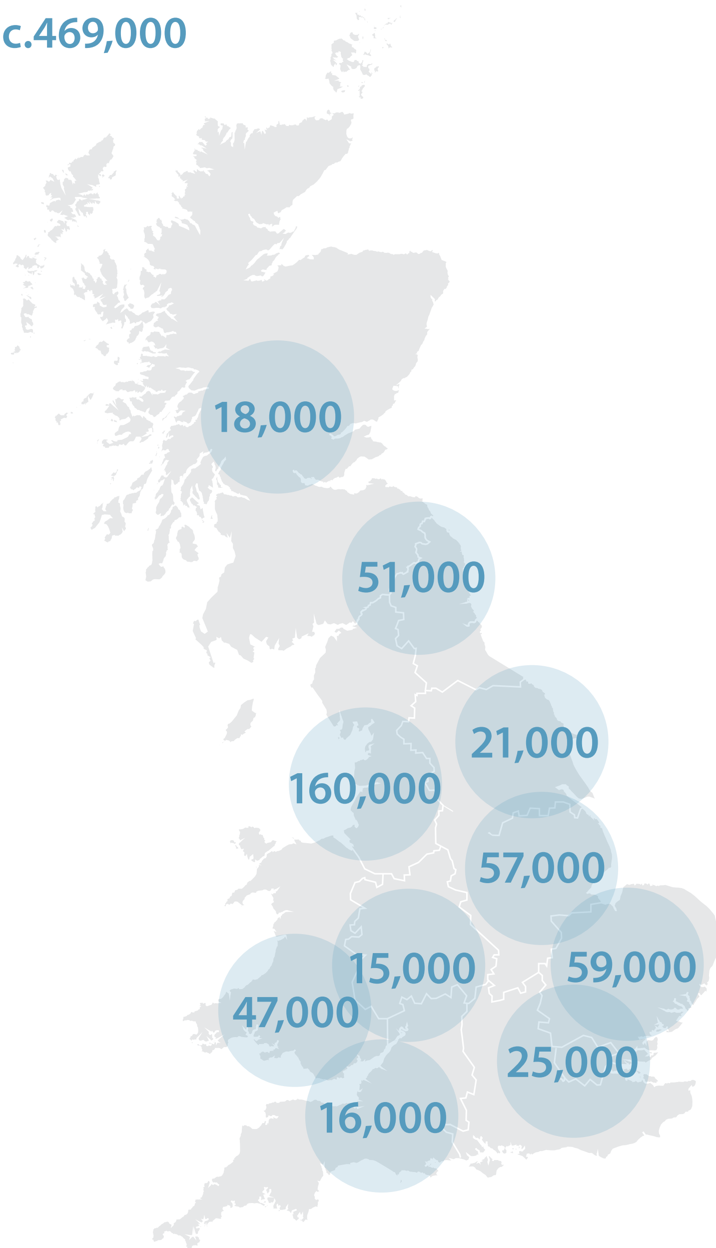
Our current market share is 27,000 I&C meter assets (1.6% of the market) and 442,000 domestic meter assets (2% of the market). The Group has contracts in place with companies accounting for over 80% of the total I&C market and over 40% of the domestic market.

The SMS ADM™ smart metering solution has great potential to be rolled out in the I&C market, as 1.6 million I&C meters will need to be smart enabled by 2020. The Group has accelerated growth in domestic meters and our focus is on becoming the preferred partner to our 28 existing gas supplier contracted clients in the I&C market through our ADM smart metering solution.

We are also looking to expand into other applications, including water and LPG (liquefied petroleum gas), and other geographical markets where "smart" applications such as remote reading and half-hourly consumption data are important.

Assets

c.469,000



Risk management

The attention of prospective investors is drawn to the fact that ownership of ordinary shares will involve a variety of risks which, if they occur, may have a materially adverse effect on the Group's business and financial condition and the market price of the ordinary shares could decline.

RISK	DESCRIPTION	MITIGATION
Failure of physical infrastructure or services of the Company	The Company operates with a well-established IT support infrastructure. Service interruptions and equipment failures may expose the Company to financial loss and damage its reputation, which could have a material adverse effect on the Company's business, financial condition and results of operations. The Company's business includes the ownership and management of gas meters. If the Company fails to register a meter(s) on its IT system, wrongly classifies a meter or it loses track of a meter(s) within the system then this could also have a material adverse effect. The Company's IT infrastructure is subject to failure from a variety of causes, including human error, power loss and physical or electronic security breaches. Other factors which are out of the Company's control include sabotage, vandalism, network failures, natural disasters, fibre optic cable cuts, improper building maintenance by the landlords of the buildings in which the IT infrastructure is located, and terrorism.	To mitigate against these risks the Company has deployed a fully redundant failover infrastructure which is mirrored in real time with all primary nodes. The mirrored servers are hosted on a secondary site at a Tier 1 data centre. A full business continuity plan is in place and is tested regularly. This plan facilitates the use of a secondary office place which is fully equipped with computers, phones and other office equipment. Full disaster recovery failover to a new office environment can occur within four hours.
Dependency on key clients, terms of contracts, financing costs and performance levels	In its UKMA business, the Company is in commercial contracts with, and largely dependent on, a small number of key gas suppliers. Whilst there are termination provisions within such contracts, loss of these key clients could have a material adverse effect on the future growth of the Company. In addition, approximately 90% of the UKMA business revenue at the end of December 2013 was derived from consumers who are clients of suppliers contracted with the Company for meter asset management. The balance of the revenue was derived from consumers who had changed to non-contracted gas suppliers. In the event that such non-contracted suppliers used another MAM and management of the gas meter was changed to the new asset manager, the Company would suffer a loss in revenue and of the beneficial termination provisions. The key contracts with gas suppliers require the Company to fulfil certain performance obligations. In particular, the Company is required to provide meter assets for an agreed price. In addition, if the Company is unable to meet an appropriate level of service in its UKGC business, its reputation may be damaged, impairing its ability to retain existing and attract new clients and users.	To mitigate these risks the Company has now put in place full MAM service contracts that cover over 80% of the I&C market and over 40% of the domestic market. These contracts ensure that either redemption penalties or recurring rentals will be payable on the vast majority of occasions where a meter point moves from one supplier to another. Strict service levels are monitored daily throughout all core business functions to ensure the Company meets and exceeds customer expectations.

RISK	DESCRIPTION	MITIGATION
Unforeseen delays and cost overruns when rolling out new and upgrading existing products and services	In the future, the Company may experience unforeseen delays and expenses in connection with a particular project or initiative. Although the Company has budgeted for expected costings, additional expenses in the event of unforeseen delays, cost overruns, unanticipated expenses, regulatory changes and increases in the price of equipment may negatively affect the Company.	The Company has considerable experience in forecasting and managing project implementation timetables. In addition, the Company periodically upgrades and replaces its IT infrastructure.
The Company may experience accelerated demand for its products and services	The Company expects to be able to meet its current capital expenditures from internal resources and debt facilities. In the event that the Company wins a large order for ADM™ devices and/or new smart meters, it may consider supporting the working capital requirements for such order(s) by the issue of new equity and/or debt finance. If the Company is unable to raise the necessary financing it could adversely affect the Company's ability to expand its business.	The Company maintains close relationships with funding partners to give the Directors confidence that future growth can be funded.
The Company could be subject to increased operating costs, as well as claims, litigation or other potential liabilities, in connection with the security and control of the Company's systems and the personal data of users	The Company relies on systems and personnel in the Company's locations to physically secure IT infrastructure and user data. Any accidental or intentional actions, including computer viruses and unauthorised access, could result in increased operating costs or claims. The Company may incur significant additional costs to protect against such disruptions, the threat of security breaches or to alleviate problems caused by such interruptions. A party who is able to breach the physical premises and/or electronic security measures of the Company's systems could damage the Company's equipment and/or misappropriate its proprietary and personal information of the Company's users, causing interruptions or malfunctions. If a third party were able to misappropriate data held on the Company's system then the Company could be subject to claims, litigation or other potential liabilities. Any security breach could lead to a loss of clients and/or existing clients seeking to claim damages. This could have a material adverse effect on the Company's business, financial condition and result of operations or future growth.	Our reliable and secure IT systems are designed to be highly resilient against the most serious levels of disruption. Disaster recovery facilities are in place to provide a fully functional alternate location for operations with access to all production data. All production data is backed up live (24/7) to a highly secure offsite facility. Disaster events are planned for and insured against while solutions are tested.
The Group's operations could be damaged and profitability reduced if the Group is not able to effectively manage its growth	The Group has experienced rapid growth and if it fails to effectively manage this growth, its operations could be harmed and profitability reduced. This future growth could place significant demands on the Group's operational and financial infrastructure. The growth of the Group's sales and profits in the future will depend, in part, on its ability to expand its operation through the roll out of new products, the exchange of existing gas meters and the launching of its services into new markets and geographies.	In order to manage its planned expansion, the Group will need to continually evaluate the adequacy of its management capability, operational procedures, financial controls and information systems. Accordingly, there can be no assurance that the Group will be able to achieve its expansion goals on a timely or profitable basis.

Chairman's statement

Paul Dollman
Non-executive Chairman

HIGHLIGHTS

- Increase in recurring meter rental and expansion of portfolio of gas meter assets
- Expanding order book with key gas suppliers in the I&C market
- Continued growth in order book for ADM device

REVIEW OF THE YEAR

Firstly, as the new chairman of SMS, I would like to thank my predecessor, Kevin Lyon, for his considerable contribution to the growth and development of the Group and on the successful flotation of the business on AIM.

I am pleased to confirm SMS has continued to make considerable progress in 2013 in all three business areas.

Since SMS floated on AIM in 2011, the Company has continued to demonstrate year-on-year growth and has an established and growing market position in the UK smart metering market. The business strategy in the medium term is to maintain high levels of service to customers in the gas supplier market, increase the run rate with these customers, and continue to grow the meter asset portfolio.

SMS has consolidated this position and invested heavily over the years in IT infrastructure to provide a strong foundation for growth with the gas suppliers in the market and has established long-term relationships based on the high levels of service it provides to its customers. This is reflective of the standards set by the management and employees with key gas suppliers.

