

smart approach
smart systems



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

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MORE ONLINE

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



Our highlights

A year of continued growth across all business areas: recurring meter rental, a strong performance in the UK Gas Connection and a good set of initial figures for our electricity activity in both segments from our UPL acquisition.

FINANCIAL HIGHLIGHTS

- › Revenue* increased by 52% to £42.4m (2013: £27.9m) – increase of 25% excluding UPL
- › Total annualised recurring revenues increased by 43% to £26.2m (2013: £18.3m)
 - › Gas metering and data meter recurring rent increased 41% to £21.9m and data recurring income reached £1.0m
 - › Electricity metering and data meter recurring rent doubled to £0.6m and data recurring income grew 29% to £2.7m
- › Gross profit increased by 55% to £27.6m (2013: £17.8m) – increase of 38% excluding UPL
- › Gross profit margin at 65% (2013: 64%)
- › Underlying EBITDA** increased by 64% to £19.3m (2013: £11.8m) – increase of 49% excluding UPL
- › EBITDA margin at 46% (2013: 42%)
- › Underlying PBT** increased by 66% to £12.8m (2013: £7.7m)
- › Underlying earnings per share*** increased by 77% to 14.36p (2013: 8.10p)
- › Final dividend of 1.88p per ordinary share making 2.82p for the full year (2013: 2.31p), an increase of 22%
- › Net debt of £57.3m with net debt to EBITDA at 2.9x
- › Available cash and unused debt facility of £47.5m at 31 December 2014
- › In November 2014, renegotiation of £105m club facility with existing club of lenders to provide further funding flexibility

* Additional revenue streams incorporated in 2014 result from UPL.

** Underlying EBITDA and PBT are before exceptional items and intangible amortisation.

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

OPERATIONAL HIGHLIGHTS

- › Total gas meter portfolio increased by 29% to 607,000 (2013: 469,000), with Industrial and Commercial (I&C) meters nearly trebling. Electricity meter numbers more than doubled to 12,000 (2013: 5,000)
- › Capital expenditure on meters increased by 52% to £35m, reaching a monthly run rate of approximately £3m in December 2014
- › £14m acquisition of UPL on 14 April 2014 adding in excess of £2m EBITDA annual run rate and electricity connections, meters, data and energy services to SMS' services
- › Rhys Wynne, previously managing director of UPL, appointed to the new role of Chief Operating Officer of SMS
- › Strengthened Board with the appointments of energy sector and corporate finance experts Miriam Greenwood and Willie MacDiarmid as Non-executive Directors in February 2014 and April 2014 respectively
- › Contract extensions or additions with major customers, including BES Utilities (BES) and Total Gas & Power Ltd (TGP) (both after full year in February 2015), British Gas Business (BGB), DONG Energy Services Limited (DONG Limited) and Opus Energy (Opus)
- › ADM™ installations more than doubled to 41,000 units by 31 December 2014 (2013: 16,000)
- › Received full accreditation for water market in the UK
- › International trials continuing

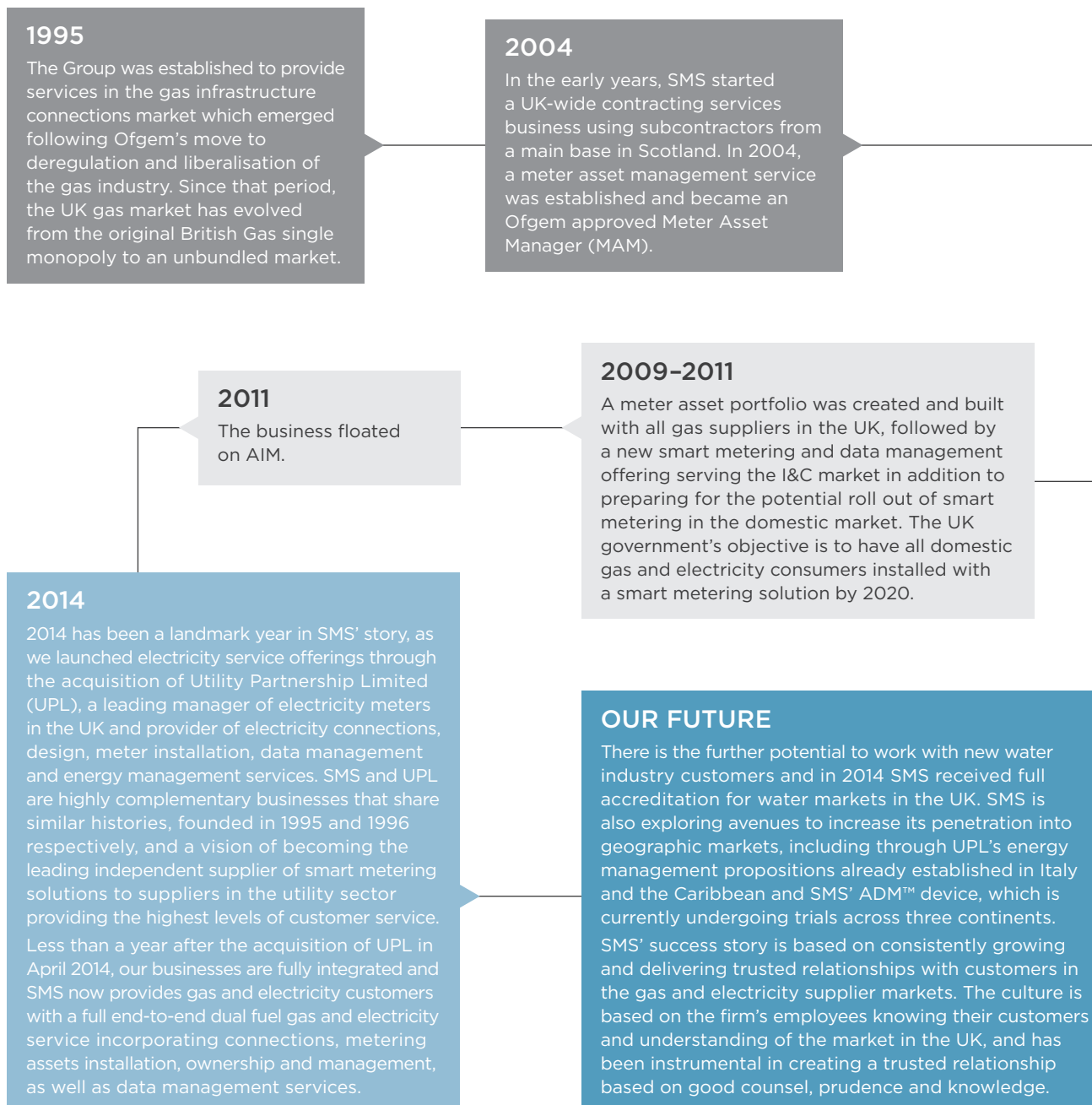
MEASURING OUR PROGRESS

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.

