smart approach
smart systems

Smart Metering Systems plc
Annual report and accounts 2011

● 254,000 meter assets at 31 December 2011

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

Our focus is on gas meters in the UK, where we aim to:

- be the market leader in the independent ownership of industrial and commercial meters;
- establish our technology ADM™ as the industry standard smart metering solution for industrial and commercial (I&C) clients; and
- grow our domestic meters business organically and through new contracts.

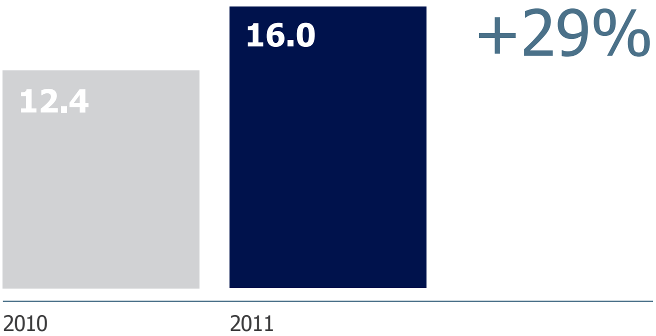
Through our dedicated people we offer a unique integrated service to our clients and are looking to expand into other applications, including water and LPG, and other geographical markets where 'smart' applications such as remote reading and half-hourly consumption data are important.

More on our ADM solution on page 11

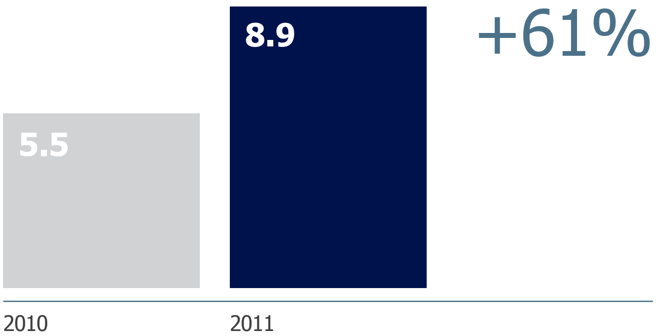
In this report

Highlights

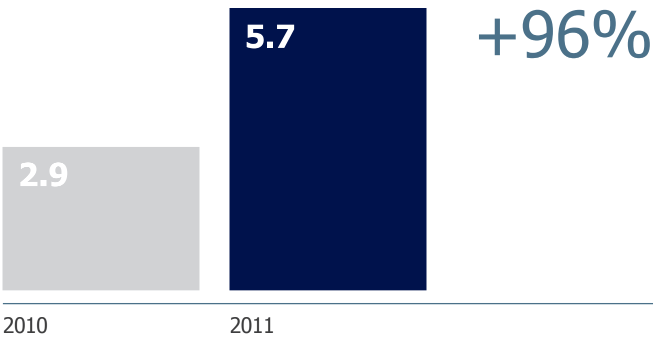
Revenue £m



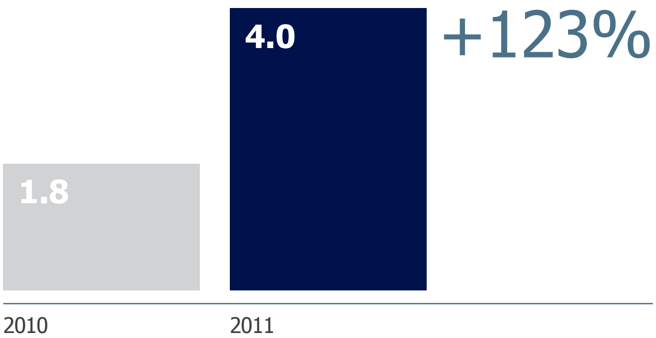
Gross profit £m



EBITDA* £m



EBT* £m



Financial highlights

— Successful admission to trading on AIM and £10m of gross proceeds raised in July 2011

— Revenues increase by 29% to £16.0m (2010: £12.4m)

— Recurring revenues increased by 51% to £6.6m (2010: £4.4m)

— Gross profit increased by 61% to £8.9m (2010: £5.5m) with gross margin increased to 55.5% (2010: 44.4%)

