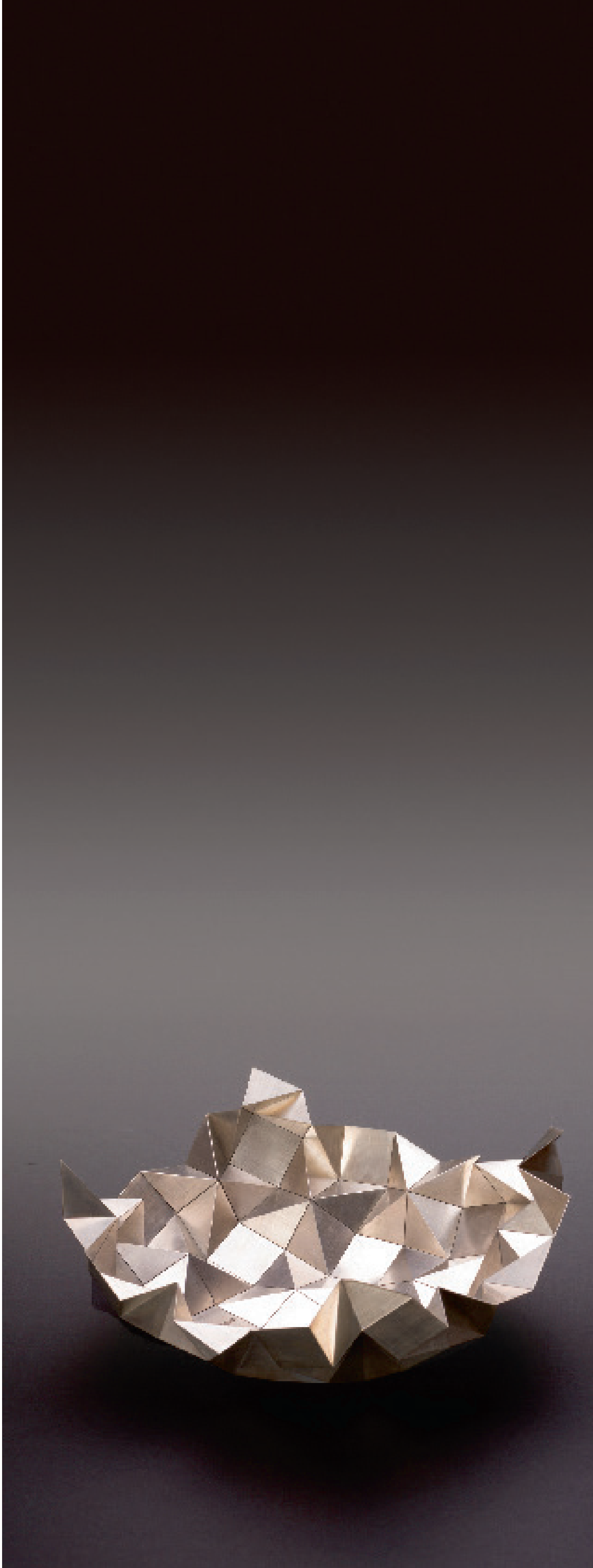
Smart Metering Systems plc
Annual report and accounts 2015

smart approach smart systems



smsplc

Our highlights

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

A year of continued growth across all business areas: strong recurring meter rental year, strong performance in UK gas connections and strong electricity activity in meter rental connections with key strategic development of dual fuel smart domestic offering successfully introduced to UK market.

FINANCIAL HIGHLIGHTS

- Revenue increased by 27% to £53.9m (2014: £42.4m)
- Total annualised recurring income* increased by 33% to £34.7m (2014: £26.2m)
  - Gas: meter recurring rent increased 27% to £27.8m (2014: £21.9m) and data recurring income more than doubled to £2.2m (2014: £1.0m)
  - Electricity: meter recurring rent doubled to £1.3m (2014: £0.6m) and data recurring income grew 28% to £3.5m (2014: £2.7m)
- Gross profit increased by 32% to £36.5m (2014: £27.6m)
- Gross profit margin at 68% (2014: 65%)
- Underlying EBITDA** increased by 38% to £26.3m (2014: £19.1m)
- Underlying PBT** increased by 38% to £17.4m (2014: £12.6m)
- EBITDA** margin at 49% (2014: 45%)
- Underlying earnings per share*** increased 67% to 17.5p (2014: 10.5p)
- Final dividend of 2.2p per ordinary share making 3.3p for the full year (2014: 2.82p), an increase of 17%

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

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

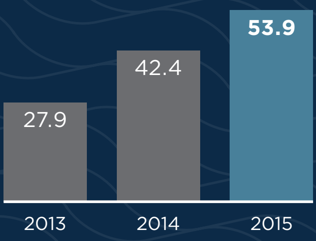
*** Underlying earnings per share is profit after taxation but before exceptional items, other operating income and intangible amortisation, divided by the weighted average number of ordinary shares in issue.

OPERATIONAL HIGHLIGHTS

- Total gas and electricity metering and data assets increased by 211,000 to just under 1 million under management at 31 December 2015 (2014: 768,000)
  - Total gas meter portfolio increased by 19% to 723,000 (2014: 607,000), with industrial and commercial (I&C) meters increasing by 75% to 114,000 (2014: 65,000). Gas data portfolio increased by 107% to 85,000 (2014: 41,000)
  - Total electricity meter portfolio increased by 142% to 29,000 (2014: 12,000). Electricity data portfolio increased by 31% to 142,000 (2014: 108,000)
- ADM™ installations up 80% to 74,000 units at 31 December 2015 (2014: 41,000) with international trials continuing
- Capital expenditure on meters increased by 15% to £41.2m, reaching a monthly run rate of approximately £3.5m in December 2015
- Celebrated 20 years in operation in June 2015 and first anniversary of the integration of the electricity business, having acquired UPL in April 2014, now SMS ES
- Completed rebranding of the business in June 2015, bringing all Group subsidiaries under the single SMS brand, setting out a simplified integrated gas, electricity and dual fuel offering to clients
- Strong start to 2016 with new agreements and acquisitions:
  - Opening the domestic smart meter market, SMS signed five framework agreements with independent energy suppliers: RHE, Green Energy, Flow Energy, Spark Energy and Our Power
  - Strategic acquisitions of meter installation suppliers, CH4 Gas Utility and Maintenance Services Limited and Trojan Utilities Limited, and IT specialists Qton Solutions Limited

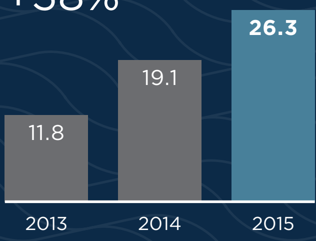
Revenue (£m)

£53.9m
+27%



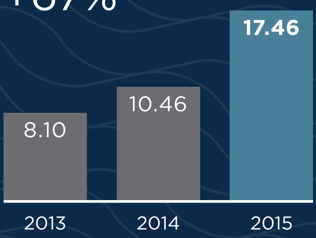
Underlying EBITDA** (£m)

£26.3m
+38%



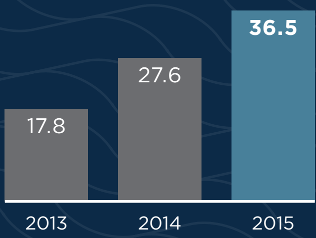
Underlying earnings per share*** (p)

17.46p
+67%



Gross profit (£m)

£36.5m
+32%



MEASURE OUR PROGRESS

Our key performance indicators continually monitor our progress and enable us to maintain focus on delivery and stakeholder satisfaction. We monitor our performance by measuring and monitoring key performance indicators (KPIs) across the business that we believe are essential to our longer-term success. Long-term sustainable performance of these KPIs are linked to the remuneration arrangements of our management team.

STRATEGIC REPORT

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

MORE ONLINE

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

A history of innovation

We provide services across gas and electricity asset management and asset installation on behalf of energy companies and energy management services as part of an integrated service offering in the gas and electricity connections and metering services markets.

OUR STORY
20th anniversary

1995
- **Group established to provide services in gas market**
  UK gas market evolved from British Gas monopoly to unbundled market

2004
- **SMS started a UK-wide contracting business**
  Establishment of a meter asset management service (Ofgem approved)

2009
- **Meter asset portfolio created**
  Built with gas suppliers and then smart metering and data management offering for the I&C market

2011
- **Listed on AIM**
  Now AIM top 50
- **Introduction of ADM™ Solution**
  SMS pioneered the design, development and implementation of a low-cost, simple-to-install gas data logger to the UK gas meter market

2014
- **Acquisition of UPL**
  SMS now provides gas and electricity customers with a total end-to-end dual fuel gas and electricity service of connections, metering, asset installation, ownership and data management

2015
- **Current strategic opportunities**
  Build out order book in I&C market
  Emphasis on recurring rental income
  Cross-selling model: gas and electricity

Smart Metering Systems plc (SMS) provides a completely integrated service from beginning to end, from project managing the installation of the gas and/or electricity supply and connection through to the procurement, installation and management of the meter asset, data collection and ongoing energy management services.

WHAT SETS US APART

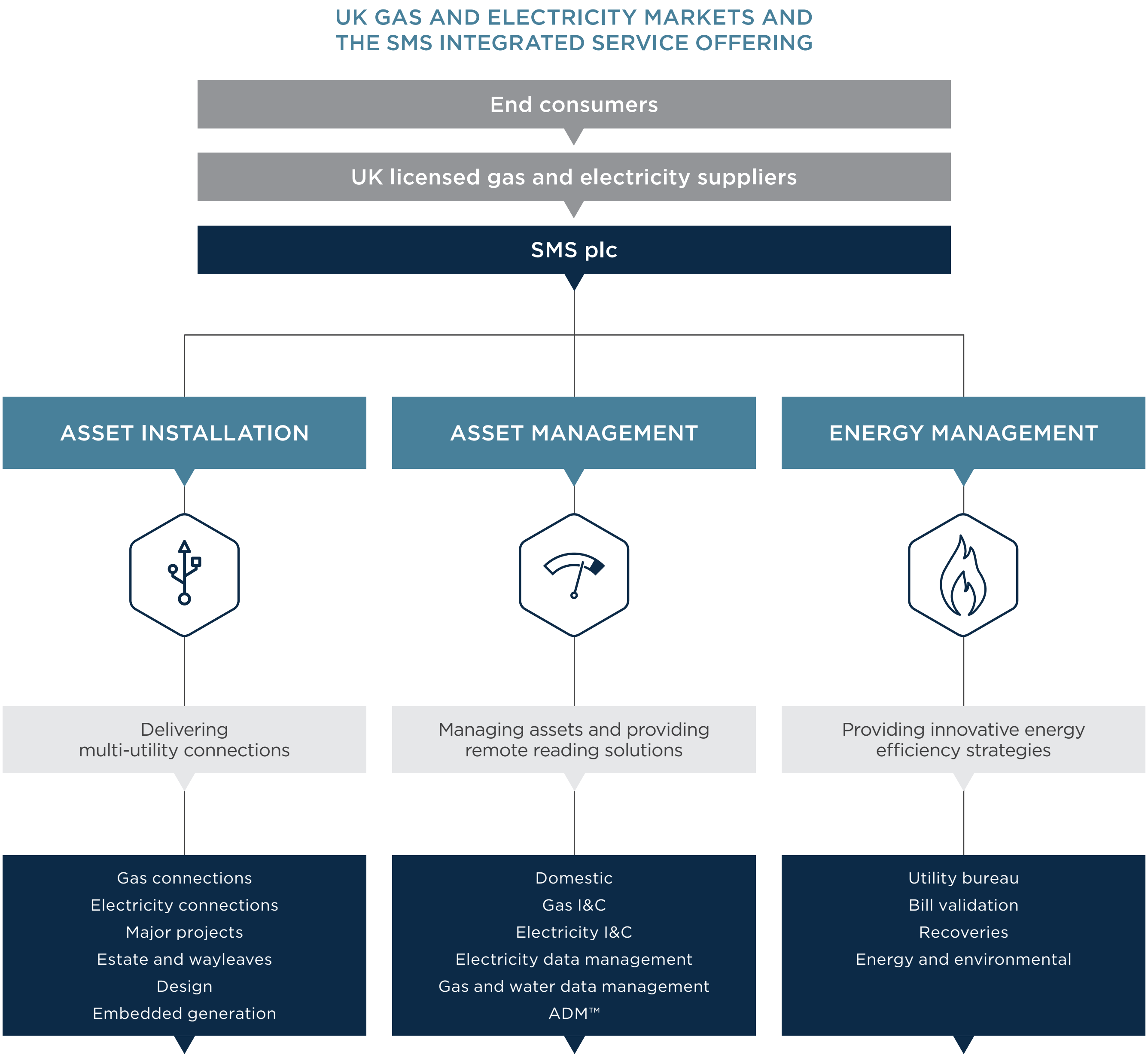
- Completely integrated service from beginning to end
- Our breadth of service makes us completely unique in the industry
- There are no other organisations in a position to be able to offer all of our services simultaneously
- Excellent customer experience; we build relationships that last