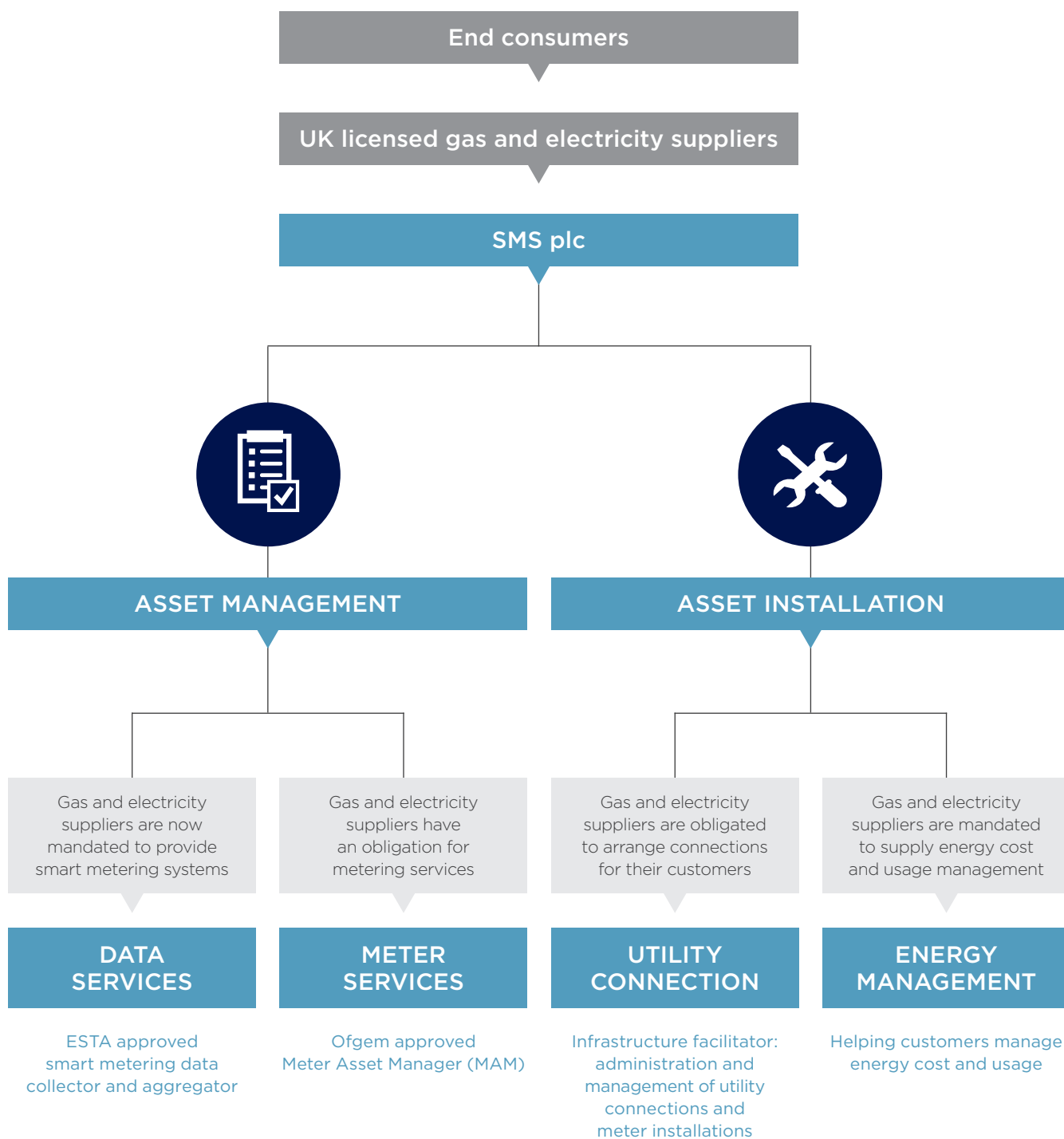
Our story

Smart Metering Systems celebrates its 20th anniversary in 2015 and is still the only independent business providing gas and electricity infrastructure connection services, gas and electricity meter asset management services together with the development of advanced smart metering technology solutions to key gas and electricity suppliers in the UK I&C market.

We provide a comprehensive package of solutions driven by our in-depth market knowledge and insight.



UK GAS AND ELECTRICITY MARKETS AND THE SMS INTEGRATED SERVICE OFFERING



Our 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 and electricity connection and metering services markets.

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

The company has four wholly owned subsidiaries offering the following services in gas and electricity:

UTILITY CONNECTION

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

Gas and electricity suppliers arrange connections for their clients

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

METER SERVICES

Meter Asset Manager: operations for every UK gas and electricity supplier

Gas and electricity suppliers are mandated to provide metering services

Our Meter Services are Ofgem approved meter asset management companies that own, operate and manage commercial and domestic gas and electricity meters on behalf of the UK's leading gas and electricity suppliers and independent meter asset managers.

The new enlarged Group is now the largest independent provider of gas and electricity meter assets in the UK and has two defined business streams offering gas and electricity services.

DATA SERVICES

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

Gas and electricity suppliers have an obligation to provide meter data management services

Smart metering is seen as the key to the future efficiency of the UK's energy system. Our Data Services are ESTA approved smart metering data collectors and aggregators that deliver the Company's patented ADM™ smart metering solution, which is very simple to install and highly cost effective and competitive. We strive to maintain our client-centric culture and we focus on client needs, not product features.

ENERGY MANAGEMENT

Helping customers manage energy cost and usage

Gas and electricity suppliers are mandated to supply energy cost and usage management

Our Energy Management services delivers energy management services to organisations in the UK, Italy and the Caribbean. Further cost savings and reductions in energy consumption and carbon emissions can be achieved through our invoice management facility, automatic monitoring and targeting (aM&T) programme and environmental and energy management service.

Our strategy and markets

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

KEY PRIORITIES

INCREASE GROWTH RATE

Grow our domestic meters business organically and through new contracts

OUR PROGRESS IN 2014

- › Annualised recurring revenues from gas and electricity increased by 43% to £26.2m

+29%

Total gas meter portfolio increased to 607,000 (domestic and I&C)

OUR FOCUS FOR 2015

- › Increase recurring rental
- › Increase meter installations in domestic and I&C markets
- › Cross-sell multi-utility connections metering and data management services

UPSELL THE ADM™ SOLUTION

Establish our technology ADM™ as the industry standard smart metering solution for industrial and commercial (I&C) clients

OUR PROGRESS IN 2014

- › Annualised recurring ADM™ data income increased by 233% to £1.0m

+156%

Total ADM™ portfolio increased to 41,000 (domestic and I&C)

OUR FOCUS FOR 2015

- › Increase recurring rental
- › Continue to explore markets excluding the UK
- › Trial the device in UK electricity markets
- › Explore markets for water and LPG applications

Market size and outlook

SMS operates in a large UK market with few operators currently. We focus on the Industrial and Commercial (I&C) market throughout the UK whilst also operating in the domestic market. The market size is estimated to be circa 1.6 million I&C gas meters and 22 million domestic gas meters. In electricity, this breaks down as 2.1 million I&C electricity meters and 27 million domestic electricity meters.

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 investment for rolling out and replacing approximately 22 million domestic gas meters and 27 million electricity 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), UK Meter Assets of SMS will be one of the few participants competing in the market. Nevertheless, the growth of our business in the domestic market is not predicated on this potential rollout from 2016, which is subject to a timeframe set by the UK government.

Our current market share is 65,000 I&C gas meter assets (4.1% of the market) and 542,000 domestic gas meter assets (2.5% 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. In electricity, our current market share is 12,000 I&C electricity meter assets (0.6% of the market).

The SMS ADM™ smart metering solution has considerable potential to be rolled out in the I&C market, as 1.6 million I&C gas meters and 2.1 million electricity 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 and electricity through our ADM™ smart metering solution. In electricity, 2.1 million electricity meters will need to be smart enabled.

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

Risk management

The attention of 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 on the market price of the ordinary shares.

RISK	DESCRIPTION	MITIGATION
Failure of physical infrastructure or services of the Company	<p>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 and electricity meters. If the Company fails to register a meter(s) on its IT system, wrongly classifies a meter or loses track of a meter(s) within the system then this could also have a material adverse effect.</p> <p>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.</p>	<p>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.</p>
Dependency on key clients, terms of contracts, financing costs and performance levels	<p>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 2014 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 and electricity meters was changed to the new asset manager, the Company would suffer a loss in revenue and of the beneficial termination provisions.</p> <p>The key contracts with gas suppliers have certain performance obligations. In particular, the Company is required to provide meter assets for an agreed price.</p> <p>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.</p>	<p>To mitigate these risks the Company has now put in place full MAM service contracts that cover over 80% of the I&C gas market and over 40% of the domestic gas 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.</p>

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 results 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 manage its growth effectively	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

- › Considerable progress across all segments
- › Established electricity service offering
- › Expanding order book with key gas suppliers in the I&C market for meter assets and ADM device

REVIEW OF THE YEAR

2014 has been a year of expansion and firsts for SMS, putting the business in good stead as we now enter our 20th anniversary year. In the first half of the year, SMS established its electricity service offerings within both segments and welcomed 168 new colleagues through the acquisition of UPL on 14 April 2014. During the second half of the year, SMS appointed Rhys Wynne as Chief Operating Officer (COO) of the Company, a new role created following the UPL acquisition. SMS is delighted with the success of the UPL integration, which has helped secure contract extensions or additions from a number of major customers, including BES Utilities (BES), British Gas Business (BGB), DONG Energy Services Limited (DONG), Opus Energy (Opus) and Total Gas & Power Ltd (TGP). SMS and our customers are already clearly benefiting from the Company's full end-to-end dual fuel service.

OUR BUSINESS

I am pleased to confirm SMS has continued to make considerable progress in 2014 across all segments of the business.

Through the establishment of SMS' Electricity, SMS has a clearly defined growth strategy in the gas and electricity supplier markets, positioning the business to fulfil our vision of becoming the leading independent provider of metering services to the utility sector with the highest level of customer service. Together with the potential to establish ADM™ as the industry standard smart metering device, the Group has a very promising outlook.

SMS has consistently demonstrated 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 and electricity supplier markets, increase the run rate with these customers and continue to grow the meter asset portfolio.

The UK meter assets business presents a large market opportunity with a substantial proportion of an estimated 1.6 million I&C meters in the UK to be exchanged for a smart metering solution by 2020 with the added potential of a domestic market roll out of some 22 million gas meters, and in the electricity market this is estimated to be 2.1 million I&C meters and 27 million domestic meters.

The order book for the ADM™ device has continued to grow and our current gas and electricity supplier contracts provide potential access to over 80% of UK I&C gas meters and 40% of residential gas meters. International trials of ADM™ overseas in gas, electricity, water and LPG markets continue, where we remain encouraged by the progress.

Our priority in 2015 and beyond is to focus on our three strategic areas:

- › grow our domestic meters business organically and through new contracts with an emphasis on driving recurring income;
- › 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 and electricity suppliers, with a focus on cross-selling between the Gas and Electricity across our horizontal suite of services.

SMS has developed a strong and evolving business model and strategy that provides the most effective scope for continued expansion of the business to reward our customers and shareholders.