— Adjusted EBITDA* increased by 96% to £5.7m (2010: £2.9m)

— Increased lease finance facility made available by Clydesdale Bank plc in October 2011, extending the available facility from £12m to £19.5m

— Available resources at year end £14.8m

— EPS increased by 301% to 2.93p (2010: 0.73p)

* Excluding exceptional items and fair value adjustments

Operational highlights

Gas connections
— 1,333 in 2011 (2010: 1,275)

Meter asset management
— Total meter portfolio increased by 19% to 254,000

— Increase of 77% in capital investment on meter assets to £9.2m as a result of increasing run rate in meter installations with existing gas supplier clients

— Increase in annualised recurring revenue of 29% to £7.6m

— Client base grew from 12 to 15 representing 80% of the industrial and commercial market

Data management
— ADM device received zone zero accreditation and preliminary EU patent approval

Full Financial Review begins on page 12

Our approach

We believe that the highest quality customer care makes a real difference.

We work hard to offer clients the highest standards of care and seek to achieve this through investment in the best technology and the most talented people we can find.

Exceptional client experience

We take the time to fully understand the nature and significance of our clients' problems.

Valuable solutions

We seek to create value at every interface with our clients using our bespoke technology.

An exceptional client experience is critical to the success and growth of SMS which allows us to invest in finding new solutions which add value to our clients' businesses.

We are dedicated to creating exceptional client experiences

Exceptional experience must be a competence not a function

From top to bottom we strive to maintain our client-centric culture

We focus on client needs, not product features

Every client-centred action must take account of the nature and significance of our clients' problems and how our solutions impact their customers

Our blueprint for ensuring that we deliver this is based on three key principles

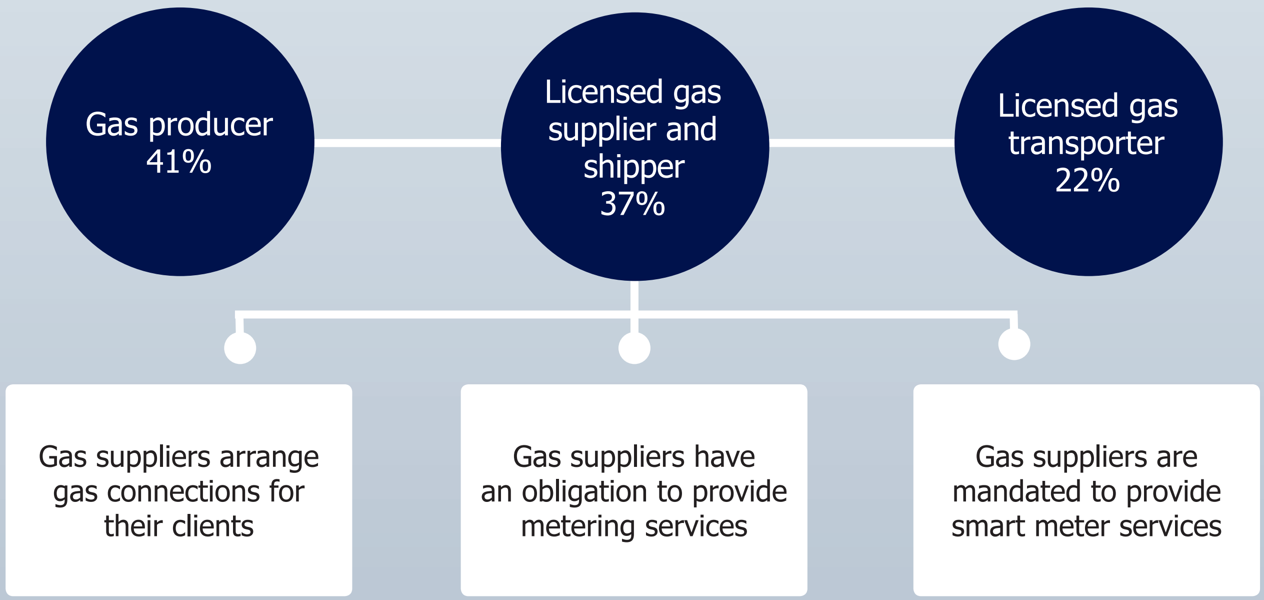
We remain true to our values with every interaction

Our team understands our culture and our values; together we work towards a common goal of exceptional client experiences

Business overview

SMS provides the UK's leading gas suppliers and large corporations with comprehensive solutions focused primarily on gas infrastructure and metering services.