Our experience attests to our level of knowledge and expertise, but what really sets us apart is our ability to tailor customer contracts. This flexibility in the delivery of our services is key to our customer-service-centred approach. We listen to what our customers need and what they want to achieve and then use our collective experience to ensure these requirements are met.

OUR CLIENTS

Building relationships that last
We take the time to understand our clients' businesses in order to deliver the right solution to match their requirements. Our client relationships last for many years, which is a testament to the time and commitment we invest in providing successful, innovative and forward-thinking solutions.

Our business model



Infrastructure facilitator: management of 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 asset manager: operations for UK gas and electricity suppliers

Gas and electricity suppliers are mandated to provide metering services

Our meter services are Ofgem approved. We 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.

We are the largest independent provider of gas and electricity meter assets in the UK.

Helping customers manage energy cost and usage

Gas and electricity suppliers are mandated to support their customers in reducing their energy costs

Our Energy Management services are delivered 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.

Scope for continued expansion

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

KEY STRATEGIC PRIORITIES	OUR PROGRESS IN 2015	OUR FOCUS FOR 2016
1 **INCREASE GROWTH RATE OF METER ASSET PORTFOLIO IN I&C AND DOMESTIC METER MARKET** Grow our domestic meters business organically and through new contracts and portfolio acquisitions Maintain SMS position as a leading provider of I&C smart metering services	▶ Total gas and electricity meters portfolio increased to 751,897, from 619,000 +86% Increased our I&C gas and electricity portfolio by 66,000 meters	▶ Increase meter installations in domestic and I&C through servicing new and existing customers ▶ Cross-sell multi-utility connections metering and data management services
2 **DRIVE RECURRING RENTAL INCOME** Target growth in the I&C market	▶ Annualised recurring revenues from gas and electricity increased by 33% to £34.7m +33%	▶ Increase recurring revenues
3 **TARGET THE DOMESTIC SMART METER MARKET OPPORTUNITY** Establish SMS as the leading independent provider of domestic smart metering assets and solutions to the UK market	▶ Developed our dual fuel proposition resulting in contracts being signed with five energy suppliers: RHE, Green Energy, Flow Energy, Spark Energy and Our Power	▶ Grow recurring revenue through deepening our relationships with existing energy suppliers and seeking new ones ▶ Establish an SMS dual fuel training academy ▶ Establish dedicated in-house installation resources
4 **FOCUSING ON CROSS-SELLING** Develop and introduce cross-selling opportunities across the Group through the promotion of existing and new services to existing Group customers	▶ Contracts secured with Total Gas & Power Ltd and DONG Energy (UK) Ltd ▶ Energy Management services introduced to energy supplier market ▶ Electricity site works model introduced to ongoing gas site works opportunities ▶ Gas metering service introduced to existing major projects customers	▶ Continue to promote and market Group services to existing customers ▶ Expand electricity and gas I&C services to existing Group customers ▶ Continue to build on the opportunities progressed in 2015

Growing market position

Our asset management business continues to present a large market opportunity for significant growth with a substantial proportion of an estimated 2.7 million I&C gas and electricity meters in the UK due to be exchanged for a smart metering solution by 2020, with the added potential of a domestic market rollout of some 46 million domestic gas and electricity meters.

GAS METERS

723,000 +19.2%

Number of installed assets

- I&C: 6.9% of the market
- Domestic: 3.3% of the market

GAS DATA

85,000 +107%

Number of installed assets

ELECTRICITY METERS

29,000 +142.0%

Number of installed assets

- I&C: 1.4% of the market

ELECTRICITY DATA

142,000 +31.5%

Number of data points

Market size and outlook

The government's smart metering initiative requires every home and business in the UK to have smart or advanced meter functionality by 2020. This mandate entails a significant investment replacing over 50 million electricity and gas meters.

The UK is a large market with few incumbent operators. We have traditionally focused on the I&C and traditional gas meter market. Following the introduction of our dual fuel proposition, we are now well positioned to operate in the UK domestic dual fuel smart meter market. The market size currently stands at circa 49 million domestic meters and 3.7 million I&C meters. This breaks down as circa 27 million domestic electricity meters, 2.1 million I&C electricity meters, 22 million domestic gas meters and 1.6 million I&C gas meters.

Our current position

SMS continues to increase its market share in both the electricity and gas I&C markets through new and existing customers. The Group has, throughout the year, developed a compelling dual fuel domestic smart metering proposition. This has been well received by the market as evidenced by the recently secured dual fuel smart domestic contracts with Robin Hood Energy, Green Energy, Flow Energy, Spark Energy and Our Power which together provide services to over 386,000 homes in the UK.

Our current market share is 114,000 I&C gas meter assets (7.1% of the market) and 609,000 domestic gas meter assets (2.8% of the market). In electricity, our current market share is 28,557 I&C electricity meter assets (1.4% of the market) and, in addition, we are appointed as data agent to over 140,000 I&C electricity meter points (6.8% of the market).

Our potential

SMS remains confident with its existing contracted order book, noting that a further 700,000 meters within the I&C electricity and gas micro business market still require a smart or advanced meter to be fitted. The Group will continue to secure its share of this market and, as a result, increase its recurring revenue streams in the coming years. SMS has already won contracts for the provision of domestic smart meters with five energy suppliers and, with our proposition for the provision of turnkey end-to-end service, the Group aims to capture between 5 and 15% of the smart domestic market.

We also see potential for our ADM™ device within the planned separation of retail in the water I&C market, with some 1.1 million water customers who will be able to procure their water supply competitively from April 2017.

Managing risks

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 material adverse effect on the Group's business and financial condition and on the market price of the ordinary shares.

Risk description	Mitigation	Change
BUSINESS CONTINUITY – FAILURE OR INTERRUPTION OF IT SYSTEMS		
The Group has always understood the competitive advantage that it has derived from the significant investment made in its bespoke market-leading IT systems. Failure or interruption of these systems could result in reputational damage and loss of customer confidence. 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.	▶ The Group regularly reviews its IT security policies and has successfully undergone penetration testing of its IT systems. ▶ Real-time offsite mirroring of its servers. ▶ Failover facility available for immediate redeployment of staff, enabling key operations to be serviced.	→ **NO CHANGE** The Group continually reviews its strategy and implements changes to its IT infrastructure in line with known threats.
REVOLVING CREDIT FACILITY		
A well capitalised credit facility is fundamental to our ability to provide continued growth. The Group is reliant on securing competitively priced funding to enable the continued investment in our growing asset portfolio. The ability to secure funding could be affected by prolonged periods of market volatility and political uncertainty.	▶ The Group continually reviews its capital requirements and funding options with potential funders. ▶ The Group has a long-term relationship and strong support from its existing banking club which continues to support the growth of the business. ▶ The Group has recently agreed a £150m revolving credit facility with a club of banks which includes Barclays Bank PLC, Bank of Scotland and Santander UK PLC. This replaces the existing £105m facility.	→ **NO CHANGE** The Group has secured sufficient capital to fulfil the next 15 months' requirements.
DEPENDENT ON A LIMITED NUMBER OF GAS AND ELECTRICITY SUPPLIERS		
The Group's core customers for growth are the UK gas and electricity suppliers; these are limited in number. The Group has contracts in place with key customers, which make up a large part of our existing portfolio. These contracts provide for the provision of meter rental, and in the event that our relationship with these suppliers were to be adversely affected by performance or damage to our relationship then termination charges would apply. Damage to these relationships would have an adverse impact on the revenue generated by the Group.	▶ Strong track record of maintaining these long-term partnering relationships over the last 20 years. ▶ Key account managers ensure that we are listening to our customers' requirements and translating these into business deliverables. ▶ Customer service is at the heart of our business; it is what we have built our reputation on and it is what is driving our future growth. ▶ Securing new contracts with new market entrants ensures that we are able to minimise the risk of loss of assets through change of supplier by end customers.	↓ **RISK DECREASED** The securing of new contracts reduces SMS' reliance on the big six suppliers.

Risk description	Mitigation	Change
THE GROUP MAY EXPERIENCE ACCELERATED DEMAND FOR ITS PRODUCTS AND SERVICES		
The Group expects to be able to meet its current capital expenditure from its internal resources and its debt facility. However, with the rollout of Domestic Smart, the Group is tendering for opportunities that may require the Group to consider supporting the working capital requirements for orders 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 Group's ability to expand.	▸ The Group maintains close relationships with funding partners to give Directors confidence that future growth can be funded. ▸ Opportunities are continually reviewed and assessed in line with our revolving credit facility.	**RISK INCREASED** The value of opportunities has significantly increased.
CHANGES IN GOVERNMENT POLICY		
Current government policy is the mandating for all meters to be smart by 2020; this requires capital investment in excess of £12bn. A large part of the Group's growth strategy is geared around the exchange and delivery of these meter assets. Any changes in legislation may adversely affect the Group.	▸ Actively involved with the Department of Energy & Climate Change (DECC) in shaping future policies. ▸ Industry respected management team, playing a major role within important working groups. ▸ Lobbying on market-specific consultation, ensuring we understand the impact of a change in policy whilst having an active voice in the shaping of future policies.	**NO CHANGE** The foundation stage of Smart Domestic is being rolled out and adoption by new entrants is high.
RELIANCE ON PERFORMANCE OF SUBCONTRACTORS		
The Group relies on a number of third-party partners to deliver its meter exchanges and maintenance activities. Failure of one of these partners to deliver to the high expectation demanded by ourselves and our customers could result in loss of customer confidence or loss of accreditation. The Group has taken a strategic decision to safeguard its service standards through the acquisition of two of its third-party contractors.	▸ The acquisitions of CH4 and Trojan significantly reduce the Group's reliance on third-party providers and enable the Group to train and retain new dual fuel engineers to meet the demands of the domestic smart metering rollout. ▸ The Group monitors and independently audits third-party partners accreditations, working practices and employee competencies.	**RISK INCREASED** Resource availability will become increasingly tight with the anticipated increase in demand.
UNFORESEEN DELAYS AND COST OVERRUNS WHEN ROLLING OUT NEW, AND UPGRADING EXISTING, PRODUCTS		
The Group may experience unforeseen delays and expenses in connection with a particular project or initiative. Although the Group has budgeted for expected costings, additional expenses may well be incurred. With the rollout of domestic smart resource retention, training and systems will be key. Inability to address these could negatively affect the Group.	▸ The Group has considerable experience in forecasting and managing project implementation timetables. ▸ The Group has taken steps, through its recent acquisitions, to ensure that it is able to mitigate future resource constraints that would otherwise have significantly hindered its ability to mitigate the above challenges.	**RISK INCREASED** Complexity and challenges of such a large rollout within truncated timelines, i.e. 50 million meter exchanges by 2020.
LOSS OF REQUIRED ACCREDITATIONS		
The installation and maintenance of electricity and gas meters within the UK is a regulated activity and, as such, the organisations need to maintain the required industry accreditations, which are reviewed on an annual basis. Loss of these accreditations would mean that the Group would no longer be able to operate.	▸ The Group has a dedicated compliance team which is responsible for ensuring that all members of staff are aware of our obligations. Routine audits are carried out and reported to the senior management team to ensure that compliance is maintained to the highest standard.	**NO CHANGE** Robust audit processes ensure full compliance.