PEOPLE AND CORPORATE CULTURE

The acquisition of UPL this year marked SMS' first-ever acquisition. It also marked the coming together of two companies that have very similar histories and share the same values, culture and approach to customer service. It was paramount that for any sort of acquisition to take place it needed to be one that maintained SMS' culture based on a commitment by its employees to know and serve their customers.

This has been instrumental in developing, building and maintaining trusted relationships with our customers, the gas and now also electricity suppliers, who have responded positively to the acquisition of UPL. 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 and electricity suppliers. These are integral to how we achieve customer satisfaction and the building of a trusted relationship. We are excited to be driving forward our strategic vision, values and culture through our enlarged team and strengthened senior management.

BOARD COMPOSITION

The Board comprises five directors, of whom three are Non-executive with me as your Non-executive Chairman. We have sought to build our Board structure to ensure we have a balanced Board and in the first half of 2014 we welcomed two new Non-executive Directors, Miriam Greenwood and Willie MacDiarmid, while Nigel Christie retired from the Board as a Non-executive Director. The Board would like to thank Nigel for his very significant contribution to the Company.

Energy and corporate finance expert Miriam Greenwood is Chair of SMS' Audit Committee and energy sector expert Willie MacDiarmid is Chair of the Company's Remuneration Committee.

Miriam 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. She is a Non-executive Director of a number of companies and 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.

Willie is a reputed senior executive in the energy sector, with experience at the highest level with the last two UK governments on a variety of strategic and operating working groups. As a member of the Scottish Power executive team, he successfully led Scottish Power through the deregulation of the UK energy market and served on their investment committee, and was involved in various mergers and acquisitions. Scottish Power's successful metering business was part of his portfolio.

OUTLOOK

Under Alan Foy's leadership, the expanded dual fuel offer, our strengthened senior management and the expertise of our Non-executive Directors, alongside our robust IT infrastructure, SMS is ideally positioned to maintain our competitive advantage and continue to make progress on our strategic priorities.

As we continue to invest in providing the highest levels of service to the gas and electricity supplier markets we remain confident on the outlook for the business and we view the outlook for the market in 2015 as highly promising for our business model.

Paul Dollman
Non-executive Chairman

Chief Executive Officer's statement


Alan Foy

Chief Executive Officer

HIGHLIGHTS

- › Increase in recurring revenues
- › 29% increase in meter portfolio
- › Contract additions and extensions:
 - › I&C
 - › Domestic
- › Contracts in place with companies representing over 80% of the total I&C market and over 40% of the Domestic market
- › Underlying earnings per share* increased by 77%
- › Final dividend of 1.88p per ordinary share

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

We are delighted with the continued strong performance of the business for the year ended 31 December 2014.

Recurring income now represents 53% of our total revenue compared to 49% of total income in 2013, as we see the benefits of our business model of building up the recurring income streams. The recurring revenues are as a result of the long-term nature of our contracts, which provide an index-linked revenue stream.

ACQUISITION OF UPL

On 14 April 2014, SMS acquired the entire issued share capital of UPL. With this acquisition SMS has doubled the number of recurring income streams and we are growing the electricity meter portfolio, further increasing our recurring rental revenue.

The acquisition is in line with the strategic vision of SMS to become the leading independent supplier of smart metering solutions to suppliers in the utility sector with the highest levels of customer service.

UPL is now operationally fully integrated into SMS resulting in additional income streams across both segments and is driving acceleration of the overall strategic vision of SMS' enlarged business in three key areas:

- › drive growth opportunities through connections, metering and data management services to an expanded gas and electricity customer base;
- › position our business as a dual gas and electricity meter provider for the UK's future smart meter roll out programme; and
- › provide further opportunities to expand internationally.

In the first year of acquisition SMS has already added clients, including DONG Limited and TGP, to our Electricity division and extended existing contracts. UPL's existing portfolio included customers such as Centrica, SSE and EDF, as well as Network Rail, Vodafone, Santander, Sainsbury's, O2 UK and Cable & Wireless.

In addition to contract wins and extensions already secured through the dual fuel gas and electricity service offering, there is the further potential to work with new water industry customers.

SMS also believes there is scope to expand internationally through UPL's energy management propositions already established in Italy and the Caribbean and SMS' ADM™ device, which is currently undergoing trials across three continents.

OPERATIONAL REVIEW

During 2014 we made substantial progress across all segments of the business. Following a strong first half where we saw our gas meter portfolio break the half-million mark with an increase of 65,000, growth accelerated in the second half to reach a total of 607,000 gas meters, with a further 73,000 added or a 29% increase year on year. The number of electricity meters more than doubled to 12,000 from 5,000 in 2013, bringing our overall gas and electricity meter portfolio to 619,000.

The progress we have made in establishing long-term recurring revenue was underlined by an increase in year-end annualised recurring meter rental revenue of 41% to £21.9m and data provision sales from our ADM™ device more than trebled to reach the £1m level. Through the establishment of our Electricity services we have added an additional two recurring revenue streams, where meter recurring rent doubled to £567,000 and data recurring income grew 29% to £2.7m. For the first time, recurring income now makes up the majority of our total revenue.

INDUSTRIAL AND COMMERCIAL METERS

We were delighted to announce a number of new contracts or contract extensions with major customers during 2014. We more than doubled our I&C gas meter portfolio to 65,000 meters from 27,000 meters in 2013. In the gas market we secured a significant contract with BGB, while in the electricity market we won contracts with Opus and DONG Limited, both existing customers of SMS. More recently, in the first quarter of 2015 in the Electricity market, we were awarded contracts with BES Utilities and with TPG, part of Total S.A., which is a current client of our Gas services.

The increase in customer base during 2014 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 will 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.

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 deployed more than 2.5 times the number of ADM™ devices in the UK in 2014, up to 41,000 from 16,000 in 2013. The Company remains confident that its ADM™ device technology has a broad range of potential applications in gas, electricity, water and LPG markets and has been continuing with trials of the device internationally.

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.

As over the last two years, all new contracts announced in 2014 allow for the introduction of the ADM™ device into I&C premises during meter replacement programmes.

DOMESTIC METERS

We grew our domestic gas meter portfolio by 24% from 437,000 in 2013 to 542,000 by 31 December 2014. Our combined gas and electricity full service offering has strengthened our position and SMS' opportunity in the domestic meter market, ideally positioning the business for the current UK domestic smart meter roll out programme.

While we are well placed to capitalise on this roll out of smart meters in the UK domestic market, 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.

OTHER MARKETS

We were very pleased to announce during 2014 that following an extensive accreditation process the products SMS has developed for the UK water market have passed all tests and received full accreditation.

Alan Foy

Chief Executive Officer

Financial review



Glen Murray
Finance Director

HIGHLIGHTS

- › Revenues increased by 52%
- › Recurring revenue up 62%, representing 53% of total revenue
- › Gross profit increased by 55%
- › Underlying EBITDA* increased by 64%
- › Capital investment on meters up by 52%
- › New banking club arrangement announced on 12 March 2014 for £105.0m
- › Available cash resources of £47.5m at the end of year

* Excluding exceptional items and intangible amortisation.

RESULTS FOR THE YEAR

During 2014, SMS increased revenue by 52% to £42.4m or by 25% to £34.9m excluding UPL. Recurring revenue, in line with the Company's strategy, increased to 53% of total revenue in 2014, compared to 49% in the same period in 2013.

Gross profit increased by 55% from £17.8m to £27.6m, of which the new electricity offerings contributed £2.7m. Underlying EBITDA grew 64% from £11.8m to £19.3m, with the electricity offerings contributing £1.1m of this total.

CASH AND BORROWINGS

SMS was delighted to announce in November 2014 an agreement with our existing lenders, Barclays Bank plc (lead bank), Clydesdale Bank plc and Bank of Scotland plc (together, the "Lenders"), on a significant amendment to the existing long-term £105m revolving credit facilities (RCF) announced in March 2014. The RCF fund the purchase of meter assets as part of a phased installation programme in line with recent substantial contract wins. The result of the amendment was an increase in the loan-to-value ratio (i.e. the percentage of the value of each meter asset available to be funded through the RCF) from 85% to 100%.

As at 31 December 2014, the Company had net debt of £57.3m compared to £33.3m in 2013, cash resources including unused facilities of £47.5m compared to £11.7m in 2013 and gearing of 159% (2013: 147%).

Capital investment in meters in 2014 was £34.5m compared to £23.3m in 2013.

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 £30.0m as at 31 December 2014 (2013: £28.2m). The interest rate swap results in a fixed interest rate of 2.80-2.82%. The termination date for the derivatives is 15 September 2016.

Glen Murray
Finance Director



Corporate governance

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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 FTSE 250 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.



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 partner in SPARK Advisory Partners, a corporate advisory boutique, a Non-executive Director of Mithras Investment Trust plc, Eclipse Shipping and a trustee of Fiscal Affairs Scotland. 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.



Willie MacDiarmid
Non-executive Director

Date of appointment 14 April 2014

Committees **A R N**

A proven executive with a track record of delivering outstanding results in complex environments.