The UK gas market supply chain



Read the full business review on pages 6 to 13

SMS is organised into three operating subsidiaries which form the basis of the Company’s reportable operating segments.

Operating segments within those subdivisions are combined on the basis of their similar long-term economic characteristics and similar nature of their products and services.

Our structure

Provision of gas infrastructure and installation of meters

Ownership and management of meter assets

UK Gas Connection

Infrastructure facilitator: management of gas connections and meter installations

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

Installation

1,333 connections

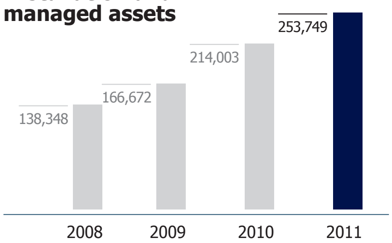
(2010: 1,275)

UK Meter Assets

Meter asset management: gas meter asset operations for every UK gas supplier

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

Installation and managed assets



UK Data Management

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

Smart metering is seen as the key to the future efficiency of the UK’s energy system. UK Data Management delivers the Company’s patent pending ADM smart metering solution which is very simple to install and highly cost effective and competitive.

Managed assets

Trials complete with the Company’s gas supplier clients in the Industrial and Commercial (I&C) market.

Chairman's statement

Kevin Lyon
Chairman and Non-executive Director

"2011 was an important year for SMS with its flotation on the London Stock Exchange."

Highlights

- The Company's admission to trading on AIM raised £10m of gross proceeds.
- Cash flow from operations of £4.9m (2010: £3.6m).
- The Company also secured additional bank borrowing which amounted to £7.5m.
- Our available resources including cash and borrowing facilities amounted to £14.8m.
- All major KPIs across our three business segments were met.
- The Directors intend to declare a maiden dividend which we anticipate will be paid in November 2012 subject to performance.

This is the first set of full year results since the Company's admission to trading on AIM on 8 July 2011 raising £10m of gross proceeds.

The proceeds of the float have strengthened our financial resources enabling the Company to accelerate the organic growth of the business mainly based on connecting, owning, operating and maintaining gas meters and their associated databases on behalf of gas suppliers.

I am pleased to report a solid set of results for the year ended 31 December 2011 and a positive outlook for 2012.

Financial highlights

The results for the year have been strong, with revenues increasing by 29% to £16m, profit from operations before exceptional items and finance costs increasing by 119% to £4.5m, and profit from operations after exceptional items and finance costs increasing from £0.9m to £3.3m.

In addition to the proceeds from the IPO and cash flow from operations of £4.9m (2010: £3.6m), the Company also secured additional bank borrowing to support further capital investment in meters which amounted to £9.2m in the year compared to £5.2m in 2010. At the year end our available resources including cash and borrowing facilities amounted to £14.8m.

I am also pleased to announce that all major KPIs across our three business divisions were met and are detailed in the Chief Executive's Review.

People

The move from a private to publicly listed company has involved a number of changes for SMS. I was delighted to accept the invitation to be Chairman in advance of the IPO. In addition, Nigel Christie has also joined the Board as a Non-executive Director, bringing with him a wealth of financial and senior management experience. We will keep the composition of the Board, including the possibility of appointing a further Non-executive Director, under review during the current financial year.

"2012 has, to date, seen increasing meter installation run rates, new clients, and very positive progress on the trialling of the Company's smart meter technology."

A critical part of our operations is our people. We have an exceptional team and I would like to take this opportunity to thank them all for their efforts during the year. In the year of IPO, I would also like to thank the advisers that worked hard alongside the Company's executive team to make it happen, in what can best be described as challenging markets.