SMS has a clearly defined growth strategy in the gas supplier market, and together with the potential to establish ADM™ as the industry standard smart metering device, the Group has a very promising outlook.

During 2013, the Group continued to increase its recurring meter rental and expand the portfolio of gas meter assets in the face of competition from the market leader National Grid. The order book also continues to expand with key gas suppliers in the I&C market, with potential to grow this substantially further to increase SMS' position in the market.

The UK meter assets business presents a large market opportunity with a substantial proportion of an estimated 1.6m I&C meters in the UK to be exchanged for a smart metering solution by 2020 with the added potential of a domestic market rollout.

The order book for ADM™ continued to grow and our current gas supplier contracts provide potential access to over 80% of UK I&C gas meters and 40% of residential gas meters.

Our strategic vision is to be the leading independent provider of smart metering and data management solutions to suppliers in the gas sector with the highest levels of service. The way we achieve this must reflect the evolution in domestic and international markets as well as a prudent approach to our growth and return to shareholders.

Our aim in 2014 and in future years is to focus on our three strategic priorities: grow our domestic meters business organically and through new contracts; establish our ADM™ technology as the industry standard smart metering solution for I&C clients; and increase levels of business with, and services provided to, key gas suppliers.

"Our strategic vision is to be the leading independent provider of smart metering solutions to suppliers in the utility sector with the highest levels of service."

We will also continue to trial ADM data services internationally in gas, electricity, water and LPG markets.

We will achieve these goals by continuing to invest in providing the highest levels of service to the gas supplier market and investing in our research and development capability to ensure we maintain our competitive advantage.

We also believe that during Alan Foy's continuing leadership the Group has developed a strong and evolving business model and strategy that is well positioned to expand the business to reward our customers and shareholders.

CORPORATE CULTURE

SMS' culture is based on a commitment by its employees to know their customers. This has been instrumental in developing, building and maintaining trusted relationships with our customers – the gas suppliers. Our core values around good counsel, prudence and wisdom have ensured we continue to maintain these strong relationships.

Equally important in terms of operational performance is how our IT systems and compliance management work with the gas suppliers. These are integral to how we achieve customer satisfaction and the building of a trusted relationship.

BOARD COMPOSITION

The Board comprises myself as Non-executive Chairman, and four other Directors, of which two are Non-executive. We have sought to evolve our Board structure to ensure we have a balanced board and welcome Miriam Greenwood who has recently joined us as a Non-executive Director of the Company. She is a qualified barrister and has spent much of her career in corporate finance working for a number of leading investment banks and other financial institutions.

Miriam is a Non-executive Director of a number of companies including Henderson Global Trust plc, Mithras Investment Trust plc and the Offshore Renewable Energy Catapult Limited. She was, for nine years until 2013, a Non-executive Director of the Gas and Electricity Markets Authority (OFGEM) for whom she is currently Chair of the Gas Network Innovation Expert Panel. A Deputy Lieutenant of the City of Edinburgh, Miriam was awarded an OBE for services to corporate finance in 2000.

Miriam will bring considerable experience and knowledge to the management team and in particular will help with our work in corporate governance.

OUTLOOK

The Group continues to make progress based on our strategic priorities and we view the outlook for the market in 2014 as very promising for our business model.

Paul Dollman
Non-executive Chairman

Chief Executive Officer's statement

Alan Foy
Chief Executive Officer

HIGHLIGHTS

- Substantial progress across all strategic areas
- 38% increase in meter portfolio
- Major new contracts signed:
  - I&C
  - Domestic
  - Energy brokers
- Contracts in place with companies representing over 80% of the total I&C market and over 40% of the Domestic market
- Basic earnings per share increased by 52%
- Final dividend of 1.61p per ordinary share

We are pleased to announce another strong set of results for the year ended 31 December 2013. The results reflect the cumulative effect of the increase in meters and the increasing number of contracts signed during 2013.

OPERATIONAL REVIEW

During 2013 we made substantial progress in all three areas of our business. Following a strong first half where we saw our meter portfolio increase by 60,000 and break the 400,000 level, growth accelerated in the second half with a further 69,000 added leading to a 38% increase year-on-year in our gas meter portfolio. The progress we have made in establishing long-term recurring revenue was evidenced by an increase in year-end annualised recurring meter rental revenue of 44% to £15.5m and £300k data provision sales from our ADM™ device.

INDUSTRIAL AND COMMERCIAL METERS

During 2013 we were delighted to announce a number of major new contracts for the provision of gas meters within DONG Energy, Opus Gas Supply, Flow Energy, Daligas, and Crown Gas and Power. The current estimates are for a total programme in excess of 22,000 meters to the end of 2014, of which over 2,000 had already been delivered by 31 December 2013.

In addition, SMS has also signed contracts with five energy brokers who provide brokerage and energy management services to small, medium and large group consumers for the provision of the ADM™ device and gas meters. The broker business is at present a small but growing part of our portfolio. The increase in customer base during 2013 now means that SMS has contracts in place with over 80% of the total I&C meter market.

Once installed, these meters will be on SMS' long-term index linked contracts and provide recurring revenue for the lifetime of the assets (expected to be 25 years).

The size of I&C meters is typically much greater than that of domestic meters and therefore the revenue per meter is substantially higher: the equivalent number of domestic meters for these 22,000 contracts would be in the order of 300,000.

Our transactional gas connections business continues to be cash generative and to secure gas meter ownership for the Group; it has performed in line with management expectations.

ADM™

The ADM™ device is SMS' advanced metering solution which allows for remote meter reading on a half-hourly basis and has been designed in line with our own customer requirements.

SMS has now installed over 16,000 ADM™ devices and feedback continues to be very positive. The ability of remote reading alongside SMS' full service capability in the I&C market provides a major opportunity for the Company in extending the service we offer and the ability to seek out further markets for our overall service.

"In 2013, we announced major new contracts to provide gas meters with DONG Energy, Opus Gas Supply, Flow Energy, Daligas and Crown Gas and Power. The overall increase in the customer base means we have contracts in place with over 80% of the I&C meter market."

38%

increase year-on-year in our gas meter portfolio

52%

increase of basic earnings per share

As in 2012, all new contracts announced in 2013 allow for the introduction of the ADM™ device into I&C premises during meter replacement programmes.

The Department of Energy & Climate Change (DECC) has recently announced a delay in the start of the UK domestic smart metering programme. The Company believes, however, that the small I&C market will be largely unaffected by this delay as suppliers are already rolling out advanced solutions for commercial reasons to allow their customers to benefit from being able to manage their energy bills at the earliest practicable date rather than waiting until they are mandated to install smart meters. Based on the ADM's competitive price and ease of installation and the ongoing increase in the Company's meter portfolio, SMS expects to benefit from this delay and also to be well placed when the mandated smart metering programme occurs.

The large I&C market, estimated by SMS to be over 600,000 meters, has to move to an advanced metering solution, with around 60,000 of the very large category having to be completed or contracted by 2014.

The small I&C market, estimated by SMS at over 1.1m meters, has until 2014 to either opt for an advanced metering solution such as the ADM™ device or, alternatively, to be included in the government's proposed domestic roll out of smart meters.

SMS believes that both market segments will find the ADM™ device an attractive solution, based on its competitive price and ease of installation.

The Company received full European Patent Approval for ADM™ in 2012 and continues to progress the potential use of the ADM™ device in other sectors such as the UK's water and LPG industries and internationally where trials have commenced.

DOMESTIC METERS

SMS was successful during 2013 in obtaining 2 further contracts in the domestic market. As previously announced SMS has been contracted by SSE to provide Meter Operations Services in all regions outside Scotland and the South-East of England up to April 2014, and is on track to complete the original 180,000 meter programme.

SMS will continue to support its existing and potential new customers in the domestic market for gas meter services, leaving the business well placed to support our customers in the domestic smart programme, now expected to commence in the autumn 2015.

We are well placed to capitalise on the this potential roll out of smart meters in the domestic market, though our future strategic growth is not reliant on this taking place, either in terms of capturing market share or in terms of increasing revenue growth.

Alan Foy
Chief Executive Officer

Financial review

Glen Murray
Finance Director

HIGHLIGHTS

- Revenues increased by 33%
- Recurring revenue up 46%, representing 49% of total revenue
- Gross profit increased by 34%
- Adjusted EBITDA* increased by 31%
- Capital investment on meters up by 46%
- New banking club arrangement announced on 12 March 2014 for £105.0m
- Available cash resources of £11.7m at the end of year

* Excluding exceptional items and fair value adjustments.

RESULTS FOR THE YEAR

During 2013, the Company increased revenue by 33% to £27.9m as a result of increasing meters under ownership and management and the contracted annual RPI increase. Recurring meter rental revenue, in line with the Company's strategy, increased to 49% of total revenue in 2013 compared to 44% in the same period in 2012.

Administration expenses, at £9.0m (excluding exceptional costs and fair value adjustments), were up 47.4% compared to 2012, substantially due to investment in staff numbers which have increased from 77 to 114 in line with the growth of the Company and its listed status and increased depreciation due to the increased meter base held by the Company.

Finance costs increased from £0.7m to £1.1m due to higher outstanding debt in the period as a result of the increase in meter investment.

Gross profit increased from £13.3m to £17.8m and adjusted EBITDA from £9.0m to £11.8m.

CASH AND BORROWINGS

As at 31 December 2013, the Company had debt of £35.4m compared to £20.4m in 2012, cash balances of £2.1m (2012: £6.5m), unused facilities of £9.6m and gearing of 147% (2012: 85%).

On 12 March, SMS announced a new facility within the existing banking club arrangement with three major UK banks. The £105.0m facility with Barclays Bank PLC (lead bank), Clydesdale Bank PLC and Bank of Scotland plc replaced the existing arrangement. SMS intends to use the new facility to fund the purchase of meter assets during a phased installation over the course of the next 24 months in line with the recent substantial contract wins. Interest is paid quarterly at 1.9% plus three month rolling LIBOR on the outstanding balance with drawn funds repaid equally over ten years. 0.76% is paid on undrawn funds.