Willie is Chairman and Non-Executive Director at Fallago Rig and a Non-executive Director at Business Stream where he also chairs the Remuneration Committee. He is also a Non-executive of Grove Ltd, the Jersey based healthcare company.

In 2012 he acted as non-executive/CEO of May Gurney PLC, which was AIM listed. Here he led a significant turnaround after a profits warning, which culminated in the sale of the business to Kier PLC. This turnaround received The Times Turnaround of the year award.

During 2009 to 2012 Willie was the main Board Director of EAGA PLC, a FTSE 250 energy services company, which after successfully entering the green energy sector was sold to Carillion PLC.

As a member of the Scottish Power Executive Team (Energy Retail Director) he successfully led Scottish Power through the deregulation of the UK energy market. He played a major role in the integration of Scottish Power and Iberdrola. Scottish Power's successful metering business was part of his portfolio.

Willie had involvement at the highest level with the last two UK governments utilising experience and skills on a variety of working groups with strategic and operational dimensions reporting to the UK Energy Minister/Director Generals.

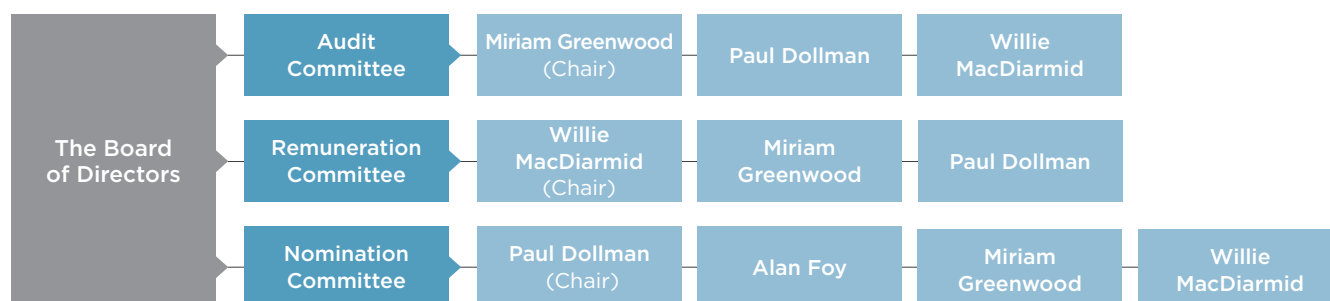
A Audit Committee

R Remuneration Committee

N Nomination Committee

● Committee Chair

Corporate governance statement



* 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 UK Corporate Governance Code, as modified by the recommendations of the Quoted Companies Alliance (QCA).

BOARD STRUCTURE

During the year the Company had three 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 hold eight Board meetings per annum.

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 Miriam Greenwood (Chair) who succeeded Nigel Christie, Paul Dollman and Willie MacDiarmid. 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 Willie MacDiarmid (Chair), Paul Dollman (previously Chair) and Miriam Greenwood. 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 UK Corporate Governance Code guidelines.

NOMINATION COMMITTEE

During the year the Nomination Committee was chaired by Paul Dollman and also comprised Miriam Greenwood, Willie MacDiarmid 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 Chairs 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 Director Willie MacDiarmid, Paul Dollman Non-executive Chairman and Non-executive Director Miriam Greenwood.

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 their annual fee and that their 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 £	2014 Total £	2013 Total £
Executive						
S P Timoney	—	—	—	—	—	48,335
A H Foy	319,507	100,000	15,732	4,090	439,329	422,121
G Murray	103,200	50,000	5,160	1,489	159,849	131,169
Non-executive						
K J Lyon	—	—	—	—	—	67,080
P Dollman	75,000	—	—	—	75,000	10,333
N B Christie	21,475	—	—	—	21,475	51,540
M Greenwood	33,333	—	—	—	33,333	—
W MacDiarmid	30,000	—	—	—	30,000	—
Total	582,515	150,000	20,892	5,579	758,986	730,578

DIRECTORS' INTERESTS

The Directors who held office at 31 December 2014 had the following interests in the shares of the Company:

	Ordinary shares	
	2014 £0.01p each	2013 £0.01p each
Executive		
A H Foy	8,889,958	8,889,958
G Murray	—	—
Non-executive		
P Dollman	10,000	—
M Greenwood	10,000	—
W MacDiarmid	—	—
	8,909,958	8,889,958

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	35,974	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

Glen Murray exercised 3,500 approved share options during the year.

The share price at 31 December 2014 was 395p. The range in the period 1 January to 31 December 2014 was 301.25p to 425.5p.

Details of share options granted by the Company at 31 December 2014 are given in note 25.

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 2014.

PRINCIPAL ACTIVITIES

The principal activity of the Group during the year was that of an integrated metering services company that connects, owns, operates and maintains current generation and new advanced metering assets and databases.

The subsidiary undertakings principally affecting the profits and net assets of the Group in the year are listed in note 12 of the consolidated accounts and 2 to the parent company 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
P Dollman	Non-executive Chairman	7 November 2013	
N B Christie	Non-executive Director	27 May 2011	14 April 2014
A H Foy	Chief Executive	24 December 2009	
M Greenwood	Non-executive Director	3 February 2014	
W MacDiarmid	Non-executive Director	14 April 2014	
G Murray	Finance Director	1 January 2011	

CHARITABLE AND POLITICAL DONATIONS

During the year the Group made charitable donations of £2,880 (2013: £7,421).

No political donations were made during the year (2013: £Nil).

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 2014 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 20 to the financial statements.

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 payables of the Group at 31 December 2014 were equivalent to 39 (2013: 36) days' purchases, based on the average daily amount invoiced by suppliers during the year.

SUBSTANTIAL SHAREHOLDINGS

On 1 February 2015, the Company had been notified, in accordance with sections 791 to 828 of the Companies Act, of the following interests in the ordinary share capital of the Company:

Name of holder	Number	% held
S P Timoney	15,144,344	17.70%
Liontrust Asset Management	9,455,257	11.05%
A H Foy	8,889,958	10.32%
Cazenove Capital Management	8,834,738	10.32%
Old Mutual Asset Manager (UK)	6,652,138	7.77%
Standard Life Investments	6,613,750	7.73%
Legal & General Investment Management	5,071,600	5.93%

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
Finance Director
13 March 2015

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.

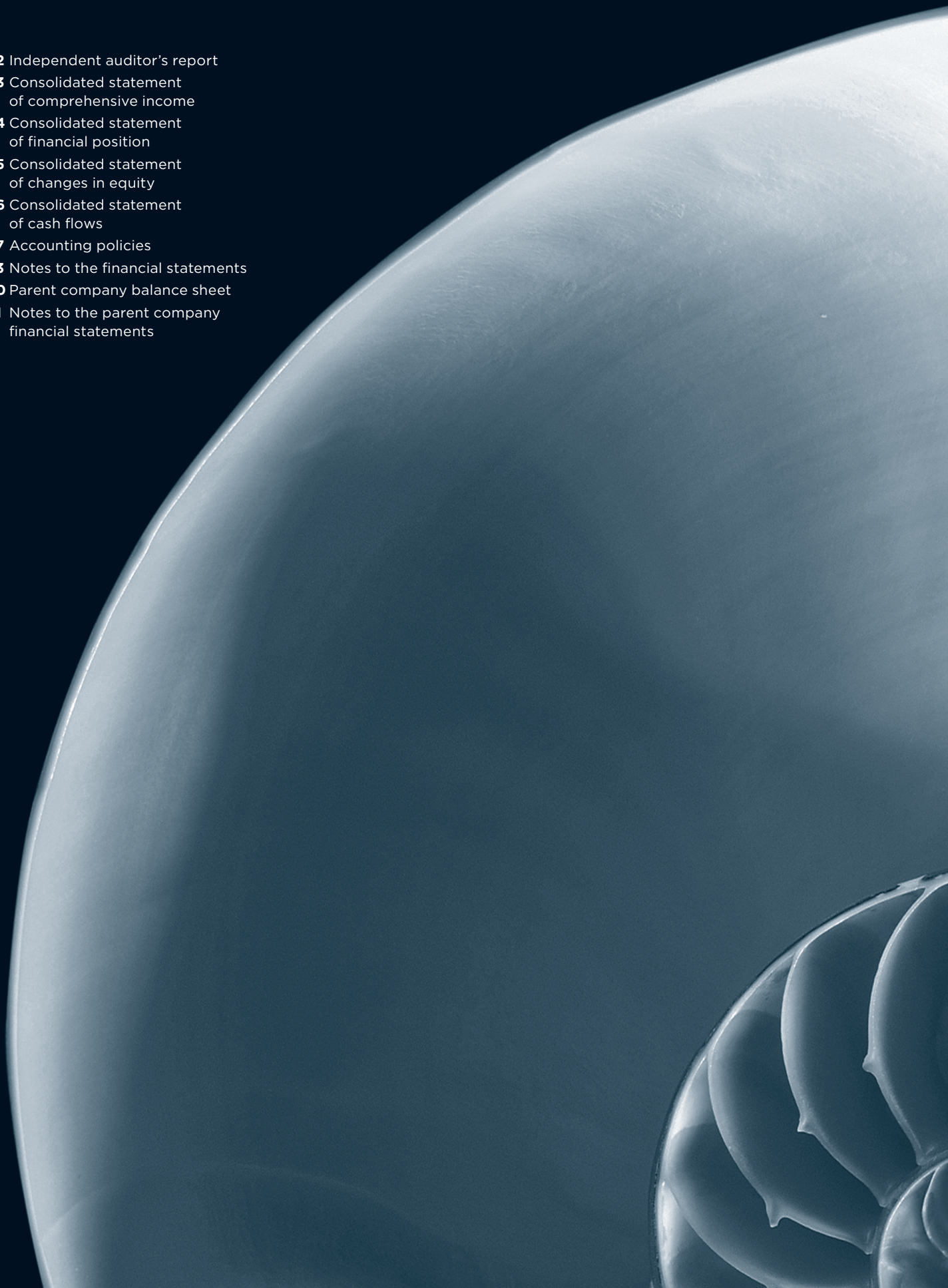
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements 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.