Strategy

The business activities are focused on managing the installation and registration of new meter assets onto our systems each year. Full revenue from the installed meters is realised the following year, installation and registration of new meter installations from the same overhead annually leads to compounding of recurring rentals and increasing of revenues and profits, as demonstrated in our financial performance.

Annualised recurring rental is now £7.6m, Group net debt is £3.4m and we have £16m current available facility including £5.2m cash from operations to invest in meter assets.

During 2012 the Company expects to increase banking facilities for the purpose of continuing to accumulate meter assets in the domestic market and, with the objective of establishing the ADM smart metering solution as the market standard in the I&C market, leading to further accumulation of meters.

No major investment in operations infrastructure is currently foreseen with systems operating at 5% capacity. The Company owns all intellectual property rights to its developed and fully deployed IT systems and new ADM smart metering solution focused on the I&C metering market.

Dividend

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

Subject to the Company's continuing financial performance, the Directors intend to declare a maiden dividend as a public company as an interim dividend for the financial year ending 31 December 2012, which we anticipate will be paid in November 2012.

Outlook

SMS has a robust business model, a strong management team and leading smart meter technology which has been underlined by the strong set of results announced in this annual report.

2011 was an important year for SMS with its flotation on the London Stock Exchange. This milestone has allowed the Board to support an ambitious strategy for growth in our core areas, in developing new and exciting markets by product and geography and by providing the financial strength and flexibility to take advantage of new opportunities as they arise.

2012 has, to date, delivered on that strategy through the ongoing accumulation of meter assets installed on request of the Company's existing gas supply clients, and very positive conclusion on the trialling of the Company's smart meter technology. This has allowed the Company to further strengthen the quality of the management team in key areas. I look forward to a successful year ahead with a strong performance against challenging KPIs, a dedicated and motivated team and, most importantly, a satisfied, loyal and expanding client base.

Kevin Lyon
Chairman and
Non-executive Director

Chief Executive's review

Alan Foy
Chief Executive Officer

"Activities are focused on accumulation of recurring annual rental from gas meters. This activity is automated and currently operating at 5% system capacity with 254,000 meter assets."

Highlights

- We managed the installation of over 39,000 meters on request of the Company's 15 gas supplier clients.
- Domestic meters increased by over 19% and I&C meters by over 14%.
- In 2012 we aim to accelerate growth in domestic meters and focus on becoming the preferred partner to our 15 existing gas supplier contracted clients in the I&C market through our ADM smart metering solution.
- We are currently seeing increased meter installation run rates in the domestic market.
- Our ADM smart metering solution has successfully trialled over the last two years with our gas supplier clients and is now a proven robust solution for the I&C metering market.

For more information visit
www.sms-plc.com

I am pleased to report that SMS has made a strong start as a listed company. These results are testament to the quality of our clients, our people and our ability to deliver relevant and valuable solutions to support our clients' businesses.

Our business

Our business operation is based on connecting, owning, operating and maintaining metering systems and databases on behalf of major energy companies.

Our core focus is on gas meters in the UK, where we aim to:

— be the market leader in the independent ownership of industrial and commercial meters;

— establish ADM as the industry standard smart metering solution for industrial and commercial (I&C) clients; and

— grow our domestic meters business organically and potentially through new contracts.

We will also seek out new domestic and international markets for our products and services to widen our footprint in the UK and establish an international presence.

Business performance

Gas connections

Our Gas Connections business is a transactional support services business which manages new gas connections and meter installations for our clients. The business acts both as a steady and consistent revenue stream in its own right and as an important feed into our Meter Asset Management business.

In 2011, we continued to support both contracted and non-contracted energy clients by undertaking over 1,333 connections, a similar level to the year before.

Meter asset management

Our Meter Asset Management business works across both the domestic and I&C gas markets working on perpetuity, index linked contracts. We own, operate and manage meter assets on behalf of our clients, securing revenue through a rental of the meter asset to gas suppliers.

In 2011, our total meter portfolio increased by 19% to 254,000. At 31 March 2012 the portfolio was 265,000. This was achieved by an increase in capital investment in meter assets of 77% to £9.2m, delivering a recurring rental income increase of 51% to £6.6m. At 31 December the annual equivalent recurring rental income was £7.6m.