Net debt at 31 December 2013 was £33.3m (2012: £13.9m).

Capital investment in meters was £23.3m in 2013 compared to £16.0m in 2012.

TREASURY POLICIES

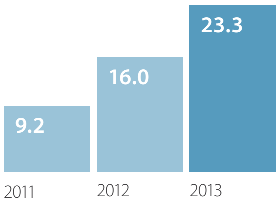
The Company uses interest rate swaps to manage interest rate fluctuations on interest-bearing loans and borrowings which means that the Company pays a fixed interest rate rather than being subject to fluctuations in the variable rate.

Interest rate swaps covered an amount of £28.2m as at 31 December 2013 (2012: £13.2m).

The interest rate swap results in a fixed interest rate of 0.90–0.92%. The termination date for the derivatives is 15 September 2016.

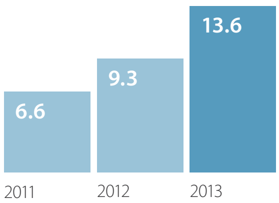
“We have increased the final cash dividend by 43% from 1.15p in 2012 to 1.65p in 2013.”

Capital investment on meters £m



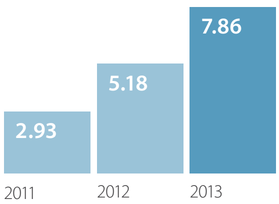
£23.3m
+46%

Recurring meter rental £m



£13.6m
+47%

Basic EPS pence



7.86p
+52%

DIVIDEND

At the time of our admission to AIM, we stated that we intended to adopt a dividend policy that will take account of the Group’s profitability, underlying growth prospects and availability of cash and distributable reserves, while maintaining an appropriate level of dividend cover.

SMS is therefore delighted to announce a proposed final cash dividend of 1.61p for the financial year ended 31 December 2013 to shareholders. In addition to the interim dividend of 0.7p this will make a full year distribution of 2.31p. The final dividend will be paid on 30 May 2014 to those shareholders on the register (record date) on 25 April 2014, with an ex-dividend date of 23 April 2014.

Glen Murray
Finance Director

Board of Directors

Paul Dollman
Non-executive Chairman

Date of appointment 7 November 2013

Committees A R N

Paul is a Chartered Accountant and was Group Finance Director of John Menzies plc for over ten years until May 2013. John Menzies plc is a FTSE250 International Support Services business with two divisions and has revenues of around £2bn. Paul was particularly involved in the growth and development of the Aviation division, which nearly trebled in size in ten years. Prior to that he was Group Finance Director of William Grant and Sons Ltd and previously held senior finance positions in Inveresk plc, Maddox Group plc and Clydesdale Retail Group. He is a Non-executive Director of Scottish Amicable Life Association Society and is a member of the Audit Committee of The National Library of Scotland. Following his appointment as Chairman of SMS, he will Chair the Company's Remuneration and the Nomination Committees and sit on the Audit Committee.

Kevin Lyon retired as Non-executive Chairman in November 2013 and was succeeded by Paul Dollman.

Alan Foy
Chief Executive Officer

Date of appointment 24 December 2009

Committees A R N

Alan has responsibility for business growth, client management and business operations. Prior to joining SMS in 2004, Alan worked for Scottish Power and, in 1997, gained approval to establish its regulated gas transportation and metering business, SP Gas Ltd, which under his management grew to become a major independent gas transporter in the UK. He gained considerable experience in utility asset ownership, as well as supply and shipping activities. Working within very complex and regulated frameworks, his position required a full understanding of utility business activities such as customer recruitment, licensing, regulation, safety, commercial, IT, investment and financial policies. Prior to this Alan was a director of an international energy consultancy practice specialising in energy utilisation and design.

In addition to adding valuable experience to the overall business, during his tenure with SMS Alan has successfully implemented a restructuring and systemising of the Company's activities, as well as successfully gaining and retaining new clients and contracts. A professionally qualified engineer, Alan places strong emphasis on safety, operational performance and financial accountability. He also places great importance on training of staff members to ensure they are receptive and adaptable to business needs and operate to a high level of efficiency and customer satisfaction.

Glen Murray
Finance Director

Date of appointment 1 January 2011

Committees A R N

Glen joined SMS in 2009 as a business accountant prior to assuming his current role as Finance Director. A qualified accountant and experienced financier, he provides the business with the structure and controls to diligently manage and report on all business activities. Glen has key responsibility for financial reporting, business plan modelling and business performance monitoring and reporting against the plan. Glen qualified with French Duncan in 1995 and in 1997 joined Shin-Etsu Handotai Europe as an accountant, with responsibilities including treasury management, budgetary control, monthly branch accounts and management accounting. He later joined Gilchrist & Company (which merged with Baker Tilly in May 2009) as a senior manager responsible for a team of five delivering accountancy, audit, corporate finance and VAT services.

Miriam Greenwood
Non-executive Director

Date of appointment 3 February 2014

Committees A R N

Miriam is a Non-executive Director of a number of companies including Henderson Global Trust plc, Mithras Investment Trust plc and the Offshore Renewable Energy Catapult Limited. She was, for nine years until 2013, a Non-executive Director of the Gas and Electricity Markets Authority (OFGEM) for whom she is currently Chair of the Gas Network Innovation Expert Panel. A Deputy Lieutenant of the City of Edinburgh, Miriam was awarded an OBE for services to corporate finance in 2000.

Nigel Christie
Non-executive Director

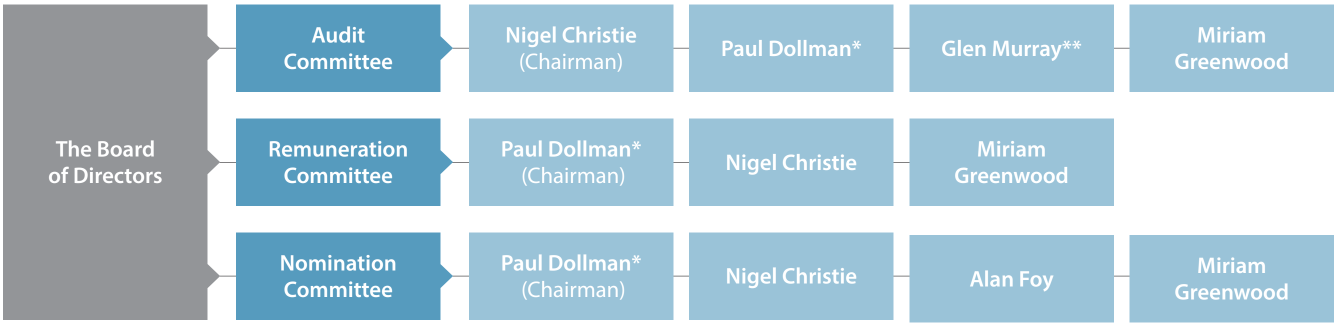
Date of appointment 27 May 2011

Committees A R N

Nigel has served in various management positions within corporate finance departments of investment banking firms. He began his career in 1976 at Kleinwort Benson, working in both London and New York. From 1985 to 1989, he was a managing director in the corporate finance department of S.G. Warburg, New York. Between 1989 and 1991, Nigel served as managing director of the corporate finance department of Kidder, Peabody International where he was responsible for overseeing European mergers and acquisitions. From 1991 to 1995, Nigel was a director of MacArthur & Co. Limited, following which he worked for Columbus Asset Management between 1995 and 1999 and Value Investing Partners, Inc. between 1999 and 2000.
From 2000 to 2013, he was a director of RP&C International, an investment banking firm providing specialist advisory services to public and private companies. Amongst other directorships, Nigel currently serves as chairman of AIM-quoted Maple Energy plc and is a member of Maple Energy plc's audit committee on which he acts as chairman. He graduated from the University of St. Andrews in Scotland and attended the Program for Management Development at Harvard Business School.

A Audit Committee
R Remuneration Committee
N Nomination Committee
X Committee Chairman

Corporate governance statement



* Kevin Lyon retired as Non-executive Chairman in November 2013 and was succeeded by Paul Dollman.
** Glen Murray attends Audit Committee meetings by invitation.

The Company has regard, so far as is practicable and appropriate for a company of its size and nature, to the provisions of the Corporate Governance Code, as modified by the recommendations of the Quoted Companies Alliance (QCA).

BOARD STRUCTURE

During the year the Company had two Independent Non-executive Directors on the Board to bring an independent view and to provide a balance to the Executive Directors.

The Board is responsible for formulating, reviewing and approving the Group's strategy, budgets and corporate actions. The Directors intend to hold monthly Board meetings.

BOARD COMMITTEES

The Board delegates certain matters to its three principal committees, which deal with audit, remuneration and nomination.

AUDIT COMMITTEE

During the year the Audit Committee comprised Nigel Christie (Chair) and Kevin Lyon and Paul Dollman who succeeded Kevin Lyon in 2013. Meetings are also attended, by invitation, by the Group Finance Director. The Audit Committee is responsible for monitoring the quality of internal controls and ensuring that the financial performance of the Group is properly measured and reported on. It receives and reviews reports from the Group's management and external auditor relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Group. The Audit Committee meets at least twice in each financial year and has unrestricted access to the Group's external auditor.

REMUNERATION COMMITTEE

During the year the Remuneration Committee comprised Kevin Lyon (Chair) and Paul Dollman who succeeded Kevin Lyon in 2013. and Nigel Christie. The Remuneration Committee reviews the performance of the Executive Directors and makes recommendations to the Board on matters relating to their remuneration and terms of service. The Remuneration Committee also makes recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to any employee share option scheme or equity incentive plans in operation from time to time. The Remuneration Committee meets at least annually. In exercising this role, the Directors have regard to the recommendations put forward in the QCA Guidelines and, where appropriate, the Corporate Governance Code guidelines.

NOMINATION COMMITTEE

During the year the Nomination Committee was chaired by Kevin Lyon and also comprising Nigel Christie and Alan Foy. The Nomination Committee considers the selection and re-appointment of Directors. It identifies and nominates candidates to fill Board vacancies and regularly reviews the structure, size and composition (including the skills, knowledge and experience) of the Board and makes recommendations to the Board with regard to any changes.