Chairman's statement

Celebrating 20 years in operation

2015 is a special year for SMS as we celebrate 20 years in operation and a rebranding of the business, bringing all of our Group subsidiaries under the single SMS brand. We are delighted to be reporting another strong set of results in our 20th year in business.

HIGHLIGHTS

- Celebrated 20 years in operation
- Rebranded under single SMS brand
- Completion of strategic acquisitions

Review of the year

2015 has been a year of continued progress in our business, notably with the acquisition last year of UPL (now SMS ES) and continued growth and expansion during our 20th anniversary year. We also completed the rebranding of the SMS business, bringing all Group subsidiaries under the single SMS brand and setting out a simplified integrated gas and electricity offering to clients.

Following the rebrand, we now operate three divisions under the single SMS plc brand: Asset Installation, Asset Management and Energy Management, with gas and electricity service offerings across all three divisions.

In the first half of the year, the Asset Management division signed an agreement for the provision and ownership of electricity meters and data management services for an initial order of 5,000 meters with Total Gas & Power Limited, an existing customer of SMS's Asset Installation business. This contract win followed a strong end to 2014 where we won contracts with BES Utilities, British Gas Business, DONG Energy (UK) Limited and Opus Energy, all of which now benefit from our integrated offering across both gas and electricity.

Our business

SMS has delivered double-digit growth during the year across all segments of the business with strong recurring income in our gas and electricity business and a substantial increase in our gas meter portfolio.

We have a strong order book to install and own gas and electricity meters in the I&C and domestic market and we will continue to fill that order book over the next few years. This will continue to generate an asset-backed, high-quality annuity stream that will provide high visibility of revenues.

We continue to develop a strong market position in the UK smart metering market with a focus on the cross-selling of services between gas and electricity customers by providing an integrated suite of services across all three divisions.

SMS also has significant additional growth opportunities arising from the UK government initiative mandating the installation of a smart meter in every home and small business across the UK by 2020. This presents a significant market opportunity with a substantial proportion of an estimated 1.6 million gas meters and 2.1 million electricity meters in the UK I&C market to be exchanged for a smart metering solution by the target date of 2020. There is added potential of a rollout of some 22 million gas meters and 27 million electricity meters in the UK domestic market within that period.

Strategy
Our medium-term strategy is to increase the run rate with our customers and continue to grow the meter asset portfolio alongside targeting of the new I&C and domestic smart meter market.

Our priority in 2016 and beyond is to focus on four key strategic areas, reflecting the opportunity of the growing domestic smart meter market is to:

- continue to install and own gas meters and data contracts and maximise the contracted order book in the I&C and domestic meter market organically with existing customers and through new contracts;
- drive recurring rental income from the I&C market;
- target the significant domestic smart meter market opportunity in the UK based on our proven business model and established market position; and
- increase levels of business with, and services provided to, key gas and electricity suppliers, with a focus on cross-selling between gas and electricity across our suite of services.

People and systems
Our people have been instrumental in driving the business forward and in the successful integration of UPL and also the rebranding of the expanded business.

Equally important in terms of operational performance is our IT systems and compliance management work with our customers, the gas and electricity suppliers. These are integral to the way in which we deliver our dual fuel metering service and achieve customer satisfaction and build relationships of trust.

We are excited to be driving forward our strategic vision, values and culture through our enlarged team and strengthened senior management.

Dividend
We announced a progressive dividend policy in our interim results and increased our interim dividend by 17% to 1.1p. SMS is delighted to announce a proposed final cash dividend of 2.2p for the year ended 31 December 2015. In addition to the interim dividend of 1.1p, this will make a total dividend of 3.3p. The final dividend will be paid on 2 June 2016 to those shareholders on the register (record date) on 29 April 2016 with an ex-dividend date of 28 April 2016.

Outlook
The team, under Alan Foy's leadership, has continued to deliver on SMS's strategy and operational plans and SMS is ideally positioned to maintain our competitive advantage and continue to make progress on its strategy. We have seen a strong start to 2016 with five framework agreements with independent energy suppliers in the domestic smart meter market. We have also made important strategic acquisitions to control our installation capacity for the delivery of our customer contracts in all our markets. We remain confident on the outlook for 2016 and view the future of the business and market development as highly promising.

Paul Dollman
Non-executive Chairman

Simplifying our offer for greater results

Our rebrand reflects the additional future opportunities for SMS's business, as the Company positions itself for the upcoming UK domestic smart meter exchange programme with its combined gas and electricity metering offering.

HIGHLIGHTS

- Increase in recurring revenues by 33%
- Increase in meter and data assets to just under 1 million
- Domestic smart metering – signed five new framework agreements
- 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 67%
- Final dividend of 2.20p 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.

I am very pleased to report on the continued strong performance of the business for the year ended 31 December 2015.

Recurring income now represents 56% of our total revenue compared with 53% of total revenue in 2014, as we see the continued benefits of building up recurring income streams from our long-term contracts from a diversified blue-chip customer base.

Operational review

During 2015 our gas and electricity meter portfolios increased by 19% and 142% respectively. The gas meter portfolio increased from 607,000 to 723,000 at the year end. The number of electricity meters rose from 12,000 to 29,000 at year end. Our gas and electricity metering and data assets rose by over 20% in 2015.

Our two key financial metrics both demonstrated substantial growth in the year. Our revenue increased by 27% and our long-term recurring revenue for gas meter recurring rent by 27%. The electricity meter recurring rent doubled from £0.6m to £1.25m. Gas data recurring income also doubled, while electricity data grew by just over 28%.

These metrics are core to our long-term annuity financial model and the recurring rental revenue is based on the ownership and future purchase of meter assets. Once installed, these meters will be on SMS's long-term index-linked contracts and provide recurring revenue for the lifetime of the assets, expected to be 25 years.

Industrial and commercial meters

2015 has been another successful year and we were delighted to announce a number of new contracts and contract extensions with major customers during the year.

We nearly doubled our I&C gas metering portfolio to 114,000 from 65,000 meters in 2014 and grew our customer base during 2015 to a point where SMS contracts are in place with over 80% of the total I&C meter market in the UK with national and multinational clients.

The I&C electricity metering business has also witnessed more than a doubling of its metering portfolio to 29,000 from 12,000 meters in 2014 following the introduction of new contracts with BES, Total Gas & Power, Opus Energy and DONG Energy. The electricity business has also been successful in delivering new contracts with existing and new customers in order to satisfy increasing market demand for half-hourly metering services following the introduction of new Ofgem regime which will see more than 160,000 meters move to the half-hourly market by April 2017. These industry changes provide opportunities for increased meter ownership and in particular for increased recurring data revenue due to the increased demand for half-hourly data.

UK domestic smart market opportunity

SMS will provide UK domestic smart meters as part of the government's domestic smart meter programme overseen by the Department of Energy and Climate Change. The programme requires domestic energy supply companies to provide all of their customers with a smart meter in homes and small businesses (larger businesses are subject to separate regulations and are already using smart meters) across the UK by 2020. In total, this represents 22 million domestic gas and 27 million domestic electricity smart meters to be installed, requiring an approximate £6.5bn aggregate capital investment.

This new market presents an important opportunity for SMS to extend its current business model, based on owning and installing assets in the I&C and domestic market, and to replicate this with the installation of domestic smart meters in the rollout between now and 2020.

Gas and electricity suppliers must appoint a meter asset manager (MAM) and SMS is one of only four companies in the smart domestic market. We are very well positioned for this new market, given our business model.

SMS has the ability to fund substantial growth of this new market with, inter alia, a £150m term facility from a club of banks. We firmly believe that the nascent domestic smart meter market will prove attractive to our funders.

While the new market presents a considerable opportunity, there are also challenges. There will, in all likelihood, be new entrants and, while the government has committed to the rollout timetable, given its scale, it would not be surprising to see some delay.

Domestic meters

Over the period, we grew our domestic gas meter portfolio by 12% from 542,000 to 609,000 by the end of the year.

Our combined gas and electricity full service offering has both strengthened our position and our opportunity in the domestic meter market, ideally positioning the business for the domestic smart meter rollout programme in the UK.

ADM™

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

In 2015 the number of ADM™ installations increased to 74,000, up from 41,000 in 2014, and we remain confident that our ADM™ device technology has a broad range of potential applications in gas, electricity, water and LPG markets.

Business summary

2015 has been a successful year and our business is strong, notably our I&C installation business and the recurring rental income. SMS continues to deliver operational and financial growth and along with the significant opportunities in the domestic smart metering market we remain confident in the outlook for the business and market development in 2016.

Alan Foy
Chief Executive Officer

Financial review

Another year of strong results for SMS

2015 has been another year of strong growth with robust financial performance across all business areas with continued growth in both UK I&C and domestic meter markets.

HIGHLIGHTS

- Revenues increased by 27%
- Gross profit increased by 32%
- Underlying EBITDA* increased by 38%
- Capital investment in meters up by 15%
- New £150m club bank facility announced on 7 March 2016
- Available cash resources of £26m at year end

* Excluding exceptional items, other operational income, and intangible amortisation.

Results for the year

During 2015, SMS increased revenue by 27% to £53.9m. Recurring revenue, in line with the Company's strategy, increased to 56% of total revenue in 2015, compared to 53% in the same period in 2014.

Gross profit increased by 32% from £27.6m to £36.5m, of which the new electricity offerings contributed £6.0m. Underlying EBITDA grew 38% from £19.1m to £26.3m, with the electricity offerings contributing £2.75m.

Recurring revenue is a key part of our business model which consists of meter rental and data provision revenue from both gas and electricity as disclosed in our Asset Management segment. We refer to this in two ways:

- recurring revenue – the revenue included within the reporting period; and
- annualised recurring revenue – the annual revenue from our meter and data income streams at a point in time.