Asset accumulation

In 2011 the Company was delighted to welcome new gas supplier clients, increasing our base of major clients to 15 representing over 80% of the I&C meters market.

In 2012 we will continue to focus on accumulation of meter assets organically and potentially through new contract wins.

The Company has seen a significant increase thus far in 2012 in our domestic meter installation run rate secured from existing gas supplier clients.

The ADM smart metering solution has been designed to the exacting requirements as requested by the Company's existing client base for the I&C market and, following trials, is now an established proven solution.

The objective is to add a further recurring meter rental income to the Company from the provision of data services, generated by the installation of the ADM device to I&C meters by gas supplier customers. Additionally however, a new meter is intended to be installed at the same time as an ADM device installation, thereby further increasing the Company's meter asset portfolio in this market segment.

Data management – ADM

SMS has developed a cost effective and reliable data collection solution incorporating a smart meter device called ADM, principally aimed at the I&C market. The device has been granted preliminary European patent approval and safety certification for operation in the most hazardous environments and has been trialled by three major energy suppliers in the UK during the course of 2011.

Our approach

We have a strategy to deliver strong growth.

1 Increase growth rate

Increase our penetration in ownership and management of gas meters in both residential and I&C metering markets.

Grow domestic gas market in the UK. Increase growth rates in meter asset ownership with gas supplier clients.

- Over 80% of the I&C metering market is potentially available through contracted arrangements with our 15 existing gas supplier clients
- Current IT platform operates at less than 5% capacity

2 Upsell the ADM smart metering solution

Establish ADM as the industry standard smart metering solution for the I&C metering market.

Upsell the ADM smart metering solution to existing contracted gas suppliers to accelerate meter asset ownership.

3 Explore new opportunities

Explore future prospects to expand the range of solutions and services to all utility markets within the UK and internationally.

Chief Executive's review continued

"The Company has built a strong track record of identifying business opportunities, nurturing them and creating results."

Business performance continued

Data management – ADM continued

A key advantage of ADM is that it does not require pre-installation programming and is very much 'plug and play'. Supported by a comprehensive IT solution, the ADM device will provide an important source of new income and act as a feeder into the meter asset management business, in a similar way to our gas connections business.

Following extensive trials we can now provide clients with a proven full service offering incorporating installation of gas meters through to advanced metering services providing many opportunities for the Company to build further value from its existing client base.

The market for I&C meters which represents an estimated 1.6m clients has two distinct options with respect to advanced or smart metering. Up to 2014 small I&C meter clients have the opportunity to opt for an advanced metering solution such as the ADM device or alternatively be included in the proposed domestic roll out of smart meters. The Company believes that this market segment is attractive for implementing the ADM solution and will increase marketing efforts in this area throughout 2012.

Gas suppliers have already got a licence condition to install advanced meters, such as the ADM device to large meters, combined with large consumer group portfolios the Company estimates these immediately addressable markets to be around 378,000 meters.

Further expansion to new areas

During 2011 we established that the ADM device was a suitable technology for other market sectors such as water meter data collection. We have had early success and are currently trialling the ADM device in the I&C sector.

The addressable market is large and estimated at 1.6m units.

People

A significant part of our business proposition has always focused on how we interact with our clients through attention to detail and excellent customer service. These core values have underpinned our business since its inception in 1995.

Our team

It is the dedication and professional work ethic of our team that has provided the strongest of foundations for the successful growth of our business and I wish to thank all those individuals that have fostered our key relationships with clients over the years.

Several of our clients are now celebrating ten years working with SMS. The trust developed over such long periods has helped us accumulate our meter portfolio to date. This strong growth is anticipated to continue through 2012 and beyond. Throughout the course of this review, I have highlighted areas where we will focus our efforts and, as always, keeping true to our core values within a dedicated and professional team will be important in the delivery of targeted growth. We look forward to many more milestones achieved throughout 2012.

Alan Foy
Chief Executive Officer

ADM smart metering solution

ADM is a bespoke metering solution tailored to the I&C gas and water meter markets that dovetails with our clients' systems.