Financial statements

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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") which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Parent Company Balance Sheet, and the related notes. 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, 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/auditscopeukprivate>.

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 2014 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 MATTER 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 matters where the Companies Act 2006 requires us 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 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.

Andrew Allchin (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

13 March 2015

Consolidated statement of comprehensive income

For the year ended 31 December 2014

	Notes	2014 £'000	2013 £'000
Revenue	2	42,386	27,916
Cost of sales	3	(14,766)	(10,101)
Gross profit		27,620	17,815
Administrative expenses	3	(14,832)	(9,625)
Other operating income	3	215	—
Profit from operations	3	13,003	8,190
Attributable to:			
Operating profit before exceptional items		14,795	8,452
Amortisation of intangibles		(1,155)	(262)
Exceptional items and fair value adjustments	3	(637)	—
Finance costs	6	(2,015)	(1,122)
Finance income	6	30	403
Profit before taxation		11,018	7,471
Taxation	7	(225)	(896)
Profit for the year attributable to equity holders		10,793	6,575
Other comprehensive income		—	—
Total comprehensive income		10,793	6,575

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

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

	Notes	2014	2013
Basic earnings per share (pence)	8	12.71	7.86
Diluted earnings per share (pence)	8	12.23	7.43

Consolidated statement of financial position

As at 31 December 2014

	Notes	2014 £'000	2013 £'000
Assets			
Non-current			
Intangible assets	10	10,932	2,018
Property, plant and equipment	11	91,277	57,382
Investments	12	83	—
		102,292	59,400
Current assets			
Inventories	14	1,211	2,504
Trade and other receivables	15	9,474	6,099
Cash and cash equivalents	16	4,285	2,073
Other current financial assets	20	—	207
		14,970	10,883
Total assets		117,262	70,283
Liabilities			
Current liabilities			
Trade and other payables	17	15,140	8,879
Bank loans and overdrafts	18	7,904	3,933
Commitments under hire purchase agreements	19	90	3
Other current financial liabilities	20	70	—
		23,204	12,815
Non-current liabilities			
Bank loans	18	53,645	31,475
Commitments under hire purchase agreements	19	64	6
Deferred tax liabilities	22	4,395	3,395
		58,104	34,876
Total liabilities		81,308	47,691
Net assets		35,954	22,592
Equity			
Share capital	24	856	838
Share premium		9,291	8,971
Other reserve	26	4,258	1
Treasury shares	25	(92)	—
Retained earnings		21,641	12,782
Total equity attributable to equity holders of the parent company		35,954	22,592

The financial statements on pages 23 to 52 were approved and authorised for issue by the Board of Directors and signed on its behalf by:

Glen Murray
Director
13 March 2015

Company Registration Number
SC367563

Consolidated statement of changes in equity

For the year ended 31 December 2014

Attributable to the owners of the parent company:	Share capital £'000	Share premium £'000	Other reserve £'000	Treasury shares £'000	Retained earnings £'000	Total £'000
As at 1 January 2013	833	8,653	1	—	7,109	16,596
Total comprehensive income for the year	—	—	—	—	6,575	6,575
Transactions with owners in their capacity as owners:						
Dividends (note 9)	—	—	—	—	(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
Total comprehensive income for the year	—	—	—	—	10,793	10,793
Transactions with owners in their capacity as owners:						
Dividends (note 9)	—	—	—	—	(2,174)	(2,174)
Shares issued	18	320	4,257	—	—	4,595
Shares held by SIP	—	—	—	(92)	—	(92)
Share options	—	—	—	—	240	240
As at 31 December 2014	856	9,291	4,258	(92)	21,641	35,954

See notes 25 and 26 for details of the Treasury shares and Other reserve.

Consolidated statement of cash flows

For the year ended 31 December 2014

	2014 £'000	2013 £'000
Cash flow from operating activities		
Profit before taxation	11,018	7,471
Finance costs	1,738	1,122
Finance income	(30)	(26)
Fair value movement on derivatives	277	(377)
Depreciation	4,526	2,754
Amortisation	1,155	262
Share-based payment expense	148	644
Movement in inventories	1,636	(2,131)
Movement in trade and other receivables	1,709	(2,961)
Movement in trade and other payables	3,159	826
Cash generated from operations	25,336	7,584
Taxation	(220)	(206)
Net cash generated from operations	25,116	7,378
Investing activities		
Payments to acquire property, plant and equipment	(35,779)	(24,595)
Disposal of property, plant and equipment	52	563
Payments to acquire intangible assets	(539)	(364)
Acquisition of subsidiary	(12,632)	—
Cash acquired with subsidiary	3,420	—
Finance income	30	26
Net cash used in investing activities	(45,448)	(24,370)
Financing activities		
New borrowings	33,003	17,830
Capital repaid	(6,862)	(2,875)
Hire purchase repayments	(10)	—
Finance costs	(1,738)	(1,122)
Net proceeds from share issue	325	323
Dividend paid	(2,174)	(1,546)
Net cash generated from financing activities	22,544	12,610
Net increase in cash and cash equivalents	2,212	(4,382)
Cash and cash equivalents at the beginning of the financial year	2,073	6,455
Cash and cash equivalents at the end of the financial year (note 16)	4,285	2,073

Accounting policies

The Company is incorporated and domiciled in the UK. The Group's activities consist of integrated metering services that connects, owns, operates and maintains current generation and new advanced metering assets and databases.

BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis, except where otherwise stated. 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. The financial statements have been prepared on a consolidated basis with December 2013, with no changes to the accounting framework adopted or accounting policies applied.

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 2014 of £47.5m.

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 the following Group undertakings being UK Gas Connection Limited, UK Meter Assets Limited, UKMA (AF) Limited, UK Data Management Limited and Utility Partnership 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). Utility Partnership Limited was acquired during the year and acquisition accounting has been applied to this transaction.

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.

UPL Italia SRL is deemed immaterial to the Group as a whole and, as a result, has not been consolidated within these financial statements.

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 and acquisitions and business combinations. 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.

When an acquisition arises the group is required under IFRS 3 to calculate the Purchase Price Allocation ("PPA"). The PPA requires companies to report the fair value of assets and liabilities acquired and it establishes useful lives for identified assets.

Subjectivity is involved in PPA with the estimation of the future value of technology, customer relationships and goodwill.

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 Group fulfils its contractual obligations to customers by supplying services.

Accounting policies continued

METER RENTAL INCOME

Rental income is recognised when the Group 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.

UTILITY CONNECTION

Revenue from 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 Group is contractually entitled to it. Data provision income is invoiced in advance and is recognised on a straight line basis 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 consolidated statement of comprehensive income.

OFFSETTING OF FINANCIAL INSTRUMENTS

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

INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT

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

FINANCIAL LIABILITIES CONTINUED

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 consolidated statement of comprehensive income those material items of income and expense which, because of the nature or expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in that year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

RESEARCH AND DEVELOPMENT

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

Expenditure on product development activities is capitalised if the product or process is technically and commercially feasible and the Group intends and has the technical ability and sufficient resources to complete development; if future economic benefits are probable; and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads.

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

Amortisation is calculated, when the product or system is 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
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INTANGIBLE ASSETS

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

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

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

Intangible assets are amortised over their useful lives as follows:

Software	12.5% and 20% straight line
Customer contracts	20%

Useful lives are examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Accounting policies continued

GOODWILL

Goodwill arising on consolidation represents the excess of the consideration transferred and the fair value of the identifiable assets and liabilities of the acquiree at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is not amortised but is tested annually for impairment and is carried at cost less accumulated impairment losses. See note 13 for detailed assumptions and methodology. Impairment losses are not subsequently reversed.

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

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

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

IMPAIRMENT

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

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

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

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

Detailed assumptions with regard to discount, growth and inflation rates are set out in note 13 to the accounts.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment 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 consolidated statement of comprehensive income as incurred.