INTERNAL CONTROL

The Board has overall responsibility for the Group's system of internal control and risk management and for reviewing the effectiveness of this system. Such a system can only be designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can therefore only provide reasonable and not absolute assurance against material misstatement or loss.

The Board is of the view that due to the current size and composition of the Group, it is not necessary to establish an internal audit function.

RELATIONSHIP WITH SHAREHOLDERS

The Company values its dialogue with both institutional and private investors. Effective two way communication with fund managers, institutional investors and analysts is actively pursued and this encompasses issues such as performance, policy and strategy.

Private investors are encouraged to participate in the Annual General Meeting at which the Chairman presents a review of the results and comments on current business activity. The Chairmen of the Audit and Remuneration Committees will be available at the Annual General Meeting to answer any shareholder questions.

Notice of the Annual General Meeting is posted as an enclosure of the Annual Report.

GOING CONCERN

The Directors confirm that, having given consideration to various alternative outcomes of future performance together with the available bank facilities, they are satisfied that the Company and Group have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Directors' remuneration report

As an AIM Company, Smart Metering Systems plc is required to comply with Schedule 8 to the Large and Medium Sized Companies and Groups (Accounts and Report) Regulations 2008. The content of this report is unaudited unless stated.

REMUNERATION COMMITTEE

The Remuneration Committee comprises the Non-executive Chairman (Paul Dollman) and Independent Non-executive Director (Nigel Christie).

The Remuneration Committee reviews the performance of the Executive Directors and makes recommendations to the Board on matters relating to remuneration, terms of service, granting of share options and other equity incentives.

The Remuneration Committee meets at least annually.

REMUNERATION POLICY

The objectives of the remuneration policy are to ensure that the overall remuneration of Executive Directors is aligned with the performance of the Group and preserves an appropriate balance of income and shareholder value.

NON-EXECUTIVE DIRECTORS

Remuneration of the Non-executive Directors, including the Chairman, is determined by the Executive Directors. Non-executive Directors are not entitled to pensions, annual bonuses or employee benefits. They are entitled to participate in share option arrangements relating to the Company's shares. Each of the Non-executive Directors has a letter of appointment stating his annual fee and that his appointment is initially for a term of three years. Their appointment may be terminated with three months' written notice at any time.

DIRECTORS' REMUNERATION

The normal remuneration arrangements for Executive Directors consist of Directors' fees, basic salary and annual performance related bonuses.

In addition, they receive private health care, permanent health insurance and pension contributions.

DIRECTORS' EMOLUMENTS

	Fees/ basic salary £	Bonus £	Pension contribution £	Benefits in kind £	**2013 Total £**	2012 Total £
Executive						
S P Timoney	—	—	—	48,335	**48,335**	8,026
A H Foy	309,600	77,400	15,000	20,121	**422,121**	369,578
G Murray	100,000	25,000	5,000	1,169	**131,169**	95,153
Non-executive						
K J Lyon	67,080	—	—	—	**67,080**	78,000
P Dollman	10,333	—	—	—	**10,333**	—
N B Christie	51,540	—	—	—	**51,540**	49,920
Total	538,553	102,400	20,000	69,625	**730,578**	600,677

DIRECTORS' INTERESTS

The Directors who held office at 31 December 2013 had the following interests in the shares of the Company:

	Ordinary shares	
	2013 £0.01p each	2012 £0.01p each
Executive		
A H Foy	**8,889,958**	8,889,958
G Murray	**—**	—
Non-executive		
P Dollman	**—**	—
N B Christie	**290,000**	80,000
	9,179,958	8,969,958

Directors' remuneration report continued

DIRECTORS' SHARE OPTIONS

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the Directors. Details of options for Directors who served during the year are as follows:

Options granted are summarised below:

	Type	Number of shares under option	Exercise price	Date of grant	Earliest date exercisable
Executive					
G Murray	Approved	39,474	76p	15/07/11	15/07/14
	Unapproved	666,667	60p	20/06/11	20/06/16
	Unapproved	28,700	60p	20/06/13	20/06/13

The share price at 31 December 2013 was 303.5p. The range in the period 1 January to 31 December 2013 was 209p to 355p.

Details of share options granted by the Company at 31 December 2013 are given in note 23.

Directors' report

The Directors submit their Annual Report on the affairs of the Group together with the financial statements and Auditor's Report for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The principal activity of the Group during the year was that of rental and management of gas meters and that of laying infrastructure pipes for industrial and commercial premises and the provision of specialist technical advice on the use and management of energy for I&C users.

The subsidiary undertakings principally affecting the profits and net assets of the Group in the year are listed in note [2] to the parent company financial statements.

REVIEW OF THE BUSINESS

The Company is required by Section 417 of the Companies Act 2006 to set out in this report a fair review of the business and future developments of the Group during the financial year ended 31 December 2013 and of the position of the Group at the end of the year. This information can be found in the Chairman's Statement and Chief Executive Officer's Review on pages 8 to 11.

Information on the use of financial instruments by the Group is given in note 18 to the financial statements.

DIRECTORS

The Directors, who served throughout the year except as noted, were as follows:

Name of Director	Board title	Date of appointment	Date of resignation
K J Lyon	Non-executive Chairman	27 May 2011	7 November 2013
P Dollman	Non-executive Chairman	7 November 2013	
N B Christie	Independent Non-executive Director	27 May 2011	
A H Foy	Chief Executive	24 December 2009	
S P Timoney	Deputy Chairman	24 December 2009	28 May 2013
G Murray	Finance Director	1 January 2011	

CHARITABLE AND POLITICAL DONATIONS

During the year the Group made charitable donations of £7,421 (2012: £1,800).

No political donations were made during the year (2012: Nil).

SUPPLIER PAYMENT POLICY

The Group's policy is to meet obligations promptly on agreed payment dates, unless there is an unresolved query or dispute over the sum due.

Trade creditors of the Group at 31 December 2013 were equivalent to 36 (2012: 36) days purchases, based on the average daily amount invoiced by suppliers during the year.

SUBSTANTIAL SHAREHOLDINGS

On 1 February 2014, the Company had been notified, in accordance with Sections 791 to 828 of the Companies Act, of the following interest in the ordinary share capital of the Company:

Name of holder	Number	% held
S P Timoney	15,144,344	18.17%
Cazenove Capital Management	9,608,824	11.46%
A H Foy	8,889,958	10.67%
Liontrust Asset Management	8,653,869	10.32%
Legal & General Investment Management	6,193,992	7.38%
Old Mutual Asset Managers (UK)	5,138,318	6.13%
Standard Life Investments	5,053,912	6.03%

Directors' report continued

AUDITOR

Each of the Directors at the date of approval of this Annual Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Baker Tilly UK Audit LLP has expressed its willingness to continue in office as auditor and a resolution to re-appoint Baker Tilly Audit UK LLP will be proposed at the forthcoming AGM.

Approved by the Board of Directors and signed on behalf of the Board.

Glen Murray
Company secretary
14 March 2014

Directors’ responsibilities statement

In the preparation of financial statements

The Directors are responsible for preparing the Directors’ Report, the strategic report, the Directors’ Remuneration Report, the separate Corporate Governance Statement and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. The Directors are required by the AIM Rules of the London Stock Exchange to prepare Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and have elected under Company law to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

The Group financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing each of the Group and Company financial statements, the Directors are required to:

a. select suitable accounting policies and then apply them consistently;

b. make judgements and accounting estimates that are reasonable and prudent;

c. for the Group financial statements, state whether they have been prepared in accordance with IFRS adopted by the EU and for the Company financial statements state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Company financial statements; and

d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group’s and the Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements and the Directors’ Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Smart Metering Systems plc website.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report

To the members of Smart Metering Systems plc

We have audited the Group and parent company financial statements ("the financial statements") on pages 23 to 49. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As more fully explained in the Directors' Responsibilities Statement on page 21, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at http://www.frc.org.uk/Our-Work/Codes-Standards/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Scope-of-audit/UK-Private-Sector-Entity-(issued-1-December-2010).aspx

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2013 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

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

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

Alan Aitchison (Senior Statutory Auditor)
FOR AND ON BEHALF OF BAKER TILLY UK AUDIT LLP, STATUTORY AUDITOR
CHARTERED ACCOUNTANTS
BRECKENRIDGE HOUSE
274 Sauchiehall Street
Glasgow
G2 3EH
14 March 2014

Consolidated statement of comprehensive income

For the year ended 31 December 2013

	Notes	2013 £'000	2012 £'000
Revenue	1	**27,916**	21,029
Cost of sales	2	**(10,101)**	(7,759)
Gross profit		**17,815**	13,270
Administrative expenses	2	**(9,248)**	(7,337)
Profit from operations	2	**8,567**	5,933
Attributable to:			
Operating profit before exceptional items		**8,834**	7,176
Exceptional items and fair value adjustments	2	**(267)**	(1,243)
Finance costs	5	**(1,122)**	(739)
Finance income	5	**26**	33
Profit before taxation		**7,471**	5,227
Taxation	6	**(896)**	(914)
Profit for the year attributable to equity holders		**6,575**	4,313
Other comprehensive income		**—**	—
Total comprehensive income		**6,575**	4,313

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

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

	Notes	2013	2012
Basic earnings per share (pence)	7	**7.86**	5.18
Diluted earnings per share (pence)	7	**7.43**	5.00

Consolidated statement of financial position

As at 31 December 2013

	Notes	2013 £'000	2012 £'000
Assets			
Non-current			
Intangible assets	9	**2,018**	1,916
Property, plant and equipment	10	**57,382**	36,104
		59,400	38,020
Current assets			
Inventories	12	**2,504**	373
Trade and other receivables	13	**6,099**	3,091
Cash and cash equivalents	14	**2,073**	6,455
Other current financial assets	18	**207**	—
		10,883	9,919
Total assets		**70,283**	47,939
Liabilities			
Current liabilities			
Trade and other payables	15	**8,879**	8,201
Bank loans and overdrafts	16	**3,933**	2,150
Commitments under hire purchase agreements	17	**3**	3
Other current financial liabilities	18	**—**	170
		12,815	10,524
Non-current liabilities			
Bank loans	16	**31,475**	18,299
Obligations under hire purchase agreements	17	**6**	10
Deferred tax liabilities	20	**3,395**	2,510
		34,876	20,819
Total liabilities		**47,691**	31,343
Net assets		**22,592**	16,596
Equity			
Share capital	22	**838**	833
Share premium		**8,971**	8,653
Other reserve	24	**1**	1
Retained earnings		**12,782**	7,109
Total equity attributable to equity holders of the parent company		**22,592**	16,596