Our meter asset management contracts entitle the company to termination fees should we be de-appointed from a meter. During the year termination fees of £1.55m were included in other operating income.

During the year end process two prior year adjustments were identified. These are detailed in note 1.

Cash and borrowings

SMS was delighted to announce in March 2016 a new £150m revolving credit facility with a club of banks: Barclays Bank PLC (lead bank), Bank of Scotland plc and Santander UK plc. This facility will fund the purchase of meter assets as part of a phased installation programme in line with recent substantial contract wins and under this facility we can fund 100% of the value of meter assets purchased.

As at 31 December 2015, the Company had net debt of £79m compared to £57.3m in 2014, cash resources including unused facilities of £26.0m compared to £47.5m in 2014 and gearing of 166% (2014: 166% – restated).

Capital investment in meters and data assets in 2015 was £41.1m compared to £35.7m in 2014.

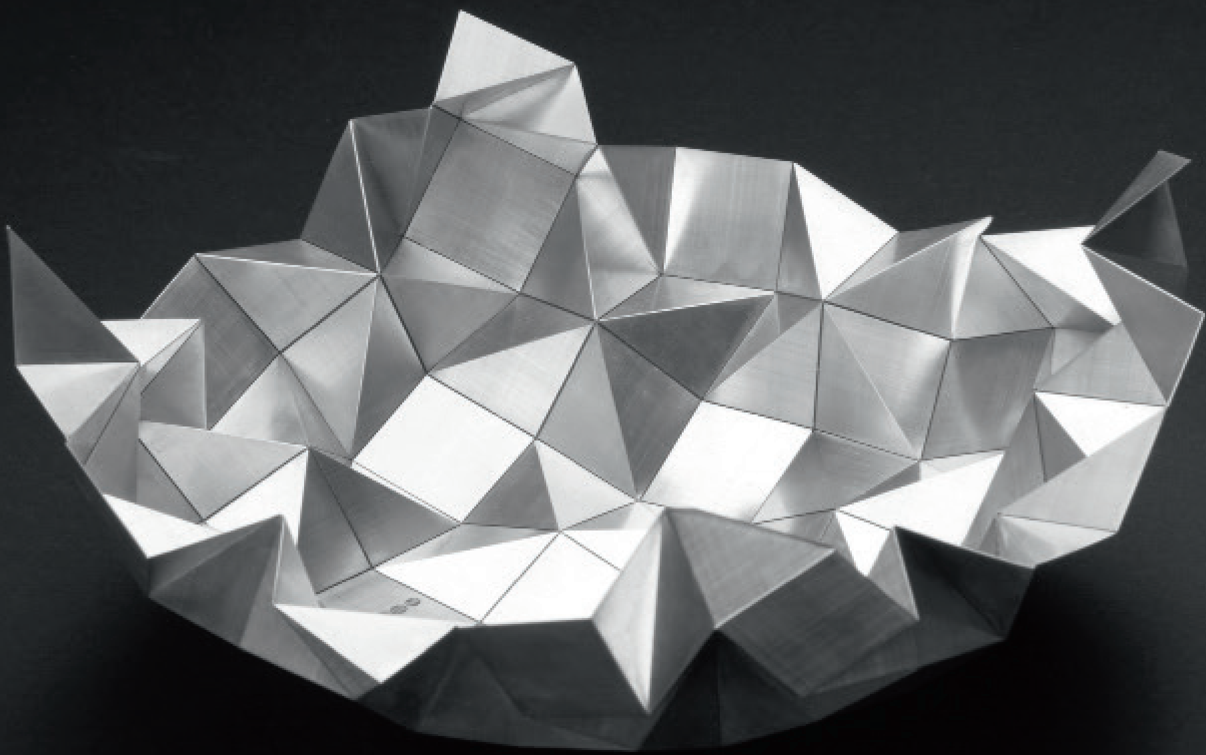
Treasury policies

The Company uses interest rate swaps, where appropriate, to manage interest rate movements on borrowings by paying a fixed interest rate rather than a variable rate.

Interest rate swaps were for an amount of £26.4m as at 31 December 2015 (2014: £30.0m). The interest rate swap gives a fixed interest rate of 2.81%. The maturity date for the interest rate swap is 15 September 2016.

Glen Murray
Finance Director

Corporate governance



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 an 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 Wilmington plc and is a member of the Audit Committee of The National Library of Scotland. He graduated from the University of St Andrews in 1978 and qualified as a Chartered Accountant with Price Waterhouse in 1982.

Alan Foy
Chief Executive Officer

Date of appointment 24 December 2007

Committees A R N

Alan has been Chief Executive Officer of SMS plc since 2009. He led the flotation of the Company on the London Stock Exchange AIM market in July 2011. In the past four years, annual turnover and profits have risen significantly through a combination of strategic acquisition and organic growth. 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 gas transporter in the UK.

Alan was previously a Director of an international energy consultancy practice and has considerable experience in utility asset ownership, supply and shipping activities. A professionally qualified engineer, Alan places strong emphasis on team development, safety, operational performance and financial accountability within an ethos of 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, 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
Independent Non-executive Director

Date of appointment 3 February 2014

Committees A R N

With qualifications as a barrister and in corporate finance, Miriam has spent more than 25 years working for a number of leading investment banks and other financial institutions. Miriam is a founding partner in SPARK Advisory Partners, a corporate advisory business, a Non-executive Director of Mithras Investment Trust plc and 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
Independent Non-executive Director

Date of appointment 14 April 2014

Committees A R N

Willie is a very experienced Non-executive and Executive Director having held a number of senior posts across various sectors.

He is currently Chairman of Fallago Rigg, a joint venture between Hermes Capital and EDF Renewables. He is also a Non-executive Director at Grove, the holding company for Barchester Healthcare, and Business Stream (Retail Water and Waste). Willie is the Chairman of the remuneration committee at Business Stream and most recently has been appointed as Chairman of Ogilvie Group, a Stirling-based conglomerate with interests spanning construction, fleet hire and IT.

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.

From 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

The Board of Directors	Audit Committee	Miriam Greenwood (Chair)	Paul Dollman	Willie MacDiarmid	
	Remuneration Committee	Willie MacDiarmid (Chair)	Miriam Greenwood	Paul Dollman	
	Nomination Committee	Paul Dollman (Chair)	Alan Foy	Miriam Greenwood	Willie MacDiarmid

* Glen Murray attends Audit Committee meetings by invitation.

As an AIM-listed company, the Company is not required to comply with any specific requirements for corporate governance procedures. Nevertheless, in considering its own arrangements for governance, 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, and by the recommendations of the Quoted Companies Alliance (QCA). The key elements of the Company's corporate governance arrangements are described below.

Board structure

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

The Board is responsible for formulating, reviewing and approving the Group's strategy, budgets and corporate actions. The Directors 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), 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 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 and forecast capital expenditure together with the available bank facilities, recently increased to £150m and giving available cash resources of over £50m, they are satisfied that the Company and the 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.

On behalf of the Board

Glen Murray
Finance Director
21 March 2016

Directors' remuneration report

Dear shareholder
As Chairman of the Remuneration Committee ("the Committee"), I am pleased to present the Directors' Remuneration Report ("the Report") for the financial year ended 31 December 2015. The Report has been prepared by the Committee and approved by the Board of Directors ("the Board").

The Committee and the Board acknowledge that as an AIM-listed business we do not have to satisfy the remuneration reporting requirements set out under section 420(1) of the Companies Act 2006. However, we have chosen to adopt the general spirit of the reporting requirements in order to present the information required by the AIM Rules in a way that allows our stakeholders to better understand the Company's policies for executive remuneration.

The Committee will continue to adopt this approach for future years, providing clear reporting on past remuneration and future policy.

The report has been arranged in the following three parts:

- the Chairman's Annual Statement, summarising and explaining the major decisions on, and any substantial changes to, Directors' remuneration in the year;
- the Directors' Remuneration Policy, which sets out the Group's forward looking policy for Executive and Non-executive Directors and the key factors which were taken into account in setting the Directors' Remuneration Policy; and
- the Annual Report on Remuneration, which sets out details of Directors' remuneration for the financial year ended 31 December 2015. The Annual Report on Remuneration is subject to an advisory shareholder vote at the AGM on Thursday 26 May 2016.

Annual statement from the Chairman of the Remuneration Committee
Remuneration outcomes for the year to 31 December 2015
As outlined in the Annual Report, the Group's performance for the financial year ended 31 December 2015 has been excellent. Both revenue and pre-tax profit increased substantially following the successful integration of the UPL business together with double-digit growth across all business segments.

- The Chief Executive Officer (CEO) earned a bonus equating to 41% of basic salary.
- The Finance Director earned a bonus equating to 36% of basic salary.
- In 2015 the Company made a 5% pension contribution to the scheme on behalf of both the CEO and the Finance Director.
- Share options were granted at the time of IPO under the IPO Award Plan, of which four tranches have vested in full. The final tranche was due in December 2015 and is subject to Board approval.
- No LTIPs were issued in 2015; however, it is our intention to introduce these in 2016, which will be subject to Board approval.

Committee governance
During the financial year there was no change to the Board, the Non-executive Directors or the Committee; each is set out below:

SMS plc Board of Directors

Paul Dollman	Non-executive Chairman
Alan Foy	Chief Executive Officer
Glen Murray	Finance Director
Miriam Greenwood	Non-executive Director
Willie MacDiarmid	Non-executive Director

SMS plc Remuneration Committee

Willie MacDiarmid	Chairman
Paul Dollman	Member
Miriam Greenwood	Member

During the financial year the Committee met on three occasions, and Willie MacDiarmid, Chairman of the Committee, will be present at the AGM to be held on Thursday 26 May 2016.

External advice
During the period, the Committee engaged Ernst & Young LLP, the Group's current auditor, to assist them on various governance aspects relating to the Directors' Remuneration Report.

The Committee unanimously recommends that shareholders vote to accept the Annual Report on Remuneration.

On behalf of the Board

Willie MacDiarmid
Chairman of the Remuneration Committee
21 March 2016

Directors' remuneration policy ("the Policy")

This section contains details of the Policy as prepared by the Committee; the Policy encompasses all remuneration in respect of Executive Directors, the Chairman and Non-executive Directors.

The Policy will be displayed on the Group's website (www.sms-plc.com) within the Annual Report under the investor relations section immediately following the 2016 AGM (to be held on Thursday 26 May 2016).

- The objective of the Policy is to ensure that the overall remuneration of Executive Directors is aligned with the performance and objectives of the Group and preserves an appropriate balance of growth and shareholder value.
- In 2016 the Committee will introduce a number of new remuneration conditions (as outlined below) which will continue to be developed.

Non-executive Directors

The 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.

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 on three months' written notice at any time.

Executive Directors' remuneration

The remuneration arrangements for Executive Directors consist of basic salary and annual performance related bonuses and LTIPs where appropriate. In addition, they receive private health care, permanent health insurance and pension contributions.

It is our intention to seek Board approval for the following new conditions as part of the Directors' remuneration in 2016:

- a shareholding requirement of 100% of salary, to be achieved over a three to four year period;
- a clawback clause for Executive Director bonuses covering both short and long-term incentives. The percentage of clawback and the period for this will be agreed by the Board during 2016; and
- the Board reserves the right to issue LTIPs as they reasonably deem appropriate, taking into account the objectives of the business and the policy.