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

Freehold property	2% on cost
Short leasehold property	15% and 20% on cost
Plant and machinery	5% and 10% on cost
Fixtures, fittings & equipment	15% and 33% on cost
Motor vehicles	25% 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 consolidated statement of comprehensive income when the asset is derecognised. The asset's residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Property, plant and equipment are initially recorded at cost.

INVENTORIES

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

CASH AND CASH EQUIVALENTS

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

HIRE PURCHASE AGREEMENTS

Assets held under hire purchase agreements are capitalised and disclosed under property, plant and equipment at their fair value. The capital element of the future payments is treated as a liability and the notional interest is charged to the 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 consolidated statement of comprehensive income. 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 consolidated statement of comprehensive income on a straight line basis over the lease term.

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

Accounting policies continued

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 consolidated statement of comprehensive income over the vesting period. The charge is based on the fair value of the equity instrument granted and the number of equity instruments that are expected to vest.

TAXATION

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

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

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

STANDARDS AND INTERPRETATIONS

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective:

Standard or interpretation		Periods commencing on or after
IFRS 2 Amendment	Share-based payment	1 July 2014
IFRS 3 Amendment	Business combinations	1 July 2014
IFRS 8 Amendment	Operating segments	1 July 2014
IFRS 16 Amendment	Property, plant and equipment	1 July 2014
IFRS 24 Amendment	Related party disclosures	1 July 2014
IFRS 38 Amendment	Intangible assets	1 July 2014
IFRS 9 Amendment	Financial instruments	1 January 2018
IFRS 10/FRS 28 Amendment	Consolidated financial statements	1 January 2016
IFRS 12 Amendment	Consolidation	1 January 2016
IFRS 11 Amendment	Joint ventures	1 January 2016
IFRS 14	Regulatory deferred accounts	1 January 2016
IFRS 15	Reverse from contracts with customers	1 January 2016
IAS 1 Amendment	Disclosures	1 January 2016
IFRS 7 Amendment	Financial instruments	1 January 2016

Notes to the financial statements

For the year ended 31 December 2014

1 BUSINESS COMBINATIONS

ACQUISITION OF UTILITY PARTNERSHIP LIMITED

On 14 April 2014, Smart Metering Systems acquired 100% of the issued share capital of Utility Partnership Limited (UPL). UPL is a manager of electricity meters in the UK and provider of electricity connections, design, meter installations, data management and energy management services.

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

	Fair value recognised on acquisition £'000	Previous carrying value £'000
Property, plant and equipment	2,539	2,539
Software	3,258	—
Customer contracts	2,160	—
Other financial assets	83	83
Inventories	344	344
Trade and other receivables	5,074	4,998
Cash and cash equivalents	3,420	3,420
Total assets	16,878	11,384
Trade and other payables	(879)	(879)
Deferred tax	(1,137)	—
Accruals and deferred income	(1,966)	(1,950)
Obligations under hire purchase agreements	(106)	(106)
Total liabilities	(4,088)	(2,935)
Total identifiable net assets at provisional fair value	12,790	
Goodwill arising on acquisition	4,112	
Total acquisition cost	16,902	
Analysed as:		
New shares in Smart Metering System plc	4,270	
Cash paid	12,632	
Total acquisition cost	16,902	
Cash paid	(12,632)	
Acquisition costs	(480)	
Net cash acquired with the subsidiary	3,420	
Total acquisition cost	(9,692)	

The provisional fair value has been updated to take into account cash balances which were anticipated would be paid out to the vendors at completion.

The consolidated statements include the results of UPL for the period from 14 April to 31 December 2014 during which time it contributed £7,461k to revenue and £715k to group profit for the period.

SMS and UPL are highly complementary and the acquisition will enable significant growth opportunities by offering a full end-to-end dual fuel service, incorporating connections, meter assets installation, ownership and management, as well as data management services, to the respective gas and electricity customers of SMS and UPL.

In addition to the above synergies, the acquisition adds energy management services to the Group's activities.

The goodwill recognised above is attributed to the expected benefits of combining gas and electricity offerings.

Notes to the financial statements continued

For the year ended 31 December 2014

1 BUSINESS COMBINATIONS CONTINUED

ACQUISITION OF UTILITY PARTNERSHIP LIMITED CONTINUED

The primary components of this residual goodwill comprise:

- › revenue synergies from dual fuel;
- › the workforce; and
- › new opportunities available to UPL as part of the larger AIM listed Group.

The identifiable intangible assets will be amortised as follows:

- › software – 20%
- › customer contracts – 20%

Transaction costs of £480k incurred on the acquisition have been included within exceptional items in the consolidated statement of comprehensive income.

2 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, electric meters and ADM™ units within the UK.

The installation of meters comprises installation of domestic and Industrial and Commercial gas meters and electricity 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 2014 and 31 December 2013:

	Asset management £'000	Asset installation £'000	Unallocated £'000	Total operations £'000
31 December 2014				
Segment/Group revenue	22,404	19,982	—	42,386
Cost of sales	(3,712)	(11,054)	—	(14,766)
Segment profit – Group gross profit	18,692	8,928	—	27,620
Items not reported by segment:				
Other operating costs/income	—	—	(8,299)	(8,299)
Depreciation	(4,200)	—	(326)	(4,526)
Amortisation	(746)	—	(409)	(1,155)
Exceptional items and fair value adjustments	—	—	(637)	(637)
Profit from operations	13,746	8,928	(9,671)	13,003
Net finance costs	(1,985)	—	—	(1,985)
Profit before tax	11,761	8,928	(9,671)	11,018
Tax expense				(225)
Profit for year				10,793

2 SEGMENTAL REPORTING CONTINUED

31 December 2013	Asset management £'000	Asset installation £'000	Unallocated £'000	Total operations £'000
Segment/Group revenue	13,803	14,113	—	27,916
Cost of sales	(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/income	—	—	(6,609)	(6,609)
Depreciation	(2,654)	—	(100)	(2,754)
Amortisation	(262)	—	—	(262)
Profit from operations	8,312	6,587	(6,709)	8,190
Net finance costs	(719)	—	—	(719)
Profit before tax	7,593	6,587	(6,709)	7,471
Tax expense				(896)
Profit for year				6,575

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

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

	2014 £'000	2013 £'000
Customer 1 – Asset Management	9,847	7,677
Customer 1 – Asset Installation	5,089	4,901
	14,936	12,578

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 2014	Asset management £'000	Asset installation £'000	Total operations £'000
Assets reported by segment			
Intangible assets	10,932	—	10,932
Plant, plant and equipment	88,504	—	88,504
Inventories	1,211	—	1,211
			100,647
Assets not reported by segment			16,615
Total assets			117,262
Liabilities reported by segment			
Bank loans	61,549	—	61,549
Obligations under hire purchase agreements	154	—	154
			61,703
Liabilities not reported by segment			19,605
Total liabilities			81,308

Notes to the financial statements continued

For the year ended 31 December 2014

2 SEGMENTAL REPORTING CONTINUED

SEGMENT ASSETS AND LIABILITIES CONTINUED

31 December 2013	Asset management £'000	Asset installation £'000	Total operations £'000
Assets reported by segment			
Intangible assets	2,018	—	2,018
Plant, plant and equipment	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

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

	2014 £'000	2013 £'000
Revenue	42,386	27,916
Direct rental costs	(3,712)	(2,575)
Direct subcontractor costs	(6,125)	(6,220)
Other direct sales costs and systems rental	(4,929)	(1,312)
Staff costs	(6,549)	(4,474)
Depreciation:		
– owned assets	(4,447)	(2,723)
– leased assets	(79)	(31)
Amortisation	(1,155)	(262)
Other operating income	215	—
Auditor's remuneration:		
– as auditor	(68)	(51)
– other services	(179)	(29)
Exceptional costs and fair value adjustments	(637)	—
Operating lease costs:		
– plant and equipment	(5)	(1)
Other operating charges	(1,713)	(2,048)
Profit from operations	13,003	8,190
Finance costs	(2,015)	(1,122)
Finance income	30	403
Profit before taxation	11,018	7,471

Included in exceptional items and fair value adjustments expenses are: i) £Nil (2013: £(377,143)) relates to the interest rate hedge fair value adjustment and ii) £Nil (2013: £644,275) that relates to share-based payments. £Nil (2013: £Nil) restructuring debt, £479,691 (2013: £Nil) acquisition costs and £157,500 (2013: £Nil) redundancy costs. Exceptional items totalling £267,000 have been re-classified under their statutory headings as the Board consider this to better reflect the nature of these costs. Included within other direct sales costs and systems rental are staff costs of £2,245,000 (2013: £Nil).