The financial statements on pages 23 to 49 were approved and authorised for issue by the Board of Directors and signed on its behalf by:

Glen Murray
Director
14 March 2014

Company Registration Number
SC367563

Consolidated statement of changes in equity

For the year ended 31 December 2013

Attributable to the owners of the parent company:	Share capital £'000	Share premium £'000	Other reserve £'000	Retained earnings £'000	Total £'000
As at 1 January 2012	833	8,653	1	2,969	12,456
Profit for the year	—	—	—	4,313	4,313
Transactions with owners in their capacity as owners:					
Dividends (note 8)	—	—	—	(417)	(417)
Share options	—	—	—	244	244
As at 31 December 2012	833	8,653	1	7,109	16,596
Profit for the year	—	—	—	6,575	6,575
Transactions with owners in their capacity as owners:					
Dividends (note 8)	—	—	—	(1,546)	(1,546)
Shares issued	5	318	—	—	323
Share options	—	—	—	644	644
As at 31 December 2013	838	8,971	1	12,782	22,592

Consolidated statement of cash flows

For the year ended 31 December 2013

	2013 £'000	2012 £'000
Cash flow from operating activities		
Profit before taxation	**7,471**	5,227
Finance costs	**1,122**	739
Finance income	**(26)**	(33)
Fair value movement on derivatives	**(377)**	(151)
Depreciation	**2,754**	1,599
Amortisation	**262**	238
Share-based payment expense	**644**	244
Increase in inventories	**(2,131)**	(290)
Increase in trade and other receivables	**(2,961)**	(1,485)
Decrease in trade and other payables	**826**	1,835
Cash generated from operations	**7,584**	7,923
Taxation	**(206)**	(290)
Net cash generated from operations	**7,378**	7,633
Investing activities		
Payments to acquire property, plant and equipment	**(24,595)**	(16,380)
Disposal of property, plant and equipment	**563**	4
Payments to acquire intangible assets	**(364)**	(269)
Finance income	**26**	33
Net cash used in investing activities	**(24,370)**	(16,612)
Financing activities		
New borrowings	**17,830**	10,947
Capital repaid	**(2,875)**	(1,671)
Net outflow from other long-term creditors	**—**	(3)
Finance costs	**(1,122)**	(739)
Net proceeds from share issue	**323**	—
Dividend paid	**(1,546)**	(417)
Net cash generated from financing activities	**12,610**	8,117
Net increase in cash and cash equivalents	**(4,382)**	(862)
Cash and cash equivalents at the beginning of the financial year	**6,455**	7,317
Cash and cash equivalents at the end of the financial year (note 14)	**2,073**	6,455

Accounting policies

The Company is incorporated and domiciled in the UK. The Group's activities consist of the rental and management of gas meters and that of laying infrastructure pipes for industrial and commercial premises and the provision of specialist technical advice on the use and management of energy for industrial and commercial users.

BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments which are measured at fair value in line with applicable accounting standards. The consolidated financial statements are presented in British pounds Sterling (£), which is also the functional currency of the Group, and all values are rounded to the nearest thousand (£'000) except where otherwise indicated.

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 which extend to March 2016 and available cash resources at 31 December 2013 of £11.7m.

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 financial statements incorporate the consolidated financial statements of the Company and all Group undertakings being UK Gas Connection Limited, UK Meter Assets Limited, UKMA (AF) Limited and UK Data Management Limited. These are adjusted, where appropriate, to conform to Group accounting policies and are prepared to the same accounting reference date. The Company was incorporated on 27 October 2009. The Group was formed on 24 December 2009 through the acquisition of the entire share capital of UK Gas Connection Limited and UK Meter Assets Limited (the only subsidiaries in existence at that time).

Whilst the Group was newly formed, the ultimate ownership of all companies remained unchanged and, as such, the financial statements have been prepared based on a reconstruction under common control, reflecting the Group results for the current and prior years as though the Group structure has always existed.

USE OF ESTIMATES AND JUDGEMENTS

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

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are the estimation of share-based payment costs. The estimation of share-based payment costs requires the selection of an appropriate valuation model, consideration as to the inputs necessary for the valuation model chosen and the estimation of the number of awards that will ultimately vest, inputs for which arise from judgements relating to the probability of meeting non-market performance conditions and the continuing participation of employees.

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, 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 Company fulfils its contractual obligations to customers by supplying services.

Accounting policies continued

METER RENTAL INCOME

Rental income is recognised when the Company is contractually entitled to it. Rental income is calculated on a daily basis and invoiced monthly. Rental contracts do not operate on a fixed term basis and are cancellable by the lessee 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.

GAS CONNECTION

Revenue from gas connection contracts is recognised upon delivery of the related service, in line with our contractual entitlement.

DATA MANAGEMENT

Data provision income is recognised when the Company is contractually entitled to it. Data provision income is invoiced in advance and is recognised in a straight line over the contract period.

SEGMENT REPORTING

An operating segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. Operating segments are reported in a manner consistent with the reports made to the chief operating decision maker which are consistent with the reported results.

The Company considers that the role of chief operating decision maker is performed by the Board of Directors.

FINANCIAL ASSETS

INITIAL RECOGNITION AND MEASUREMENT

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

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

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

FINANCIAL LIABILITIES

INITIAL RECOGNITION AND MEASUREMENT

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

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

DERECOGNITION

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognised in the income statement.

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.

FINANCIAL LIABILITIES CONTINUED

INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT

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

CURRENT VERSUS NON-CURRENT CLASSIFICATION

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances (i.e. the underlying contracted cash flows).

Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond twelve months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.

Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if a reliable allocation can be made.

EXCEPTIONAL ITEMS

The Group presents as exceptional items on the face of the income statement 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.

RESEARCH AND DEVELOPMENT

Expenditure on pure and applied research activities is recognised in the income statement 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, 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 commercialised or in 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	20% 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 net operating expenses disclosed in the statement of comprehensive income.

Intangible assets are amortised over their useful lives as follows:

Software	12.5% straight line

Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis. The Company does not have any intangible assets with indefinite lives.

Accounting policies continued

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 and borrowing costs for long-term construction projects if the recognition criteria are met. 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.

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

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

Short leasehold property	20% on cost
Plant and machinery	5% on cost
Fixtures and fittings	15% on cost
Equipment	33% on cost

Land is not depreciated.

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 income statement 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.

All fixed assets are initially recorded at cost.

IMPAIRMENT OF ASSETS

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For purposes of assessing impairment assets that do not individually generate cash flows are assessed as part of the cash-generating unit to which they belong. Cash-generating units are the lowest levels for which there are cash flows that are largely independent of the cash flows from other assets or groups of assets.

INVENTORIES

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the balance sheet comprise 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 consist 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 tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the notional interest is charged to the statement of comprehensive income in proportion to the remaining balance outstanding.

LEASED ASSETS AND OBLIGATIONS

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement. Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

All other leases are operating leases and the annual rentals are charged to the statement of comprehensive income on a straight line basis over the lease term.

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 statement of comprehensive income.

SHARE-BASED PAYMENTS

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

TAXATION

Tax currently payable is based on the taxable profit for the year. Taxable profit differs from accounting profit as reported in the 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.

ADOPTION OF THE INTERNATIONAL ACCOUNTING STANDARDS NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR PERIODS COMMENCING ON OR AFTER 1 JULY 2014

ANNUAL IMPROVEMENTS TO IFRSS 2010/2012 CYCLE (NOT YET ENDORSED FOR USE IN EU)

In December 2013 the IASB published "Annual Improvements to IFRSs – 2010/2012 Cycle" as part of its annual improvements project. A summary of the amendments is set out below:

IFRS	Amendment
IFRS 2 Share-based Payment	Separate definitions of 'service condition' and 'performance condition' now included in IFRS 2, Appendix A and the definition of 'vesting condition' and 'market condition' amended.
	Applied prospectively for share-based transactions for which the grant date is on or after 1 July 2014.
IFRS 3 Business Combinations	Paragraph 40 amended to clarify that contingent consideration that meets the definition of a financial instrument must be classified as equity or financial liability based on the requirements of IAS 32 only and the reference to 'or other applicable IFRSs' has been deleted.
	References to 'IAS 37 or other IFRSs as appropriate' deleted in paragraph 58(b) for contingent consideration that is a non-financial asset or liability. This retains fair value, with changes through profit or loss, as the subsequent measurement basis for all non-equity contingent consideration to which IFRS 3 applies.
	Consequential amendments made to IAS 37 and IAS 39 (and IFRS 9) to clarify that contingent consideration in a business combination that is classified as an asset or a liability shall be subsequently measured at fair value with changes in fair value recognised in profit or loss.
	Applied prospectively to business combinations for which the acquisition date is on or after 1 July 2014.
IFRS 8 Operating Segments	A new paragraph 22(a) added to require disclosure of the judgements made by management in applying the aggregation criteria in the standard. This includes a brief description of the operating segments that have been aggregated and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics.
	Paragraph 28(c) amended to require a reconciliation of the total of the reportable segments' assets to the entity's assets only if the amount is regularly provided to the chief operating decision maker, consistent with the requirement in paragraph 28(d) for an entity's liabilities.