Annual report on remuneration

Directors' emoluments for the financial year ended 31 December 2015

	Fees/ basic salary £	Bonus £	Pension contribution £	Benefits in kind £	**2015 Total £**	2014 Total £
Executive						
A H Foy	340,000	140,000	15,975	8,259	**504,234**	439,329
G Murray	110,000	40,000	5,500	2,184	**157,684**	159,849
Non-executive						
P Dollman	90,000	—	—	—	**90,000**	75,000
N B Christie	—	—	—	—	**—**	21,475
M Greenwood	45,000	—	—	—	**45,000**	33,333*
W MacDiarmid	45,000	—	—	—	**45,000**	30,000*
Total	630,000	180,000	21,475	10,443	**841,918**	758,986

* Partial year payment.

The pensions contributions for Directors in 2014 were £20,892.

Directors' interests

The Directors who held office at 31 December 2015 had the following interests in the shares of the Company:

	Ordinary shares	
	2015 £0.01 each	2014 £0.01 each
Executive		
A H Foy	**7,780,608**	8,889,958
G Murray	**—**	—
Non-executive		
P Dollman	**20,000**	10,000
M Greenwood	**10,000**	10,000
W MacDiarmid	**—**	—
	7,810,608	8,909,958

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:

	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

The share price at 31 December 2015 was 330.0p. The range in the period 1 January to 31 December 2015 was 305.5p to 384.5p.

Details of share options granted by the Company at 31 December 2015 are given in note 25.

Directors' report

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 2015.

Outlook
An indication of the likely future developments in the business of the Company (and its subsidiaries) is included in the Strategic Report of this Annual Report and Accounts 2015 (page 4) which is incorporated by reference into this Directors' Report.

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

Name of Director	Board title	Date of appointment
P Dollman	Non-executive Chairman	7 November 2013
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

Political donations
No political donations were made during the year (2014: £Nil).

Substantial shareholdings
On 1 February 2016, 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
Mr Steve P Timoney	15,144,344	17.59
Liontrust Asset Management	10,033,284	11.65
Mr Alan Foy	7,780,608	9.03
Old Mutual Asset Manager (UK)	7,382,163	8.57
Schroders Investment Management	6,213,350	7.21
River & Mercantile Asset Management	5,260,000	6.11
Legal & General Investment Management	4,999,963	5.81
Standard Life Investments	4,551,963	5.29
Abdiel Capital Management LLC	3,958,866	4.60

Dividends
The Directors recommend the payment of a final dividend of 2.20p per ordinary share (2014: 1.88p), payable on 2 June 2016 to shareholders on the Company's Register of Members as at the close of business on 29 April 2016. The shares will be quoted as ex-dividend on 28 April 2016. This final dividend, together with the interim dividend of 1.1p per ordinary share (2014: 0.7p) paid on 20 November 2015, makes a total dividend of 3.3p per ordinary share for the 2015 financial year (2014: 2.82p).

Financial instruments
Details of the use of financial instruments and financial risk management are included in note 21 of the notes to the accounts contained in this Annual Report and Accounts 2015, which is incorporated by reference into this Directors' Report.

Employees

The Group's policy of operating through autonomous subsidiaries has ensured close consultation with employees on matters likely to affect their interests. The Group is firmly committed to the continuation and strengthening of communication lines with all its employees.

SMS plc operates an equal opportunities policy which is documented in the employee handbook. This is reviewed periodically and is now an equality and diversity policy with the aim of ensuring that all employees, potential employees and other individuals receive equal treatment (including access to employment, training and the opportunity for promotion) regardless of their age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief (including lack of belief), sex and sexual orientation. It is the policy of the Group to support the employment of people with disabilities wherever practicable and to ensure, as far as possible, that training, career development and promotion opportunities are available to all employees. This policy includes employees who become disabled whilst employed by the Group.

All disclosures concerning diversity of the Group's Directors, senior management and employees (as required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013) are contained within the Strategic Report.

Research and development

The main research and development activities relate to IT systems development to facilitate the dual fuel business.

Director qualifying indemnity provisions

As permitted by the Companies Act 2006, the Company purchases and maintains directors' and officers' insurance cover against certain legal liabilities and costs incurred by the Directors and Officers of the Group companies in the performance of their duties. The Company has also granted an indemnity to each of its Directors in relation to the Directors' exercise of their powers, duties and responsibilities as Directors of the Company, the terms of which are in accordance with the Companies Act 2006.

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.

Ernst and Young LLP was appointed 8 July 2015 and has expressed its willingness to continue in office as auditor and a resolution to re-appoint Ernst and Young 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
21 March 2016

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 (IFRSs) 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), including FRS 102 Limited.

The Group financial statements are required by law and IFRSs 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:

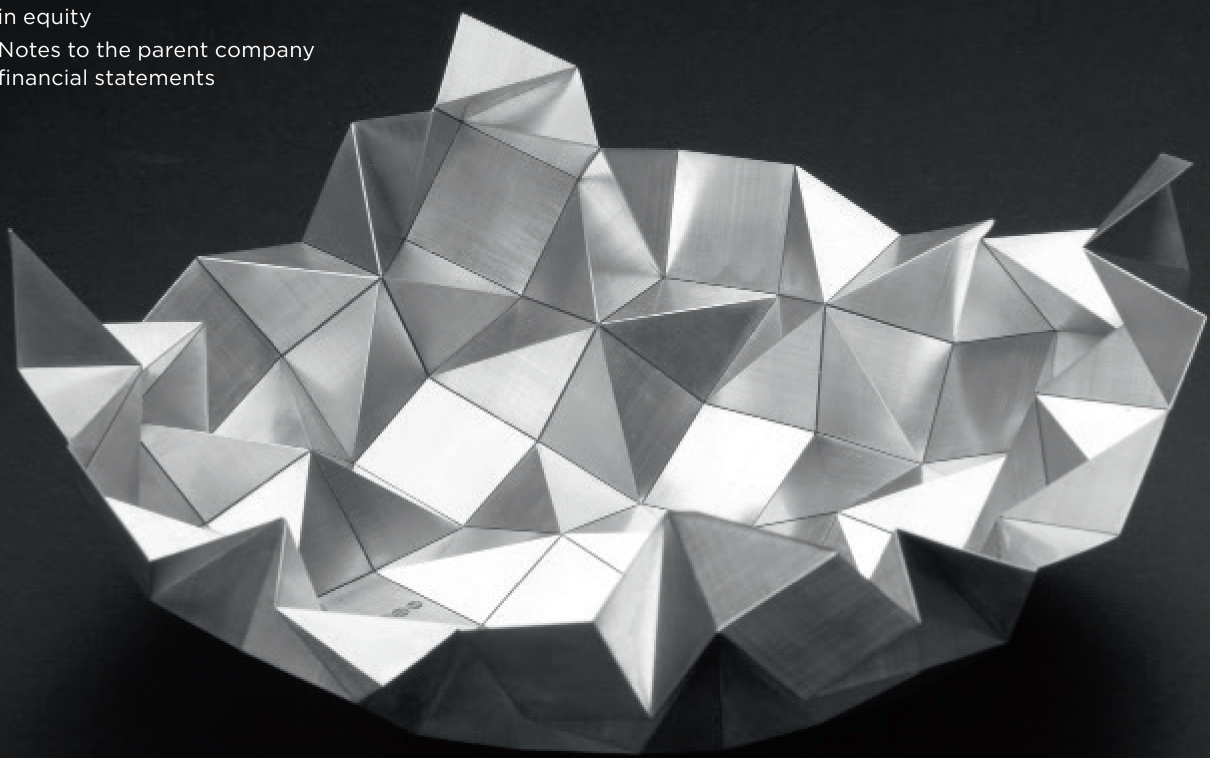
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU and, for the Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Company financial statements; and
- 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



Independent auditor's report

To the members of Smart Metering Systems plc

We have audited the financial statements of Smart Metering Systems plc for the year ended 31 December 2015 which comprise the Consolidated statement of comprehensive income, Consolidated statement of financial position, Consolidated statement of changes in equity, Consolidated statement of cash flows, Accounting policies, parent company balance sheet, Company statement of changes in equity, the related notes 1 to 31 of the consolidated financial statements and notes 1 to 6 of the parent financial statements. 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), including FRS 102.

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 explained more fully in the Directors' Responsibilities Statement set out on page 22, 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 Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following 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.

Annie Graham (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Glasgow
21 March 2016

Notes

1. The maintenance and integrity of the Smart Metering Systems plc website is the responsibility of the Directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated statement of comprehensive income
For the year ended 31 December 2015

	Notes	2015 £'000	2014 Restated £'000
Revenue	2	**53,945**	42,386
Cost of sales	3	**(17,427)**	(14,766)
Gross profit		**36,518**	27,620
Administrative expenses	3	**(18,484)**	(14,832)
Other operating income	3	**1,546**	215
Profit from operations	3	**19,580**	13,003
Attributable to:			
Operating profit before exceptional items, other operating income and amortisation of intangibles		**19,493**	14,580
Amortisation of intangibles		**(1,459)**	(1,155)
Other operating income		**1,546**	215
Exceptional items and fair value adjustments	3	**—**	(637)
Finance costs	6	**(2,118)**	(2,015)
Finance income	6	**3**	30
Profit before taxation		**17,465**	11,018
Taxation	7	**(2,463)**	(2,143)
Profit for the year attributable to equity holders		**15,002**	8,875
Other comprehensive income		**—**	—
Total comprehensive income		**15,002**	8,875

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

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

	Notes	2015	2014 Restated
Basic earnings per share (pence)	8	**17.46**	10.46
Diluted earnings per share (pence)	8	**16.78**	10.06

Consolidated statement of financial position

As at 31 December 2015

	Notes	**31 December 2015 £'000**	31 December 2014 Restated £'000	1 January 2014 Restated £'000
Assets				
Non-current				
Intangible assets	10	**10,028**	10,932	2,018
Property, plant and equipment	11	**125,700**	91,277	57,382
Investments	12	**83**	83	—
Trade and other receivables	15	**901**	1,172	—
		136,712	103,464	59,400
Current assets				
Inventories	14	**1,099**	1,211	2,504
Trade and other receivables	15	**10,205**	8,245	6,052
Income tax recoverable		**—**	66	433
Cash and cash equivalents	16	**5,711**	4,285	2,073
Other current financial assets	20	**—**	—	207
		17,015	13,807	11,269
Total assets		**153,727**	117,271	70,669
Liabilities				
Current liabilities				
Trade and other payables	17	**14,919**	16,694	10,810
Income tax payable		**445**	—	—
Bank loans and overdrafts	18	**8,496**	7,904	3,933
Commitments under hire purchase agreements	19	**64**	90	3
Other current financial liabilities	20	**46**	70	—
		23,970	24,758	14,746
Non-current liabilities				
Bank loans	18	**76,219**	53,645	31,475
Commitments under hire purchase agreements	19	**14**	64	6
Deferred tax liabilities	22	**6,139**	4,395	3,395
		82,372	58,104	34,876
Total liabilities		**106,342**	82,862	49,622
Net assets		**47,385**	34,409	21,047
Equity				
Share capital	24	**861**	856	838
Share premium		**9,650**	9,291	8,971
Other reserve	26	**4,258**	4,258	1
Treasury shares	25	**(231)**	(92)	—
Retained earnings		**32,847**	20,096	11,237
Total equity attributable to equity holders of the parent company		**47,385**	34,409	21,047