The inventive steps are 'plug and play' and 'no manual commissioning' enabling installation anywhere within around 30 seconds and thereafter delivering low-cost, reliable half hourly meter reads and consumption alerts.

Patent pending WO 2010041062

1 Easily installed by non-technical operators

No on site programming, just activate with a 'fob', this eliminates human error in data entry during commissioning and training of workforces to perform installations.

2 Fits directly to any pulse enabled

— Standard U6 to U160 gas meter
— Rotary or turbine gas meter
— Water meter
— Electricity pulse output meters

3 Integrated into BMS and in-home displays

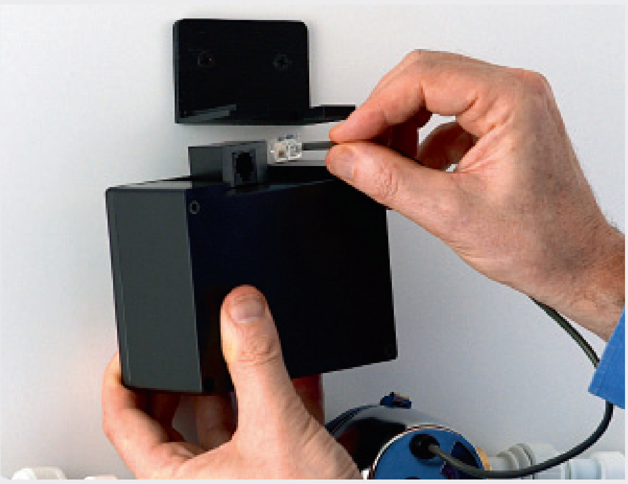
Output can be repeated to other appliances and to mobile devices seamlessly.

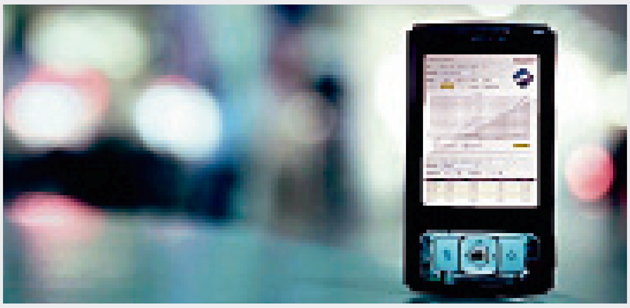
4 Low cost

Installed easily in around 30 seconds with no requirement for programming components increases reliability and lowers cost.

5 Web delivered communication of meter reads

Delivers half hourly usage information daily, weekly or monthly.





Financial review

Glen Murray
Finance Director

"The Group realised sales of £16m during the year, a significant increase from the £12.4m realised during 2010."

Highlights

- Total revenue up 29%.
- Recurring revenue up 51%.
- Gross profit up 61%.
- Adjusted EBITDA up 96%.
- Annual capital investment up 77%.

For more information visit
www.sms-plc.com

Results for the year

In 2011, the Group generated £16m in revenue, an increase of 29% over 2010, as the Company continued its growth of owned meters and meters under management. Recurring revenue, in line with the Company's strategy, increased from 35% of the total in 2010 to 41% in 2011.

Administration expenses at £4.4m (excluding exceptional costs) were up 27% compared to 2010, substantially due to investment in staff numbers which have increased from 35 to 42 in line with the growth of the Company and its listed status, and increased depreciation due to the increased meter base held by the Company.

Finance costs increased from £250k to £535k, in line with the increased borrowings that have supported our investment in meter assets.

Profit before tax increased from £857k to £3.3m and profit after tax from £490k to £2.2m.

Cash and borrowings

As at 31 December 2011, the Company had cash balances of £7.3m and unused facilities of £7.5m. In October 2011, SMS was pleased to announce that Clydesdale Bank plc had agreed to extend the master lease facility, originally made available to SMS on 24 September 2010, by increasing the lease facility from £12m to £19.5m. The increased amount of £7.5m will be available for drawdown until 12 October 2012 and will be used to continue to expand investment in meter assets.

Gearing was 32% compared to 493% in 2010.

Capital investment in meters was £9.2m compared to £5.2m in 2010.