Accounting policies continued

ADOPTION OF THE INTERNATIONAL ACCOUNTING STANDARDS NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE FOR PERIODS COMMENCING ON OR AFTER 1 JULY 2014 CONTINUED

ANNUAL IMPROVEMENTS TO IFRSS 2010/2012 CYCLE (NOT YET ENDORSED FOR USE IN EU) CONTINUED

IFRS	Amendment
IFRS 13 Fair Value Measurement	Amendment to the Basis for Conclusions to clarify that when certain paragraphs from IAS 39 and IFRS 9 were deleted because IFRS 13 contains guidance for using present value techniques, the intention was not to remove the ability of an entity to measure short-term receivables and payables with no stated interest rate at invoice amounts without discounting, when the effect of not discounting is immaterial.
IAS 16 Property, Plant and Equipment	Paragraph 35 amended and new paragraphs added to clarify the treatment of accumulated depreciation when an item of property, plant and equipment is revalued, as the IFRS Interpretations Committee had reported to the IASB that practice differed. At the date of the revaluation, the asset must be treated in one of the following ways: › the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; and › the accumulated depreciation is eliminated against the gross carrying amount of the asset. Applies to revaluations in the initial period of application (i.e. beginning on or after 1 July 2014) and the preceding period. Adjusted comparative information may be presented for earlier periods, but there is no requirement to do so.
IAS 24 Related Party Disclosures	Paragraph 9 amended and new paragraphs added to extend the definition of a related party as IAS 24 was not clear of the relationship when a management entity provides key management personnel services to an entity. The definition of a related party now includes an entity, or any member of a group of which it is a part, that provides key management personnel services to the reporting entity, or to the parent of the reporting entity. Separate disclosure is required for the provisions of key management personnel services provided by a separate management entity. The key management personnel compensation that is provided by a management entity to its own employees is excluded from the disclosure requirements.
IAS 38 Intangible Assets	Paragraph 80 amended and new paragraphs added to align the accounting treatment of accumulated depreciation when an intangible asset is revalued with the amendments to IAS 16 when an item of property, plant and equipment is revalued (see above).

Effective date: periods commencing on or after 1 July 2014 unless otherwise indicated.

ADOPTION OF THE INTERNATIONAL ACCOUNTING STANDARDS NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE FOR PERIODS COMMENCING ON OR AFTER 1 JULY 2014 CONTINUED

ANNUAL IMPROVEMENTS TO IFRSS 2011/2013 CYCLE (NOT YET ENDORSED FOR USE IN EU)

In December 2013 the IASB published "Annual Improvements to IFRSs – 2011/2013 Cycle" as part of its annual improvements project. A summary of the amendments is set out below:

IFRS	Amendment
IFRS 1 First-time Adoption of International Financial Reporting Standards	A footnote to paragraph BC11 and a new paragraph BC11A added to clarify that if a new IFRS is not yet mandatory but permits early application, that IFRS is permitted but not required to be applied in the entity's first IFRS financial statements. If a new IFRS is so applied it must be applied in all the periods presented in the first IFRS financial statements on a retrospective basis. Effective from 12 December 2013.
IFRS 3 Business Combinations	Paragraph 2(a) amended (and paragraphs added to the Basis for Conclusions) to: › exclude the formation of all types of joint arrangements (as defined in IFRS 11 Joint Arrangements, i.e. joint ventures and joint operations), from the scope of IFRS 3; and › clarify that the scope exception only applies to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. Apply prospectively for periods beginning on or after 1 July 2014.
IFRS 13 Fair Value Measurement	Paragraph 52 of IFRS 13 defines the scope of the exception that permits an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis if the entity manages that group of financial assets and financial liabilities on the basis of its net exposure to either market risk or credit risk. This is referred to as the portfolio exception. The IASB has amended paragraph 52 to clarify that the portfolio exception applies to all contracts within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation. Periods beginning on or after 1 July 2014. Apply prospectively from the beginning of the annual period in which IFRS 13 was initially applied.
IAS 40 Investment Property	IAS 40 amended to clarify that reference should be made to IFRS 3 to determine whether the acquisition of investment property is the acquisition of an asset; or a group of assets; or a business combination. This judgement is not based on paragraphs 7–15 of IAS 40, which relate to whether or not property is owner-occupied or investment property, but is instead based on the guidance in IFRS 3. Transitional provisions: The amendment applies prospectively and consequently amounts recognised for acquisitions of investment property in prior periods are not adjusted. However, the IASB noted that the amendment is really only a clarification of the interrelationship between IFRS 3 and IAS 40. It therefore permits an entity to choose to apply the amendment to individual acquisitions of investment property that occurred before the effective date if, and only if, information needed to apply the amendment is available to the entity. Apply prospectively to acquisitions of investment property made in periods beginning on or after 1 July 2014. Adjusted comparative information may be presented for earlier periods but there is no requirement to do so.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on Smart Metering Systems plc.

None of the above interpretations would have an impact on this financial information if applied.

Notes to the financial statements

For the year ended 31 December 2013

1 SEGMENTAL REPORTING

For management purposes, the Group is organised into two core divisions, management of assets and installation of meters, which form the basis of the Group's reportable operating segments. 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:

The management of assets comprises regulated management of gas meters within the UK.

The installation of meters comprises installation of domestic and industrial and commercial gas meters throughout the UK.

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 or loss excluding operating costs not reported by segment, depreciation, amortisation of intangible assets and exceptional items.

The following tables present information regarding the Group's reportable segments for the years ended 31 December 2013 and 31 December 2012:

31 December 2013	**Asset management £'000**	**Asset installation £'000**	**Unallocated £'000**	**Total operations £'000**
Segment/Group revenue	**13,803**	**14,113**	**—**	**27,916**
Operating costs	**(2,575)**	**(7,526)**	**—**	**(10,101)**
Segment profit – Group gross profit	**11,228**	**6,587**	**—**	**17,815**
Items not reported by segment:				
Other operating costs	**—**	**—**	**(5,965)**	**(5,965)**
Depreciation	**(2,654)**	**—**	**(100)**	**(2,754)**
Amortisation	**(262)**	**—**	**—**	**(262)**
Exceptional items and fair value adjustments	**—**	**—**	**(267)**	**(267)**
Profit before interest and tax	**8,312**	**6,587**	**(6,332)**	**8,567**
Net finance costs	**(1,096)**	**—**	**—**	**(1,096)**
Profit before tax	**7,216**	**6,587**	**(6,332)**	**7,471**
Tax expense				**(896)**
Profit for year				**6,575**

31 December 2012	Asset management £'000	Asset installation £'000	Unallocated £'000	Total operations £'000
Segment/Group revenue	9,254	11,775	—	21,029
Cost of sales	(2,194)	(5,565)	—	(7,759)
Segment profit – Group gross profit	7,060	6,210	—	13,270
Items not reported by segment:				
Other operating costs	—	—	(4,257)	(4,257)
Depreciation	(1,534)	—	(65)	(1,599)
Amortisation	(238)	—	—	(238)
Exceptional items and fair value adjustments	—	—	(1,243)	(1,243)
Profit before interest and tax	5,288	6,210	(5,565)	5,933
Net finance costs	—	—	(706)	(706)
Profit before tax	5,288	6,210	(6,271)	5,227
Tax expense				(914)
Profit for year				4,313

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

1 SEGMENTAL REPORTING CONTINUED

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

	2013 £'000	2012 £'000
Customer 1 – Asset Management	**7,677**	5,511
Customer 1 – Asset Installation	**4,901**	4,228
	12,578	9,739

No segmentation is presented for the majority of Group assets and liabilities as these are managed centrally, independently of operating segments.

Those assets and liabilities that are managed and reported on a segmental basis are detailed below.

SEGMENT ASSETS AND LIABILITIES

31 December 2013	Asset management £'000	Asset installation £'000	Total operations £'000
Assets reported by segment			
Intangible assets	**2,018**	—	**2,018**
Plant and machinery	**57,041**	—	**57,041**
Inventories	**2,504**	—	**2,504**
			61,563
Assets not reported by segment			**8,720**
Total assets			**70,283**
Liabilities reported by segment			
Obligations under hire purchase agreements	**9**	—	**9**
			9
Liabilities not reported by segment			**47,682**
Total liabilities			**47,691**

31 December 2012	Asset management £'000	Asset installation £'000	Total operations £'000
Assets reported by segment			
Intangible assets	1,916	—	1,916
Plant and machinery	35,791	—	35,791
Inventories	373	—	373
			38,080
Assets not reported by segment			9,859
Total assets			47,939
Liabilities reported by segment			
Obligations under hire purchase agreements	13	—	13
			13
Liabilities not reported by segment			31,330
Total liabilities			31,343

Notes to the financial statements continued

For the year ended 31 December 2013

2 INCOME STATEMENT BY NATURE AND ITEMS OF EXPENDITURE INCLUDED IN THE CONSOLIDATED INCOME STATEMENT

	2013 £'000	2012 £'000
Revenue	**27,916**	21,029
Direct rental costs	**(2,575)**	(2,194)
Direct subcontractor costs	**(6,220)**	(4,556)
Other direct sales costs and systems rental	**(1,312)**	(1,001)
Staff costs	**(3,830)**	(2,665)
Depreciation:		
– owned assets	**(2,723)**	(1,568)
– leased assets	**(31)**	(31)
Amortisation	**(262)**	(238)
Auditor's remuneration:		
– as auditor	**(51)**	(43)
– other services	**(29)**	(22)
Exceptional costs and fair value adjustments	**(267)**	(1,243)
Operating lease costs:		
– plant and equipment	**1**	(30)
Other operating charges	**(2,050)**	(1,505)
Operating profit	**8,567**	5,933
Finance costs	**(1,122)**	(739)
Finance income	**26**	33
Profit before taxation	**7,471**	5,227

Included in exceptional items and fair value adjustments expenses are: i) £377,143 (2012: £(151,000)) relates to the interest rate hedge fair value adjustment and ii) £644,275 (2012: £243,675) that relates to share-based payments. £Nil (2012: £652,518 restructuring debt, £Nil (2012: 395,300) settlement of hedge and £Nil (2012: £102,650 TUPE costs).

Amounts paid to our auditor during the year totalled £80,155 (2012: £65,480).