The financial statements on pages 24 to 53 were approved and authorised for issue by the Board of Directors and signed on its behalf by:

Glen Murray
Director
21 March 2016

Company registration number
SC367563

Consolidated statement of changes in equity

For the year ended 31 December 2015

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 2014	838	8,971	1	—	12,782	22,592
Prior year adjustment (note 1)	—	—	—	—	(1,545)	(1,545)
As at 1 January 2014 (restated)	838	8,971	1	—	11,237	21,047
Total comprehensive income for the year (as restated)	—	—	—	—	8,875	8,875
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
Income tax effect of share options	—	—	—	—	1,918	1,918
As at 31 December 2014	856	9,291	4,258	(92)	20,096	34,409
Total comprehensive income for the year	—	—	—	—	15,002	15,002
Transactions with owners in their capacity as owners:						
Dividends (note 9)	—	—	—	—	(2,564)	(2,564)
Shares issued	5	359	—	—	—	364
Shares held by SIP	—	—	—	(139)	—	(139)
Share options	—	—	—	—	410	410
Income tax effect of share options	—	—	—	—	(97)	(97)
As at 31 December 2015	**861**	**9,650**	**4,258**	**(231)**	**32,847**	**47,385**

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 2015

	2015 £'000	2014 £'000
Cash flow from operating activities		
Profit before taxation	**17,465**	11,018
Finance costs	**2,118**	1,738
Finance income	**(3)**	(30)
Fair value movement on derivatives	**(24)**	277
Depreciation	**6,816**	4,526
Amortisation	**1,459**	1,155
Share-based payment expense	**271**	148
Movement in inventories	**112**	1,636
Movement in trade and other receivables	**(1,689)**	1,709
Movement in trade and other payables	**(1,776)**	3,159
Cash generated from operations	**24,749**	25,336
Taxation	**(304)**	(220)
Net cash generated from operations	**24,445**	25,116
Investing activities		
Payments to acquire property, plant and equipment	**(41,474)**	(35,779)
Disposal of property, plant and equipment	**235**	52
Payments to acquire intangible assets	**(555)**	(539)
Acquisition of subsidiary	**—**	(12,632)
Cash acquired with subsidiary	**—**	3,420
Finance income	**3**	30
Net cash used in investing activities	**(41,791)**	(45,448)
Financing activities		
New borrowings	**33,059**	33,003
Capital repaid	**(9,893)**	(6,862)
Hire purchase repayments	**(76)**	(10)
Finance costs	**(2,118)**	(1,738)
Net proceeds from share issue	**364**	325
Dividend paid	**(2,564)**	(2,174)
Net cash generated from financing activities	**18,772**	22,544
Net increase in cash and cash equivalents	**1,426**	2,212
Cash and cash equivalents at the beginning of the financial year	**4,285**	2,073
Cash and cash equivalents at the end of the financial year (note 16)	**5,711**	4,285

Accounting policies

The consolidated financial statements of the Group for the year ended 31 December 2015 were approved and authorised for issue in accordance with a resolution of the Directors on 21 March 2016. Smart Metering Systems plc is a public limited company incorporated in Scotland. The Company's ordinary shares are traded on AIM.

Basis of preparation

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

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

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 2017 and available cash resources at 31 December 2015 of £26m.

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

Basis of consolidation

The consolidated accounts of the Group include the assets, liabilities and results of the Company and subsidiary undertakings in which Smart Metering Systems plc has a controlling interest, with the exception of UPL Italia SRL, which is deemed immaterial to the Group as a whole, using accounts drawn up to 31 December.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has all of the following: power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee); exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect its returns.

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

Use of estimates and judgements

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

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

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 or receivable, excluding discounts and VAT.

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

Accounting policies continued

Meter rental income

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

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

Utility connection

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

Data management

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

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets or 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 timeframe 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 overdrafts, 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 and separately disclosed items

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

Research and development

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

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

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

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

Amortisation	5% on cost straight line

Intangible assets

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

Following initial recognition, intangible assets are measured at cost at the date of acquisition less any amortisation and any impairment losses. Amortisation costs are included within the net 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.

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (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	Shorter of the lease term or 15% and 20% on cost
Plant and machinery	5% and 10% on cost
Fixtures, fittings and 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 Consolidated statement of comprehensive income in proportion to the remaining balance outstanding.

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

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

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

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

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

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

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

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

Accounting policies continued

Standards and interpretations

Several new standards and amendments are applicable for the first time in 2015. However, they do not impact the annual consolidated financial statements of the Group.

Standards and amendments to standards that have been issued but are not effective for 2015 and have not been early adopted.

Standard or interpretation		Periods commencing on or after
Amendment to IAS 1	Disclosure Initiative	1 January 2016
IFRS 9*	Financial Instruments*	1 January 2018
IFRS 15*	Revenue from Contracts with Customers	1 January 2016
Annual Improvements to IFRSs	2012 to 2014 cycle*	1 January 2016
Amendments to IFRS 10 and IAS 28*	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	1 January 2016
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation*	1 January 2016
Amendment to IFRS 11	Accounting for Acquisition of Interests in Joint Operations*	1 January 2016
IFRS 16*	Leases	1 January 2019
Amendment to IAS 7*	Disclosure Initiative*	1 January 2017
Amendment to IAS 12*	Recognition of Deferred Tax Assets for Unrealised Losses*	1 January 2017

* Not yet adopted for use in the European Union.

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

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

1 Prior period restatement

Over a number of years, the revenue on gas connection services has been incorrectly recognised upon advance payment by customers rather than upon the delivery of the underlying service. The related subcontractor cost was accrued at the point of revenue recognition. This resulted in the accelerated recognition of both revenue and cost of sales across a number of years. The scale of the gas connections business has been consistent over a number of years with the exception of 2013 when the revenue was higher due to a number of significant contracts.

The financial statements have been restated to correct the cumulative impact on the Consolidated statement of financial position as at 1 January 2014. In addition, income tax receivable and payable and long-term trade and other receivables have been reclassified to be shown on the face of the Consolidated statement of financial position. No adjustment has been made to the 2014 profit before tax as previously reported, as the impact on the year after the consideration of the effect of the turnaround error from before 1 January 2014 is considered immaterial at both revenue and profit level.

The impact is as follows:

	31 December 2014 £'000	1 January 2014 £'000
Increase in advance payments	3,448	3,448
Decrease to accruals	(1,517)	(1,517)
Decrease to income tax payable/increase to income tax repayable	(386)	(386)
Decrease in equity	(1,545)	(1,545)

In addition, in 2014, a credit of £1,918,000 was recognised through the income statement in connection with the recognition of deferred tax benefits arising on share-based payments which should have been recognised directly in equity. Accordingly, the comparative financial statements have been restated to correct the charge as follows:

	31 December 2014 £'000
Increase to taxation charge	1,918
Increase to amount recognised directly in equity	(1,918)

This adjustment has had the following impact on earnings per share:

	As restated	As previously reported
Earnings per share:		
– basic (pence)	10.46	12.71
– diluted (pence)	10.06	12.23
Adjusted earnings per share:		
– basic (pence)	11.90	14.36
– diluted (pence)	11.45	13.81

Notes to the financial statements continued

For the year ended 31 December 2015

2 Segmental reporting

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

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

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

Energy Management comprises the provision of energy advice.

For greater clarity the trade in the Energy Management business has been separated out from Asset Installation. Comparatives have been altered accordingly.

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

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

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

31 December 2015	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Unallocated £'000	Total operations £'000
Segment/Group revenue	**30,233**	**19,535**	**4,177**	**–**	**53,945**
Cost of sales	**(4,148)**	**(10,891)**	**(2,388)**	**–**	**(17,427)**
Segment profit – Group gross profit	**26,085**	**8,644**	**1,789**	**–**	**36,518**
Items not reported by segment:					
Other operating costs/income	**–**	**–**	**–**	**(8,663)**	**(8,663)**
Depreciation	**(5,846)**	**–**	**–**	**(970)**	**(6,816)**
Amortisation	**(121)**	**–**	**–**	**(1,338)**	**(1,459)**
Exceptional items and fair value adjustments	**–**	**–**	**–**	**–**	**–**
Profit from operations	**20,118**	**8,644**	**1,789**	**(10,971)**	**19,580**
Net finance costs	**(2,127)**	**–**	**4**	**8**	**(2,115)**
Profit before tax	**17,991**	**8,644**	**1,793**	**(10,963)**	**17,465**
Tax expense					**(2,463)**
Profit for the year					**15,002**

2 Segmental reporting continued

31 December 2014	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Unallocated £'000	Revised total operations £'000
Segment/Group revenue	22,404	17,639	2,343	—	42,386
Cost of sales	(3,712)	(9,656)	(1,398)	—	(14,766)
Segment profit – Group gross profit	18,692	7,983	945	—	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	7,983	945	(9,671)	13,003
Net finance costs	(1,985)	—	—	—	(1,985)
Profit before tax	11,761	7,983	945	(9,671)	11,018
Tax expense					(2,143)
Profit for the year					8,875

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:

	2015 £'000	2014 £'000
Customer 1 – Asset Management	**11,865**	9,847
Customer 1 – Asset Installation	**4,704**	5,089
	16,569	14,936

Segment assets and liabilities

31 December 2015	**Asset Management £'000**	**Asset Installation £'000**	**Energy Management £'000**	**Total operations £'000**
Assets by segment				
Intangible assets	**10,028**	**—**	**—**	**10,028**
Property, plant and equipment	**119,435**	**—**	**6,265**	**125,700**
Inventories	**996**	**—**	**103**	**1,099**
	130,459	**—**	**6,368**	**136,827**
Assets not by segment				**16,900**
Total assets				**153,727**
Liabilities by segment				
Bank loans	**84,715**	**—**	**—**	**84,715**
Obligations under hire purchase agreements	**63**	**—**	**15**	**78**
	84,778	**—**	**15**	**84,793**
Liabilities not by segment				**21,549**
Total liabilities				**106,342**

Notes to the financial statements continued

For the year ended 31 December 2015

2 Segmental reporting continued

Segment assets and liabilities continued

31 December 2014	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Total operations £'000
Assets by segment				
Intangible assets	10,932	—	—	10,932
Property, plant and equipment	84,649	—	3,855	88,504
Inventories	1,091	—	120	1,211
	96,672	—	3,975	100,647
Assets not by segment				16,624
Total assets				117,271
Liabilities by segment				
Bank loans	61,549	—	—	61,549
Obligations under hire purchase agreements	84	—	70	154
	61,633	—	70	61,703
Liabilities not by segment				21,159
Total liabilities				82,862

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

	2015 £'000	2014 £'000
Revenue	**53,945**	42,386
Direct rental costs	**(4,148)**	(3,712)
Direct subcontractor costs	**(6,504)**	(6,125)
Other direct sales costs and systems rental	**(6,775)**	(4,929)
Staff costs	**(7,166)**	(6,549)
Depreciation:		
– owned assets	**(6,751)**	(4,447)
– leased assets	**(65)**	(79)
Amortisation	**(1,459)**	(1,155)
Other operating income	**1,546**	215
Auditor's remuneration:		
– as auditor	**(80)**	(68)
– other services	**—**	(179)
Exceptional costs and fair value adjustments	**—**	(637)
Operating lease costs:		
– plant and equipment	**—**	(5)
Other operating charges	**(2,963)**	(1,713)
Profit from operations	**19,580**	13,003
Finance costs	**(2,118)**	(2,015)
Finance income	**3**	30
Profit before taxation	**17,465**	11,018

Included in exceptional items and fair value adjustments expenses are £Nil (2014: £479,691) acquisition costs and £Nil (2014: £157,500) redundancy costs. Included within other direct sales costs and systems rental are staff costs of £2,924,000 (2014: £2,245,000).