3 INCOME STATEMENT BY NATURE AND ITEMS OF EXPENDITURE INCLUDED IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME CONTINUED

Auditors' remuneration can be analysed as:

	2014 £'000	2013 £'000
Statutory group audit (Baker Tilly UK Audit LLP)	56	39
Statutory parent audit	12	12
Taxation services (Baker Tilly Tax and Accounting Limited)	13	15
Corporate finance (Baker Tilly Corporate Finance LLP)	157	—
Non-statutory audit services (Baker Tilly UK Audit LLP)	9	14
	247	80

4 PARTICULARS OF EMPLOYEES

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

	2014 Number	2013 Number
Number of administrative staff	20	9
Number of operational staff	208	76
Number of sales staff	5	5
Number of IT staff	12	4
Number of Directors	2	2
	247	96

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

	2014 £'000	2013 £'000
Wages and salaries	7,654	3,364
Social security costs	734	384
Staff pension costs	145	64
Share-based payment	240	644
Director pension costs	21	18
	8,794	4,474

5 DIRECTORS' EMOLUMENTS

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

	2014 £'000	2013 £'000
Emoluments receivable	711	589
Fees	21	52
Value of Group pension contributions to money purchase schemes	5	5
Other pension	16	15
	753	661

	2014 £'000	2013 £'000
Emoluments of highest paid Director		
Total emoluments	423	387
Pension contributions	16	15

Notes to the financial statements continued

For the year ended 31 December 2014

5 DIRECTORS' EMOLUMENTS CONTINUED

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

	2014 Number	2013 Number
Money purchase schemes	1	1

6 FINANCE COSTS AND FINANCE INCOME

	2014 £'000	2013 £'000
Finance costs		
Bank loans and overdrafts	1,731	1,121
Interest rate hedge fair value	277	—
Hire purchase	7	1
Total finance costs	2,015	1,122
Finance income		
Bank interest receivable	30	26
Interest rate hedge fair value	—	377
Total finance income	30	403

7 TAXATION

	2014 £'000	2013 £'000
Analysis of charge in the year		
Current tax:		
Current income tax expense	372	—
Over provision in prior year	—	11
Total current income tax	372	11
Deferred tax:		
Origination and reversal of temporary differences	(147)	885
Tax on profit on ordinary activities	225	896

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

Profit before tax	11,018	7,471
Tax at the UK corporation tax rate of 21% (2013: 23%)	2,314	1,718
Expenses not deductible for tax purposes	121	19
Adjustments to tax charge in respect of previous periods	132	3
Change in tax rate	—	(844)
Deferred tax on share options	(2,342)	—
Tax expense in the income statement	225	896

8 EARNINGS PER SHARE

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

	2014 £'000	2013 £'000
Profit for the year used for calculation of basic EPS	10,793	6,575
Amortisation of intangible assets	1,155	262
Exceptional costs	637	—
Tax effect of adjustments	(394)	(64)
Earnings for the purpose of adjusted EPS	12,191	6,773
Number of shares	2014	2013
Weighted average number of ordinary shares for the purposes of basic EPS	84,887,262	83,606,102
Effect of potentially dilutive ordinary shares: – share options	3,370,617	4,898,694
Weighted average number of ordinary shares for the purposes of diluted EPS	88,257,879	88,504,796
Earnings per share:		
– basic (pence)	12.71	7.86
– diluted (pence)	12.23	7.43
Adjusted earnings per share:		
– basic (pence)	14.36	8.10
– diluted (pence)	13.81	7.65

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

9 DIVIDENDS

	2014 £'000	2013 £'000
Equity dividends		
Paid during the year:		
Dividends on equity shares £0.0255 (2013: £0.0185)	2,174	1,546
Total dividends	2,174	1,546

Notes to the financial statements continued

For the year ended 31 December 2014

10 INTANGIBLE ASSETS

	Goodwill £'000	Customer contracts £'000	Development £'000	Software £'000	Total £'000
Cost					
As at 1 January 2013	—	—	828	1,810	2,638
Additions	—	—	364	—	364
As at 31 December 2013	—	—	1,192	1,810	3,002
Additions	—	—	356	183	539
Additions as part of UPL acquisition	4,112	2,160	—	3,258	9,530
As at 31 December 2014	4,112	2,160	1,548	5,251	13,071
Amortisation					
As at 1 January 2013	—	—	17	705	722
Charge for year	—	—	27	235	262
As at 31 December 2013	—	—	44	940	984
Charge for year	—	332	77	746	1,155
As at 31 December 2014	—	332	121	1,686	2,139
Net book value					
At 31 December 2014	4,112	1,828	1,427	3,565	10,932
At 31 December 2013	—	—	1,148	870	2,018
At 1 January 2013	—	—	811	1,105	1,916

11 PROPERTY, PLANT AND EQUIPMENT

	Freehold/ leasehold property £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Total £'000
Cost					
As at 1 January 2013	103	39,220	416	—	39,739
Additions	33	24,467	95	—	24,595
Disposals	—	(687)	—	—	(687)
As at 31 December 2013	136	63,000	511	—	63,647
Additions	5	35,715	214	—	35,934
Additions as part of UPL acquisition	1,990	—	437	112	2,539
Disposals	—	(69)	—	—	(69)
As at 31 December 2014	2,131	98,646	1,162	112	102,051
Depreciation					
As at 1 January 2013	30	3,429	176	—	3,635
Charge for year	20	2,654	80	—	2,754
Disposals	—	(124)	—	—	(124)
As at 31 December 2013	50	5,959	256	—	6,265
Charge for year	56	4,200	236	34	4,526
Disposals	—	(17)	—	—	(17)
As at 31 December 2014	106	10,142	492	34	10,774
Net book value					
At 31 December 2014	2,025	88,504	670	78	91,277
At 31 December 2013	86	57,041	92	163	57,382
At 1 January 2013	73	35,791	92	148	36,104

11 PROPERTY, PLANT AND EQUIPMENT CONTINUED

HIRE PURCHASE AGREEMENTS

Included within the net book value of £91,277,000 (2013: £57,382,000; 2012: £36,104,000) is £208,000 (2013: £84,000; 2012: £115,000) 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 £79,000 (2013: £31,000; 2012: £31,000).

The assets are secured by a bond and floating charge (note 18).

12 FINANCIAL ASSET INVESTMENTS

	Shares in Group undertaking £'000	Unlisted investments £'000	Total £'000
Cost			
As at 1 January 2013 and 31 December 2013	—	—	—
Additions as part of UPL acquisition	43	40	83
As at 31 December 2014	43	40	83

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
Utility Partnership Limited	Wales	Ordinary shares	100%	Electricity utility management
UPL Italia SRL*	Italy	Ordinary shares	100%	Electricity utility management

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

13 IMPAIRMENT OF GOODWILL AND INTANGIBLES WITH INDEFINITE LIVES

Goodwill arising on acquisitions is allocated to cash-generating units comprising the acquired businesses.

The directors believe the cash-generating units comprise the following operating segments, which represent the smallest individual groups of assets generating cash flows. Goodwill has been allocated between the Group's operating segments as follows:

Group	Metering and data	Utility services and energy	Total
As at 1 January 2014	—	—	—
Arising on acquisition	2,921	1,191	4,112
As at 31 December 2014	2,921	1,191	4,112

In assessing value in use, the estimated future cash flows of each operating segment are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The estimated cash flows are derived by discounting future cash flows that are based on conservative growth and attrition rates and discounted at a rate of 8.2%.

The value in use calculated at 31 December 2014 was £20.0m. Comparing this to the net asset value of the operating segments identified above, the directors believe the value of goodwill is not impaired as 31 December 2014.

The accounting treatment resulted in an impairment loss of £nil.

Notes to the financial statements continued

For the year ended 31 December 2014

14 INVENTORIES

	2014 £'000	2013 £'000
Finished goods	913	1,737
Consumables	298	767
	1,211	2,504

15 TRADE AND OTHER RECEIVABLES

	2014 £'000	2013 £'000
Trade receivables	3,588	3,326
Prepayments	542	246
Accrued income	4,816	1,885
Other receivables	70	32
Income tax repayable	57	47
VAT recoverable	401	563
	9,474	6,099

The receivables above include the following amounts falling due after more than one year:

	2014 £'000	2013 £'000
Accrued income	1,172	—

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. The allowance for doubtful receivables or provision against accrued income in the year was £33,414 (2013: £Nil; 2012: £Nil). The ageing profile of trade receivables past due date is shown below:

	2014 £'000	2013 £'000
31–60 days	210	299
60–90 days	156	401
Over 90 days	151	198
	517	898
Allowance for doubtful receivables	(33)	—
	484	898

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

Trade receivables due from related parties at 31 December 2014 amounted to £Nil (2013: £Nil; 2012: £Nil).

Receivables are all in Sterling denominations.

The Directors are of the opinion that £33,000 of the overdue debts as at 31 December 2014 (2013: £Nil; 2012: £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.

16 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:

	2014 £'000	2013 £'000
Cash	4,285	2,073
	4,285	2,073

17 TRADE AND OTHER PAYABLES

	2014 £'000	2013 £'000
Current		
Trade payables	7,767	4,569
Other payables	428	15
Other taxes	861	249
Income tax	377	—
Deferred income	1,623	291
Accruals	4,084	3,755
	15,140	8,879

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

The maturity profile of trade payables is given below:

	2014 £'000	2013 £'000
Current	5,326	4,026
31–60 days	1,099	160
60–90 days	539	58
Over 90 days	803	325
	7,767	4,569

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

All trade liabilities are Sterling denominated.