This can be analysed as:

	2013 £'000	2012 £'000
Statutory audit (Baker Tilly UK Audit LLP)	**51**	43
Taxation services (Baker Tilly Tax and Accounting Limited)	**15**	19
Non-statutory audit services (Baker Tilly UK Audit LLP)	**14**	3
	80	65

3 PARTICULARS OF EMPLOYEES

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

	2013 Number	2012 Number
Number of administrative staff	**8**	5
Number of operational staff	**76**	54
Number of sales staff	**5**	3
Number of IT staff	**4**	3
Number of Directors	**3**	3
	96	68

3 PARTICULARS OF EMPLOYEES CONTINUED

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

	2013 £'000	2012 £'000
Wages and salaries	**3,364**	2,351
Social security costs	**384**	256
Staff pension costs	**64**	40
Director pension costs	**18**	18
	3,830	2,665

4 DIRECTORS' EMOLUMENTS

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

	2013 £'000	2012 £'000
Emoluments receivable	**589**	518
Fees	**52**	50
Value of Group pension contributions to money purchase schemes	**5**	4
Other pension	**15**	14
	661	586

Emoluments of highest paid Director	2013 £'000	2012 £'000
Total emoluments	**387**	350
Pension contributions	**15**	13

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

	2013 Number	2012 Number
Money purchase schemes	**1**	1

5 FINANCE COSTS AND FINANCE INCOME

	2013 £'000	2012 £'000
Finance costs		
Bank loans and overdrafts	**1,121**	738
Finance leases	**1**	1
Total finance costs	**1,122**	739
Finance income		
Bank interest receivable	**26**	33

Notes to the financial statements continued

For the year ended 31 December 2013

6 TAXATION

	2013 £'000	2012 £'000
Analysis of charge in the year		
Current tax:		
Current income tax expense	—	200
Over provision in prior year	11	77
Total current income tax	11	277
Deferred tax:		
Origination and reversal of temporary differences	885	637
Tax on profit on ordinary activities	896	914

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

	2013	2012
Profit before tax	7,471	5,227
Tax at the UK corporation tax rate of 23% (2012: 24.5%)	1,718	1,281
Expenses not deductible for tax purposes	19	45
Adjustments to tax charge in respect of previous periods	3	(174)
Change in tax rate	(844)	(221)
R&D enhanced deductions	—	(17)
Tax expense in the income statement	896	914

7 EARNINGS PER SHARE

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

	2013 £'000	2012 £'000
Profit for the year used for calculation of basic EPS	6,575	4,313
Amortisation of intangible assets	262	238
Exceptional costs	267	1,243
Tax effect of adjustments	(127)	(355)
Earnings for the purpose of adjusted EPS	6,977	5,439

Number of shares	2013	2012
Weighted average number of ordinary shares for the purposes of basic EPS	83,606,102	83,339,747
Effect of potentially dilutive ordinary shares:		
– share options	4,898,694	2,957,911
Weighted average number of ordinary shares for the purposes of diluted EPS	88,504,796	86,297,658
Earnings per share:		
– basic (pence)	7.86	5.18
– diluted (pence)	7.43	5.00
Adjusted earnings per share:		
– basic (pence)	8.35	6.53
– diluted (pence)	7.88	6.30

The Directors consider that the adjusted earnings per share calculation gives a better understanding of the Group's earnings per share.

8 DIVIDENDS

	2013 £'000	2012 £'000
Equity dividends		
Paid during the year:		
Dividends on equity shares £0.0185 (2012: £0.005)	1,546	417
Total dividends	1,546	417

9 INTANGIBLE ASSETS

	Research and development £'000	Software £'000	Total £'000
Cost			
As at 1 January 2012	559	1,810	2,369
Additions	269	—	269
As at 31 December 2012	828	1,810	2,638
Additions	364	—	364
As at 31 December 2013	**1,192**	**1,810**	**3,002**
Amortisation			
As at 1 January 2012	14	470	484
Charge for year	3	235	238
As at 31 December 2012	17	705	722
Charge for year	27	235	262
As at 31 December 2013	**44**	**940**	**984**
Net book value			
At 31 December 2013	**1,148**	**870**	**2,018**
At 31 December 2012	811	1,105	1,916
At 1 January 2012	545	1,340	1,885

10 PROPERTY, PLANT AND EQUIPMENT

	Short leasehold property £'000	Plant and machinery £'000	Fixtures and fittings £'000	Equipment £'000	Total £'000
Cost					
As at 1 January 2012	31	23,020	25	296	23,372
Additions	72	16,200	91	17	16,380
Disposals	—	—	(13)	—	(13)
As at 31 December 2012	103	39,220	103	313	39,739
Additions	33	24,467	16	79	24,595
Disposals	—	(687)	—	—	(687)
As at 31 December 2013	**136**	**63,000**	**119**	**392**	**63,647**
Depreciation					
As at 1 January 2012	18	1,895	9	123	2,045
Charge for year	12	1,534	11	42	1,599
Disposals	—	—	(9)	—	(9)
As at 31 December 2012	30	3,429	11	165	3,635
Charge for year	20	2,654	16	64	2,754
Disposals	—	(124)	—	—	(124)
As at 31 December 2013	**50**	**5,959**	**27**	**229**	**6,265**
Net book value					
At 31 December 2013	**86**	**57,041**	**92**	**163**	**57,382**
At 31 December 2012	73	35,791	92	148	36,104
At 1 January 2012	13	21,125	16	173	21,327

HIRE PURCHASE AGREEMENTS

Included within the net book value of £57,382,000 (2012: £36,104,000, 2011: £21,327,000) is £84,000 (2012: £115,000, 2011: £145,000) 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 £31,000 (2012: £31,000, 2011: £8,000).

The assets are secured by a bond and floating charge (note 16).

Notes to the financial statements continued

For the year ended 31 December 2013

11 FINANCIAL ASSET INVESTMENTS

SUBSIDIARY UNDERTAKINGS

	Country of incorporation	Holding	Proportion of shares held	Nature of business
All held by the Company:				
UK Gas Connection Limited	Scotland	Ordinary shares	100%	Gas utility management
UK Meter Assets Limited	Scotland	Ordinary shares	100%	Gas utility management
UK Data Management Limited	Scotland	Ordinary shares	100%	Data management
UKMA (AF) Limited*	England	Ordinary shares	100%	Leasing

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

12 INVENTORIES

	2013 £'000	2012 £'000
Inventories	**2,504**	373

13 TRADE AND OTHER RECEIVABLES

	2013 £'000	2012 £'000
Trade receivables	**3,326**	1,270
Prepayments	**246**	60
Accrued income	**1,885**	1,516
Other receivables	**32**	32
Corporation tax repayable	**47**	—
VAT recoverable	**563**	213
	6,099	3,091

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 statement of financial position are net of allowances for doubtful receivables. There was no allowance for doubtful receivables or provision against accrued income in the year (2013: £Nil, 2012: £Nil). The ageing profile of trade receivables past due date is shown below:

	2013 £'000	2012 £'000
31–60 days	**299**	148
60–90 days	**401**	56
Over 90 days	**198**	49
	898	253
Allowance for doubtful receivables	**—**	—
	898	253

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

Trade receivables due from related parties at 31 December 2013 amounted to £Nil (2012: £Nil, 2011: £34,000).

Receivables are all in Sterling denominations.

The Directors are of the opinion that none of the overdue debts as at 31 December 2013 (2012: £Nil, 2011: £Nil) require impairment.

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

14 CASH AND CASH EQUIVALENTS

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

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

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

	2013 £'000	2012 £'000
Cash	**2,073**	6,455
	2,073	6,455

15 TRADE AND OTHER PAYABLES

	2013 £'000	2012 £'000
Current		
Trade payables	**4,569**	3,434
Other payables	**15**	12
Other taxes	**249**	176
Corporation tax	**—**	148
Deferred income	**291**	88
Accruals	**3,755**	4,343
	8,879	8,201

The maturity profile of trade payables is given below:

	2013 £'000	2012 £'000
Current	**4,026**	2,518
31–60 days	**160**	607
60–90 days	**58**	42
Over 90 days	**325**	266
	4,569	3,433

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

All trade liabilities are Sterling denominated.

16 BANK LOANS AND OVERDRAFTS

	2013 £'000	2012 £'000
Current		
Bank loans	**3,933**	2,150
Bank overdraft	**—**	—
	3,933	2,150
Non-current		
Bank loans	**31,475**	18,299
Bank overdraft	**—**	—
	31,475	18,299

Bank loans at 31 December 2013 relate to a term loan facility of £45.0m that was finalised in August 2013.

The term loan is available for 24 months, is payable in equal quarterly instalments based on a ten year repayment profile, with a final repayment date of 31 July 2017. The term loan attracts interest at a rate of 2.9% over the three month LIBOR. 1.45% is paid on undrawn funds.

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

The Group has fixed the bank interest payable through an interest rate swap (see note 18).

Notes to the financial statements continued

For the year ended 31 December 2013

17 COMMITMENTS UNDER HIRE PURCHASE AGREEMENTS

Future minimal commitments under hire purchase agreements are as follows:

	2013 £'000	2012 £'000
Current		
Amounts payable within one year	**3**	3
Non-current		
Amounts payable between two to five years	**6**	10
Amounts payable after more than five years	**—**	—
	6	10

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

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

18 OTHER FINANCIAL LIABILITIES AND ASSETS

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

	2013 £'000	2012 £'000
Other financial assets	**207**	—
Non-current liabilities		
Other financial liabilities	**—**	170

Other financial assets and liabilities relate to the fair value adjustment on interest rate swaps.

The Group uses interest rate swaps to manage interest rate risk on interest-bearing loans and borrowings which means that the Group pays a fixed interest rate rather than being subject to fluctuations in the variable rate. The Group has not designated these derivatives as cash flow hedges.

The interest rate swaps cover an interest rate swap for an amount of £28,200,000 as at 31 December 2013 (2012: £13,200,000, 2011: £5,500,000) and an interest rate cap over an amount of £Nil as at 31 December 2013 (2012: £Nil, 2011: £5,500,000).

The interest rate swap results in a fixed interest rate of 0.90–0.92%.

The termination date for the derivatives is 15 September 2016.