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

Auditor's remuneration can be analysed as:

	2015 £'000	2014 £'000
Statutory Group audit (Ernst & Young)	**80**	—
Statutory Group audit (Baker Tilly UK Audit LLP)	**—**	56
Statutory parent audit	**—**	12
Taxation services (Baker Tilly Tax and Accounting Limited)	**—**	13
Corporate finance (Baker Tilly Corporate Finance LLP)	**—**	157
Non-statutory audit services (Baker Tilly UK Audit LLP)	**—**	9
	80	247

4 Particulars of employees

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

	2015 Number	2014 Number
Number of administrative staff	**17**	20
Number of operational staff	**276**	208
Number of sales staff	**3**	5
Number of IT staff	**12**	12
Number of Directors	**2**	2
	310	247

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

	2015 £'000	2014 £'000
Wages and salaries	**9,205**	7,654
Social security costs	**935**	734
Staff pension costs	**192**	145
Share-based payment	**410**	240
Director pension costs	**20**	21
	10,762	8,794

5 Directors' emoluments

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

	2015 £'000	2014 £'000
Emoluments receivable	**821**	738
Value of Group pension contributions to money purchase schemes	**5**	5
Other pension	**16**	16
	842	759

Emoluments of highest paid Director	2015 £'000	2014 £'000
Total emoluments	**488**	423
Pension contributions	**16**	16

Notes to the financial statements continued

For the year ended 31 December 2015

5 Directors' emoluments continued

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

	2015 Number	2014 Number
Money purchase schemes	**2**	1

6 Finance costs and finance income

	2015 £'000	2014 £'000
Finance costs		
Bank loans and overdrafts	**2,134**	1,731
Interest rate hedge fair value	**(24)**	277
Hire purchase	**8**	7
Total finance costs	**2,118**	2,015
Finance income		
Bank interest receivable	**3**	30
Interest rate hedge fair value	**—**	—
Total finance income	**3**	30

7 Taxation

	2015 £'000	2014 Restated £'000
Analysis of charge in the year		
Current tax:		
Current income tax expense	**1,159**	372
Over provision in prior year	**(163)**	—
Total current income tax	**996**	372
Deferred tax:		
Origination and reversal of temporary differences	**1,467**	1,771
Tax on profit on ordinary activities	**2,463**	2,143

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

	2015	2014
Profit before tax	**17,465**	11,018
Tax at the UK corporation tax rate of 20.25% (2014: 21.5%)	**3,536**	2,314
Expenses not deductible for tax purposes/(non-taxable income)	**(62)**	121
Adjustments to tax charge in respect of previous periods	**(107)**	132
Change in tax rate	**(904)**	—
Changes in amounts recognised for deferred tax	**—**	(424)
Tax expense in the income statement	**2,463**	2,143

8 Earnings per share

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

	2015 £'000	2014 Restated £'000
Profit for the year used for calculation of basic EPS	**15,002**	8,875
Amortisation of intangible assets	**1,459**	1,155
Other operating income	**(1,546)**	(215)
Exceptional costs	**—**	637
Tax effect of adjustments	**19**	(347)
Earnings for the purpose of adjusted EPS	**14,934**	10,105

Number of shares	2015	2014
Weighted average number of ordinary shares for the purposes of basic EPS	**85,928,114**	84,887,262
Effect of potentially dilutive ordinary shares:		
– share options	**3,463,275**	3,370,617
Weighted average number of ordinary shares for the purposes of diluted EPS	**89,391,389**	88,257,879
Earnings per share:		
– basic (pence)	**17.46**	10.46
– diluted (pence)	**16.78**	10.06
Adjusted earnings per share:		
– basic (pence)	**17.38**	11.90
– diluted (pence)	**16.70**	11.45

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

9 Dividends

	2015 £'000	2014 £'000
Equity dividends		
Paid during the year:		
Interim dividend paid in respect of 2015: 1.10p per share	**947**	—
Final dividend paid in respect of 2014: 1.88p per share	**1,617**	—
Interim dividend paid in respect of 2014: 0.70p per share	**—**	1,370
Final dividend paid in respect of 2013: 1.61p per share	**—**	804
Total dividends	**2,564**	2,174

Notes to the financial statements continued

For the year ended 31 December 2015

10 Intangible assets

	Goodwill £'000	Customer contracts £'000	Development £'000	Software £'000	Total £'000
Cost					
As at 1 January 2014	—	—	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
Additions	—	—	525	30	555
As at 31 December 2015	**4,112**	**2,160**	**2,073**	**5,281**	**13,626**
Amortisation					
As at 1 January 2014	—	—	44	940	984
Charge for year	—	332	77	746	1,155
As at 31 December 2014	—	332	121	1,686	2,139
Charge for year	—	666	121	672	1,459
As at 31 December 2015	**—**	**998**	**242**	**2,358**	**3,598**
Net book value					
As at 31 December 2015	**4,112**	**1,162**	**1,831**	**2,923**	**10,028**
As at 31 December 2014	4,112	1,828	1,427	3,565	10,932
As at 1 January 2014	—	—	1,148	870	2,018

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 2014	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
Additions	13	41,192	256	—	41,461
Disposals	—	(222)	—	(32)	(254)
As at 31 December 2015	**2,144**	**139,616**	**1,418**	**80**	**143,258**
Depreciation					
As at 1 January 2014	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
Charge for year	64	6,378	340	34	6,816
Disposals	—	(21)	—	(11)	(32)
As at 31 December 2015	**170**	**16,499**	**832**	**57**	**17,558**
Net book value					
As at 31 December 2015	**1,974**	**123,117**	**586**	**23**	**125,700**
As at 31 December 2014	2,025	88,504	670	78	91,277
As at 1 January 2014	86	57,041	92	163	57,382

11 Property, plant and equipment continued

Hire purchase agreements

Included within the net book value of £125,700,000 (2014: £91,277,000; 2013: £57,382,000) is £73,258 (2014: £208,000; 2013: £84,000) 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 £65,060 (2014: £79,000; 2013: £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 2015	43	40	83
As at 31 December 2015	**43**	**40**	**83**

Subsidiary undertakings

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

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

The recoverable amount calculated in the impairment review was determined on a value-in-use basis. These calculations use pre-tax cash flow projections based on financial budgets approved by management and cover a five-year period with a terminal value. Long-term growth is assumed at 0%. The estimated cash flows are derived by discounting future cash flows that are based on conservative growth and attrition rates and discounted at a post-tax rate of 8.2%. There is no reasonably possible change that would cause the carrying values to exceed recoverable amounts.

14 Inventories

	2015 £'000	2014 £'000
Finished goods	**996**	913
Consumables	**103**	298
	1,099	1,211

Notes to the financial statements continued

For the year ended 31 December 2015

15 Trade and other receivables

	2015 £'000	2014 £'000
Trade receivables	**4,815**	3,588
Prepayments	**221**	542
Accrued income	**5,145**	3,644
Other receivables	**24**	70
VAT recoverable	**—**	401
	10,205	8,245

Amounts falling due after more than one year:

	2015 £'000	2014 £'000
Accrued income	**901**	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 £367,253 (2014: £33,414; 2013: £Nil). The ageing profile of trade receivables past due date is shown below:

	2015 £'000	2014 £'000
31–60 days	**1,168**	528
60–90 days	**321**	127
Over 90 days	**776**	263
	2,265	918
Allowance for doubtful receivables	**(367)**	(33)
	1,898	885

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

Trade receivables due from related parties at 31 December 2015 amounted to £Nil (2014: £Nil; 2013: £Nil).

Receivables are all in Sterling denominations.

The Directors are of the opinion that £367,253 of the overdue debts as at 31 December 2015 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:

	2015 £'000	2014 £'000
Cash	**5,711**	4,285
	5,711	4,285

17 Trade and other payables

	2015 £'000	2014 Restated £'000
Current		
Trade payables	**5,324**	7,767
Other payables	**94**	428
Advance payments	**3,105**	3,448
Other taxes	**827**	861
Deferred income	**602**	1,623
Accruals	**4,967**	2,567
	14,919	16,694

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:

	2015 £'000	2014 £'000
Current	**3,703**	5,326
31–60 days	**825**	1,099
60–90 days	**284**	539
Over 90 days	**512**	803
	5,324	7,767

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

	2015 £'000	2014 £'000
Current		
Bank loans	**8,496**	7,904
	8,496	7,904
Non-current		
Bank loans	**76,219**	53,645
	76,219	53,645

Bank loans at 31 December 2015 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 2015

19 Commitments under hire purchase agreements

Future minimal commitments under hire purchase agreements are as follows:

	2015 £'000	2014 £'000
Current		
Amounts payable within one year	**64**	90
Non-current		
Amounts payable between two and five years	**14**	64
	14	64

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.

	2015 £'000	2014 £'000
Other financial assets	**—**	—
Current liabilities		
Other financial liabilities	**46**	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 £26,400,000 as at 31 December 2015 (2014: £30,000,000; 2013: £28,200,000).

The interest rate swap results in a fixed interest rate of 2.83%.

The termination date for the derivatives is 15 September 2016.

The movement in the fair value is shown below:

	2015 £'000	2014 £'000
Interest rate swap		
Opening position	**(70)**	207
Adjustment to fair value	**24**	(277)
Closing position	**(46)**	(70)

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 2015, the Group held the following financial instruments measured at fair value:

Liabilities measured at fair value	**31 December 2015 £'000**	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial liabilities at fair value through the statement of comprehensive income:				
Interest rate derivatives	**(46)**	–	(46)	–

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 2015, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into or 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. 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
2015	**1%**	**329**
2014	1%	195

Notes to the financial statements continued

For the year ended 31 December 2015

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
2015	**26,400**	**58,556**	**84,956**
2014	30,153	31,550	61,703
1 January 2014	28,209	7,208	35,417

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

Interest rate risk profile of financial assets

The Group's financial assets at 31 December 2015 comprise cash and trade receivables. The cash balance of £5,711,000 (2014: £4,285,000; 2013: £2,073,000) 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 is covered within the relevant liability note or below.

	2015 £'000	2014 £'000
Fixed rate		
Less than one year	**3,392**	3,090
Two to five years	**12,497**	12,063
Over five years	**14,119**	15,000
	30,008	30,153
Variable rate		
Less than one year	**6,728**	4,603
Two to five years	**25,597**	19,618
Over five years	**35,096**	7,329
	67,421	31,550

Credit risk

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

The Group's maximum exposure to credit risk from its customers is £9,960,000 (2014: £8,278,000; 2013: £5,211,000) 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:

	2015 £'000	2014 Restated £'000
Opening deferred tax liability	**4,395**	3,395
Increase in provision through the Consolidated statement of comprehensive income	**1,467**	1,771
Increase in provision through equity	**97**	(1,918)
Deferred tax on intangibles acquired as part of UPL	**—**	1,137
Other	**180**	10
Closing deferred tax liability	**6,139**	4,395

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

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

	2015 £'000	2014 Restated £'000
Excess of taxation allowances over depreciation on property, plant and equipment	**7,029**	5,330
Tax losses available	**—**	(37)
Deferred tax asset on share options	**(1,708)**	(2,021)
Deferred tax on intangible acquired as part of UPL	**828**	1,137
Fair value of interest rate swaps (net)	**(10)**	(14)
	6,139	4,395

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

	2015 £'000	2014 Restated £'000
Accelerated capital allowances	**1,736**	1,945
Tax losses	**—**	1
Deferred tax asset on share options	**36**	(120)
Movement in fair value of intangibles	**(309)**	—
Movement in fair value of interest rate swaps	**4**	(55)
	1,467	1,771

Finance Act (No. 2) 2015, which was substantively enacted on 26 October 2015, includes legislation reducing the main rate of UK corporation tax from 20% to 18%. This decrease is to be phased in with a reduction to 19%, effective from 1 April 2017, and a reduction to 18%, effective from 1 April 2020. Consequently deferred tax has been provided at the tax rates at which temporary differences are expected to reverse.