18 BANK LOANS AND OVERDRAFTS

	2014 £'000	2013 £'000
Current		
Bank loans	7,904	3,933
Bank overdraft	—	—
	7,904	3,933
Non-current		
Bank loans	53,645	31,475
Bank overdraft	—	—
	53,645	31,475

Bank loans at 31 December 2014 relate to a term loan facility of £105.0m that was finalised in March 2014.

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 14 March 2019. The term loan attracts interest at a rate of 1.9% over the three month LIBOR. 0.76% 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 20).

Notes to the financial statements continued

For the year ended 31 December 2014

19 COMMITMENTS UNDER HIRE PURCHASE AGREEMENTS

Future minimal commitments under hire purchase agreements are as follows:

	2014 £'000	2013 £'000
Current		
Amounts payable within one year	90	3
Non-current		
Amounts payable between two to five years	64	6
Amounts payable after more than five years	—	—
	64	6

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.

20 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.

	2014 £'000	2013 £'000
Other financial assets	—	207
Non-current liabilities		
Other financial liabilities	70	—

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 £30,000,000 as at 31 December 2014 (2013: £28,200,000; 2012: £13,200,000).

The interest rate swap results in a fixed interest rate of 2.80–2.82%.

The termination date for the derivatives is 15 September 2016.

The movement in the fair value is shown below:

	2014 £'000	2013 £'000
Interest rate swap		
Opening position	207	—
Adjustment to fair value	(277)	207
Closing position	(70)	207

20 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 2014, the Group held the following financial instruments measured at fair value:

	31 December 2014 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Liabilities measured at fair value				
Financial liabilities at fair value through the statement of comprehensive income:				
Interest rate derivatives	70	—	70	—

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 2014, 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.

21 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
2014	1%	195
2013	1%	72

Notes to the financial statements continued

For the year ended 31 December 2014

21 FINANCIAL RISK MANAGEMENT CONTINUED

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
2014	30,153	31,550	61,703
2013	28,209	7,208	35,417
1 January 2013	13,213	7,249	20,462

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

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

	2014 £'000	2013 £'000
Fixed rate		
Less than one year	3,090	2,824
Two to five years	12,063	11,286
Over five years	15,000	14,099
	30,153	28,209
Variable rate		
Less than one year	4,603	1,086
Two to five years	19,618	4,344
Over five years	7,329	1,778
	31,550	7,208

INTEREST RATE RISK PROFILE OF FINANCIAL ASSETS

The Group's financial assets at 31 December 2014 comprise cash and trade receivables. The cash balance of £4,285,000 (2013: £2,073,000; 2012: £6,455,000) 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 £8,278,000 (2013: £5,211,000; 2012: £2,786,000) as disclosed in note 15 – 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.

21 FINANCIAL RISK MANAGEMENT CONTINUED

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.

22 DEFERRED TAXATION

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

	2014 £'000	2013 £'000
Opening deferred tax liability	3,395	2,510
Increase in provision through consolidated statement of comprehensive income	1,000	885
Closing deferred tax liability	4,395	3,395

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

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

	2014 £'000	2013 £'000
Excess of taxation allowances over depreciation on property, plant and equipment	5,330	3,385
Tax losses available	(37)	(38)
Deferred tax asset on share options	(2,021)	—
Deferred tax on intangible acquired as part of UPL	1,137	—
Fair value of interest rate swaps (net)	(14)	48
	4,395	3,395

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

	2014 £'000	2013 £'000
Accelerated capital allowances	1,945	597
Tax losses	1	201
Deferred tax asset on share options	(2,021)	—
Movement in fair value of interest rate swaps	(55)	87
	(130)	885

Notes to the financial statements continued

For the year ended 31 December 2014

23 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 (2013: £41,500; 2012: £41,500) to the Directors' pension scheme, Eco Retirement Benefit Scheme, for the use of certain premises. Alan Foy is a trustee of the scheme. At the year-end date, an amount of £4,150 (2013: £4,150; 2012: £4,150) was outstanding in this regard.

During the year, the Group paid dividends to Alan Foy of £226,694 and Paul Dollman and Miriam Greenwood of £94 each.

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

	2014 £'000	2013 £'000
Salaries and other short-term employee benefits	1,122	1,101

24 SHARE CAPITAL

	2014 £'000	2013 £'000
Allotted and called up:		
85,575,452 ordinary shares of £0.01 each (2013 and 2012: 83,877,872 ordinary shares of £0.01 each)	856	839

On 14 April 2014 1,246,277 shares were issued in part consideration of acquisition of Utility Partnership Limited.

On 23 September 2014 401,176 ordinary share options were exercised and subsequently sold by staff.

On 13 October 2014 7,175 ordinary share options were exercised and subsequently sold by staff.

On 27 October 2014 518 ordinary share options were exercised and subsequently sold by staff.

On 23 December 2014 42,434 ordinary share options were exercised and subsequently sold by staff, 3,500 of them by Glen Murray.

25 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.

25 SHARE-BASED PAYMENTS CONTINUED

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 2014	Granted	Exercised	Lapsed	At 31 December 2014	Exercise price (pence)	Date exercisable	Expiry date
CSOP	565,794	—	(336,503)	—	229,291	76.0	15/7/14	15/7/21
CSOP	39,088	—	—	—	39,088	153.5	28/5/15	28/5/22
Unapproved	2,979,060	—	—	—	2,979,060	60.0	20/6/16	20/6/21
Unapproved	1,162,629	—	—	—	1,162,629	153.5	28/5/17	28/5/22
Unapproved	179,375	—	(114,800)	—	64,575	60.0	28/6/13	28/6/23
Unapproved	—	1,430,965	—	—	1,430,965	350.0	12/11/14	12/11/24

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 2014:

	Unapproved Plan
Option strike price (£)	3.50
Share price (£)	3.95

The weighted average fair value of share options issued during the year was £3.50.

SHARE INCENTIVE PLAN

The Company introduced the Smart Metering Systems Share Incentive Plan ("the SIP") in October 2014. Participants, which could include directors, in the SIP are entitled to purchase, at market value, up to a prescribed number of 1p ordinary shares in the Company at the end of each month for which they will receive a like for like matching share.

A total of 24,382 were purchased in the market by the 163 employees who participated in the SIP during the year. As 31 December 2014 the SIP held 24,382 shares on their behalf.

26 OTHER RESERVE

This is a non-distributable reserve that initially arose by applying merger relief under s162 CA06 to the shares issued in 2009 in connection with the Group restructuring. This was previously recognised as a merger reserve under UK GAAP. Under IFRS, this has been classed as an "other reserve". Additionally, the premium arising on the issue of shares as part of the acquisition of Utility Partnership Limited has been credited to this reserve as required by Companies Act 2006.

27 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:

	2014 £'000	2013 £'000
Future minimal commitments under operating lease agreements are as follows:		
Payable within one year	271	205
Payable within two and five years	375	411
Payable after five years	259	135
	905	751

28 ULTIMATE CONTROLLING PARTY

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

29 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 2014

	Notes	2014 £'000	2013 £'000
Fixed assets			
Investments	2	16,902	—
Current assets			
Debtors	3	—	11,241
Creditors			
Amounts falling due within one year	4	(492)	—
Net current (liabilities/assets)		(492)	11,241
Total assets less current liabilities		16,410	11,241
Capital and reserves			
Called up share capital	6	856	839
Share premium	7	13,548	8,971
Profit and loss account	7	2,006	1,431
Equity shareholders' funds		16,410	11,241

The parent company financial statements on pages 50 to 52 were approved and authorised for issue by the Board of Directors and signed on their behalf by:

Glen Murray
Director
 13 March 2015

Company Registration Number
 SC367563

Notes to the parent company financial statements

For the year ended 31 December 2014

1 PARENT COMPANY ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The parent company financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards.

No separate income statement is provided for Smart Metering Systems plc as permitted by section 409(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 2014	—
Additions	16,902
At 31 December 2014	16,902
Net book value	
At 31 December 2014	16,902
At 31 December 2013	—

Notes to the parent company financial statements continued

For the year ended 31 December 2014

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
Utility Partnership Limited	Wales	Ordinary shares	100%	Electricity utility management
UPL Italia SRL*	Italy	Ordinary shares	100%	Electricity utility management

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

3 DEBTORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	2014 £'000	2013 £'000
Amounts owed by Group undertakings	—	11,241
	—	11,241

4 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	2014 £'000	2013 £'000
Other creditors	492	—

5 RELATED PARTY TRANSACTIONS

The Company had no material related party transactions to disclose 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

	2014 £'000	2013 £'000
Allotted and called up:		
85,575,452 ordinary shares of £0.01 each (2013: 83,877,872 ordinary shares of £0.01 each)	856	839

7 RESERVES

	Profit and loss reserve £'000	Share premium £'000	Share capital £'000
As at 1 January 2014	1,431	8,971	839
Retained earnings	2,750	—	—
Share issue	—	4,577	17
Dividend paid	(2,175)	—	—
As at 31 December 2014	2,006	13,548	856

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