The movement in the fair value is shown below:

	2013 £'000	2012 £'000
Interest rate swap		
Opening position	**—**	18
Adjustment to fair value	**207**	(18)
Closing position	**207**	—
Interest rate cap		
Opening position	**(170)**	(339)
Adjustment to fair value	**170**	169
Closing position	**—**	(170)

18 OTHER FINANCIAL LIABILITIES AND ASSETS CONTINUED

FAIR VALUES

The Directors do not consider there to be any material differences between the fair values and carrying values of any financial assets or liabilities recorded within these financial statements at the balance sheet date other than as set out below.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

At 31 December 2013, the Group held the following financial instruments measured at fair value:

Liabilities measured at fair value	31 December 2013 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets at fair value through the income statement:				
Interest rate derivatives	**207**	—	207	—

Fair value has been assessed on a Mark to Market basis.

The above assets are shown on the statement of financial position as other current financial assets and other current financial liabilities.

During the reporting period ended 31 December 2013, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

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:

Pound Sterling	Increase/decrease in basis points	Effect on profit before tax £'000
2013	**1%**	**72**
2012	1%	65

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
2013	**28,209**	**7,208**	**35,417**
2012	13,213	7,249	20,462
1 January 2012	5,516	5,673	11,189

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

Notes to the financial statements continued

For the year ended 31 December 2013

19 FINANCIAL RISK MANAGEMENT CONTINUED

INTEREST RATE RISK PROFILE OF FINANCIAL LIABILITIES CONTINUED

The following is the maturity profile of the Group's financial liabilities as at 31 December:

	2013 £'000	2012 £'000
Fixed rate		
Less than one year	**2,824**	1,324
Two to five years	**11,286**	5,289
Over five years	**14,099**	6,600
	28,209	13,213
Variable rate		
Less than one year	**1,086**	803
Two to five years	**4,344**	3,212
Over five years	**1,778**	3,234
	7,208	7,249

INTEREST RATE RISK PROFILE OF FINANCIAL ASSETS

The Group's financial assets at 31 December 2013 comprise cash and trade receivables. The cash balance of £2,073,000 (2012: £6,455,000, 2011: £7,317,000) 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 rates is insignificant as primarily all of the Group's operating activities are denominated in pound Sterling.

LIQUIDITY RISK

The Group manages its cash in a manner designed to ensure maximum benefit is gained whilst ensuring security of investment sources. The Group's policy on investment of surplus funds is to place deposits at institutions with strong credit ratings.

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

CREDIT RISK

Credit risk with respect to trade receivables and accrued income is due to the Group trading with a limited number of companies who 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 £5,211,000 (2012: £2,786,000, 2011: £1,445,000) as disclosed in note 13 – trade and other receivables, and accrued income.

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

CAPITAL MANAGEMENT

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

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

20 DEFERRED TAXATION

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

	2013 £'000	2012 £'000
Opening deferred tax liability	**2,510**	1,873
Increase in provision through income statement	**885**	637
Closing deferred tax liability	**3,395**	2,510

All movements identified have gone through the income statement.

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

	2013 £'000	2012 £'000
Excess of taxation allowances over depreciation on fixed assets	**3,385**	2,788
Tax losses available	**(38)**	(239)
Fair value of interest rate swaps (net)	**48**	(39)
	3,395	2,510

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

	2013 £'000	2012 £'000
Accelerated capital allowances	**597**	459
Tax losses	**201**	132
Movement in fair value of interest rate swaps	**87**	46
	885	637

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 £41,500 (2012: £41,500, 2011: £41,500) to the Directors' pension scheme, Eco Retirement Benefit Scheme, for the use of certain premises. Both Stephen Timoney and Alan Foy are trustees of the scheme. At the year-end date, an amount of £4,150 (2012: £4,150, 2011: £4,150) was outstanding in this regard.

During the year, the Group paid dividends to Stephen Timoney and Alan Foy of £428,170 and £164,464 respectively.

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

	At 31 December 2013 £'000	At 31 December 2012 £'000
Salaries and other short-term employee benefits	**1,101**	754

22 SHARE CAPITAL

	2013 £'000	2012 £'000
Allotted and called up:		
83,877,872 ordinary shares of £0.01 each (2012 and 2011: 83,339,747 ordinary shares of £0.01 each)	**839**	833

On 4 July 2013 538,125 ordinary share options were exercised and issued to Kevin Lyon and Nigel Christie.

Notes to the financial statements continued

For the year ended 31 December 2013

23 SHARE-BASED PAYMENTS

On 20 June 2011 the Company adopted both an Approved Company Share Option Plan (the 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.

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.

Plan	At 1 January 2013	Granted	Exercised	Lapsed	**At 31 December 2013**	Exercise price (pence)	Date exercisable	Expiry date
CSOP	572,373	—	—	(6,579)	**565,794**	76.0	15/7/14	15/7/21
CSOP	39,088	—	—	—	**39,088**	153.5	28/5/15	28/5/22
CSOP	12,097	—	—	(12,097)	**—**	248.0	3/12/15	3/12/22
Unapproved	3,083,333	—	—	104,273	**2,979,060**	60.0	20/6/16	20/6/21
Unapproved	717,500	—	538,125	179,375	**—**	60.0	20/6/12*	20/2/21
Unapproved	1,162,629	—	—	—	**1,162,629**	153.5	28/5/17	28/5/22
Unapproved	805,660	—	—	805,660	**—**	248.0	3/12/17	3/12/22
Unapproved	—	179,375	—	—	**179,375**	60.0	28/6/13	28/6/23

* Only 50% of the options can be exercised at this date.

VALUATION

The fair value of all options granted has been estimated using the Black-Scholes option model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2013:

	Unapproved Plan
Option strike price (£)	0.60
Share price (£)	3.09

Options granted during the year are immediately exercisable.

The weighted average fair value of share options issued during the year was £2.65.

24 OTHER RESERVE

This is a non-distributable reserve that arose by applying merger relief under s162 CA06 to the shares issued in 2008 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".

25 COMMITMENTS UNDER OPERATING LEASES

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

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

	2013 £'000	2012 £'000
Future minimal commitments under operating lease agreements are as follows:		
Payable within one year	**205**	65
Payable within two and five years	**411**	704
Payable after five years	**135**	176
	751	945

26 ULTIMATE CONTROLLING PARTY

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

27 CONTINGENT LIABILITY

The Group is the subject of an ongoing HMRC enquiry in respect of payments made to Employee Benefit Trusts in prior years. Whilst the outcome of the enquiry is, as yet, uncertain, the beneficiaries of the Trusts have provided the Company with indemnities against any additional tax that may become payable as a result of these enquiries.

Parent company balance sheet

As at 31 December 2013

	Notes	2013 £'000	2012 £'000
Fixed assets			
Investments	2	—	—
Current assets			
Debtors	3	**11,241**	10,518
Creditors			
Amounts falling due within one year	4	—	5
Net current assets		**11,241**	10,513
Total assets less current liabilities		**11,241**	10,513
Capital and reserves			
Called up share capital	6	**839**	833
Share premium	7	**8,971**	8,653
Profit and loss account	7	**1,431**	1,027
Equity shareholders' funds		**11,241**	10,513

The parent company financial statements on pages 47 to 49 were approved and authorised for issue by the Board of Directors and signed on their behalf by:

Glen Murray
Director
14 March 2014

Company Registration Number
SC367563

Notes to the parent company financial statements

For the year ended 31 December 2013

1 PARENT COMPANY ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The parent company financial statements have been prepared under the historical cost convention, with the exception of current asset investments held at valuation, and in accordance with applicable accounting standards.

No separate income statement is provided for Smart Metering Systems plc as permitted by S409(3) of the Companies Act 2006.

GOING CONCERN

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.

TURNOVER

Turnover represents revenue recognised in the accounts. Revenue is recognised when the Company fulfils its contractual obligations to customers by supplying goods and services, or when they have the right to receive the income, and excludes value added tax. Where turnover is recognised due to the right to receive the income and the Company has not invoiced for the goods or services supplied an accrual is incorporated for the estimate of providing such.

DEFERRED TAXATION

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the consolidated financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the consolidated financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

FINANCIAL INSTRUMENTS

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

2 INVESTMENTS

Company	Group companies £'000
Cost	
At 1 January 2013	—
Additions	—
At 31 December 2013	—
Net book value	
At 31 December 2013	—
At 31 December 2012	—

2 INVESTMENTS CONTINUED
SUBSIDIARY UNDERTAKINGS

	Country of incorporation	Holding	Proportion of shares held	Nature of business
All held by the Company:				
UK Gas Connection Limited	Scotland	Ordinary shares	100%	Gas utility management
UK Meter Assets Limited	Scotland	Ordinary shares	100%	Gas utility management
UK Data Management Limited	Scotland	Ordinary shares	100%	Data management
UKMA (AF) Limited*	England	Ordinary shares	100%	Leasing

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

3 DEBTORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	2013 £'000	2012 £'000
Amounts owed by Group undertakings	**11,241**	10,518
	11,241	10,518

4 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	2013 £'000	2012 £'000
Other creditors	**—**	5
	—	5

5 RELATED PARTY TRANSACTIONS

The Company had no material related party transactions to disclose in line with Financial Reporting Standard 8.

The Group has taken advantage of the exemption in Financial Reporting Standard 8 from the requirement to disclose transactions within the Group.

6 SHARE CAPITAL

	2013 £'000	2012 £'000
Allotted and called up:		
83,877,872 ordinary shares of £0.01 each (2012: 83,339,747 ordinary shares of £0.01 each)	**839**	833

7 RESERVES

	Profit and loss reserve £'000	Share premium £'000	Share capital £'000
As at 1 January 2013	1,027	8,653	833
Retained earnings	1,950	—	—
Share issue	—	318	6
Dividend paid	(1,546)	—	—
As at 31 December 2013	**1,431**	**8,971**	**839**

8 CONTINGENT LIABILITY

The Group is the subject of an ongoing HMRC enquiry in respect of payments made to Employee Benefit Trusts in prior years. Whilst the outcome of the enquiry is, as yet, uncertain, the beneficiaries of the Trusts have provided the Company with indemnities against any additional tax that may become payable as a result of these enquiries.

consultancy, design and production by
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