Notes to the financial statements continued

For the year ended 31 December 2015

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 (2014: £41,500; 2013: £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 (2014: £4,150; 2013: £4,150) was outstanding in this regard.

The Group also paid rent of £32,000 (2014: £122,000) to another individual classified as key management for the use of certain premises.

During the year, the Group paid dividends to Alan Foy of £252,178 (2014: £226,694), Paul Dollman of £502 (2014: £94) and Miriam Greenwood of £298 (2014: £94).

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

	2015 £'000	2014 £'000
Salaries and other short-term employee benefits	**1,227**	1,122

24 Share capital

	2015 £'000	2014 £'000
Allotted and called up: 86,112,912 ordinary shares of £0.01 each (2014: 85,575,452 ordinary shares of £0.01 each)	**861**	856

On 18 March 2015 100,000 ordinary share options were exercised and subsequently sold by staff.

On 25 March 2015 100,000 ordinary share options were exercised and subsequently sold by staff.

On 10 April 2015 216,667 ordinary share options were exercised and subsequently sold by staff.

On 5 May 2015 45,205 ordinary share options were exercised, 23,211 retained and 21,944 subsequently sold by staff.

On 26 May 2015 4,100 ordinary share options were exercised and subsequently sold by staff.

On 10 June 2015 27,088 ordinary share options were exercised and subsequently sold by staff.

On 25 September 2015 10,000 ordinary share options were exercised and subsequently sold by staff.

On 4 November 2015 28,700 ordinary share options were exercised and subsequently sold by staff.

On 27 November 2015 1,500 ordinary share options were exercised, 758 retained and 742 subsequently sold by staff.

On 14 December 2015 4,200 ordinary share options were exercised and subsequently sold by staff.

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. The performance conditions for awards are based on market capitalisation and individual performance targets.

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. The performance conditions for awards are based on market capitalisation and individual performance targets.

Plan	At 1 January 2015	Granted	Exercised	Lapsed	**At 31 December 2015**	Exercise price (pence)	Date exercisable	Expiry date
CSOP	229,291	—	(49,330)	—	**179,961**	76.0	15/7/14	15/7/21
CSOP	39,088	—	(35,588)	—	**3,500**	153.5	28/5/15	28/5/22
Unapproved	2,979,060	—	(416,667)*	—	**2,562,393**	60.0	20/6/16	20/6/21
Unapproved	1,162,629	—	—	(11,892)	**1,150,737**	153.5	28/5/17	28/5/22
Unapproved	64,575	—	(35,875)	—	**28,700**	60.0	28/6/13	28/6/23
Unapproved	1,430,965	—	—	(95,410)	**1,335,555**	350.0	12/11/14	12/11/24

* Early exercise due to retirement approved by the Board.

The average weighted average share price at the date of exercise was £3.41.

Valuation

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

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

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

Share Incentive Plan (SIP)

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

SIP awards

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

Type of award	At 1 January 2015	Awarded shares	Sold	Lapsed	**At 31 December 2015**	Weighted average acquisition price
Partnership	24,387	41,505	(4,997)	—	**60,895**	£3.50
Matching	24,355	41,505	(2,775)	(2,536)	**60,549**	£3.50
Dividend	65	276	(24)	—	**317**	£3.59
Total	48,807	83,286	(7,796)	(2,536)	**121,761**	

Notes to the financial statements continued

For the year ended 31 December 2015

26 Other reserve

This is a non-distributable reserve that initially arose by applying merger relief under section 162 of the Companies Act 2006 to the shares issued in 2009 in connection with the Group restructuring. This was previously recognised as a merger reserve under UK GAAP. Under IFRS, this has been classed as an “other reserve”. Additionally, the premium arising on the issue of shares as part of the acquisition of Utility Partnership Limited has been credited to this reserve as required by the 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:

	2015 £’000	2014 £’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. As at 31 December 2015 it is not practicable to assess the financial effect of any findings.

30 Business combinations

Acquisition of Utility Partnership Limited

On 14 April 2014 Smart Metering Systems plc acquired 100% of the issued share capital of Utility Partnership Limited (UPL), now SMS Energy Services Limited (SMS ES). SMS ES 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
Property, plant and equipment	2,539
Software	3,258
Customer contracts	2,160
Other financial assets	83
Inventories	344
Trade and other receivables	5,074
Cash and cash equivalents	3,420
Total assets	16,878
Trade and other payables	(879)
Deferred tax	(1,137)
Accruals and deferred income	(1,966)
Obligations under hire purchase agreements	(106)
Total liabilities	(4,088)
Total identifiable net assets	12,790
Goodwill arising on acquisition	4,112
Total acquisition cost	16,902

Analysed as:	
New shares in Smart Metering Systems 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)

31 Post balance sheet events

On 21 March 2016 the Group announced the acquisition of three companies.

The Group acquired 100% of CH4 Gas Utility and Maintenance Services Limited for an initial consideration of £2m which is being satisfied through the issue of 510,497 ordinary shares of 1p each in SMS ("Ordinary Shares") at a price of 391.775p per Ordinary Share. In addition, a further £0.995m may be payable through the issue of Ordinary Shares pursuant to an earn out arrangement based on the CH4 business satisfying certain performance criteria over the three years from the date of completion.

The Group acquired 100% of Trojan Utilities Limited for an initial consideration of £0.5m which is being satisfied through the issue of 127,625 Ordinary Shares at a price of 391.775p per Ordinary Share. In addition, a further £0.5m may be payable through the issue of Ordinary Shares pursuant to an earn out arrangement based on the Trojan Utilities business satisfying certain performance criteria over the three years from the date of completion.

The Group acquired 100% of Qton Solutions Limited for £2.9m which is being satisfied through the issue of 740,230 Ordinary Shares at a price of 391.775p per Ordinary Share.

No further disclosures have been provided under IFRS 3 in respect of business combinations after the balance sheet date on the basis that the initial accounting is not yet complete.

Parent company balance sheet

As at 31 December 2015

	Notes	2015 £'000	2014 £'000
Fixed assets			
Investments	2	**16,902**	16,902
Current assets			
Debtors	3	**808**	—
Creditors			
Amounts falling due within one year	4	**—**	(492)
Net current assets/(liabilities)		**808**	(492)
Total assets less current liabilities		**17,710**	16,410
Capital and reserves			
Called up share capital	6	**861**	856
Share premium	7	**9,649**	9,291
Other reserve	7	**4,257**	4,257
Profit and loss account	7	**2,943**	2,006
Equity shareholders' funds		**17,710**	16,410

The parent company financial statements on pages 54 to 56 were approved and authorised for issue by the Board of Directors and signed on its behalf by:

Glen Murray
Director
21 March 2016

Company registration number
SC367563

Company statement of changes in equity

As at 31 December 2015

	Share capital £'000	Share premium £'000	Other reserve £'000	Retained earnings £'000	Total £'000
As at 1 January 2014	838	8,971	—	1,431	11,241
Total comprehensive income for the year	—	—	—	2,748	2,748
Transactions with owners in their capacity as owners:					
Dividends (note 9)	—	—	—	(2,174)	(2,174)
Shares issued	18	320	4,257	—	4,595
As at 31 December 2014	856	9,291	4,257	2,006	16,410
Total comprehensive income for the year	—	—	—	3,500	3,500
Transactions with owners in their capacity as owners:					
Dividends (note 9)	—	—	—	(2,564)	(2,564)
Shares issued	5	359	—	—	364
As at 31 December 2015	**861**	**9,650**	**4,257**	**2,943**	**17,710**

Notes to the parent company financial statements
For the year ended 31 December 2015

The parent company financial statements of SMS plc (the "Company") for the year ended 31 December 2015 were authorised for issue by the Board of Directors on the 21 March 2016 and the balance sheet was signed on the Board's behalf by Glen Murray. SMS plc is a public limited company incorporated and domiciled in Scotland. The Company's shares are traded on AIM.

1 Parent company accounting policies

Basis of accounting

These financial statements were prepared in accordance with Financial Reporting Standard 102 (FRS 102). The financial statements are prepared under the historical cost convention.

No profit and loss is presented by the Company as permitted by section 408 of the Companies Act 2006.

The results of SMS plc are included in the consolidated financial statements of SMS plc which are available from 48 St Vincent Street, Glasgow G2 5TS.

The accounting policies of the parent company financial statements follow those policies which apply in preparing the consolidated financial statements for the year ended 31 December 2015. The financial statements are prepared in Sterling and are rounded to the nearest thousand Pounds (£'000).

Change of GAAP

The Company has transitioned to FRS 102 from previously extant United Kingdom Generally Accepted Accounting Practice (UK GAAP) for all periods presented. The transition process resulted in no revised accounting treatments.

The Company has taken advantage of the following disclosure exemptions under FRS 102:

- section 7 Statement of Cash Flows;
- section 3 Financial Statement Presentation paragraph 3.17(d);
- section 11 Basic Financial Instruments paragraphs 11.39 to 11.48A;
- section 12 Other Financial Instruments Issues paragraphs 12.26 to 12.29A; and
- section 33 Related Party Disclosures paragraph 33.7.

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.

Dividends

The Company was advised that the dividend paid on 20 November 2015 should have been preceded by the filing of interim accounts with Companies House for the financial year end to a date preceding the distribution. As a result of the Company not doing so, the dividends paid on 20 November 2015 did not comply fully with the technical requirements of the Companies Act 2006. The Company intends to propose appropriate resolutions to rectify this position at the Company's 2016 Annual General Meeting.

2 Investments

Company	Group companies £'000
Cost	
As at 1 January 2015	16,902
Additions	—
As at 31 December 2015	**16,902**
Net book value	
As at 31 December 2015	**16,902**
As at 31 December 2014	16,902

Notes to the parent company financial statements continued

For the year ended 31 December 2015

2 Investments continued

Subsidiary undertakings

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

	2015 £'000	2014 £'000
Amounts owed by Group undertakings	**808**	–

4 Creditors: amounts falling due within one year

	2015 £'000	2014 £'000
Other creditors	**–**	492

5 Related party transactions

During the year, the Group paid dividends to Alan Foy of £252,178 (2014: £226,694), Paul Dollman of £502 (2014: £94) and Miriam Greenwood of £298 (2014: £94).

6 Share capital

	2015 £'000	2014 £'000
Allotted and called up:		
86,112,912 ordinary shares of £0.01 each (2014: 85,575,452 ordinary shares of £0.01 each)	**861**	856

7 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 the Companies Act 2006.

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