Gross profit

+61%

Earnings per share

+301%

Treasury policies

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

Interest rate swaps covered an amount of £5.5m as at 31 December 2011 (2010: £3.8m) and an interest rate cap over an amount of £5.5m as at 31 December 2011 (2010: £4m).

The interest rate swap results in a fixed interest rate of 2.99% and the interest rate cap applies a floating rate with a cap of 2.99%. The termination date for both derivatives is 15 September 2015.

The Company completed a transaction for a further interest rate cap in November 2011 with an effective date of January 2012 applying a floating rate with a cap of 2.25%. This will eventually apply to future drawdowns up to £5m.

Glen Murray
Finance Director

Financial highlights

	December 2011 £'000	December 2010 £'000	Increase
Sales	15,964	12,368	▲ 29%
Gross profit	8,855	5,492	▲ 61%
Gross profit margin	55%	44%	▲ 25%
EBITDA*	5,672	2,889	▲ 96%
EBITDA margin	36%	23%	▲ 52%
PBT*	3,988	1,792	▲ 123%
Earnings per share	2.93p	0.73p	▲ 301%

* Excluding exceptional items

Risk management

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

Group specific risks

Risk	Description and mitigating actions
Failure of physical infrastructure or services of the Group	The Group's business is dependent on its IT infrastructure. Service interruptions and equipment failures may expose the Group to financial loss and damage its reputation, which could have a material adverse effect on the Group's business, financial condition and results of operations. The Group's business includes the ownership and management of gas meters. If the Group fails to register a meter(s) on its IT system, wrongly classifies a meter or it loses track of a meter(s) within the system then this could also have a material adverse effect. The Group's IT infrastructure is subject to failure from a variety of causes largely outwith the Group's control, including human error, equipment failure, power loss, failure of services related to the internet and telecommunications provided by the Group, physical or electronic security breaches, as well as factors outwith the Group's control, such as sabotage, vandalism, system failures of network service providers, fire, earthquake, volcanic ash, flood and other natural disasters, water damage, fibre optic cable cuts, power loss not caused by the Group, improper building maintenance by the landlords of the buildings in which the IT infrastructure is located and terrorism.
Dependency on key clients, terms of contracts, financing costs and performance levels	In its UKMA business, the Group is largely dependent on a small number of key gas suppliers with which it has entered into commercial contracts. Whilst there are termination provisions within such contracts which are designed to protect the Group in the short term, loss of one or more of these key clients could have a material adverse effect on the future growth of the Group's business. In addition, approximately 90% of the UKMA business revenue at the end of December 2010 was derived from consumers who are clients of suppliers which had contracted with the Group for meter asset management (MAM). The balance of the revenue was derived from consumers who had changed gas supplier to non-contracted suppliers. In the event that such non-contracted supplier used another MAM and management of the gas meter was changed to the new asset manager, then the Group would suffer a loss in revenue and would not benefit from the contract termination provisions outlined above. The key contracts with gas suppliers oblige the Group to fulfil certain performance obligations. In particular, the Group is required to provide meter assets for an agreed price. If the Group enters into such contracts on uneconomic terms or was unable to secure appropriate levels of asset finance on suitable terms then this would have a material adverse impact on the Group's business, financial condition and results of operations. In addition, should the Group be unable to meet an appropriate level of service in its UKGC business this may damage its reputation and could reduce the confidence of the Group's clients and users of its services, impairing its ability to retain existing clients and users and attract new clients and users.

Risk	Description and mitigating actions
Unforeseen delays and cost overruns when rolling out new and upgrading existing products and services	Management effort and financial resources are being employed by the Group in rolling out the ADM device. In addition, the Group periodically upgrades and replaces its IT infrastructure. Although the Group has budgeted for expected costings, additional expenses in the event of unforeseen delays, cost overruns, unanticipated expenses, regulatory changes and increases in the price of equipment may negatively affect the Group's business, financial condition and results of operations. The Group has considerable experience in forecasting and managing project implementation timetables. However, it may in the future experience unforeseen delays and expenses in connection with a particular project or initiative.
The Group may experience accelerated demand for its products and services	The Group expects to be able to meet its current capital expenditures from internal resources, debt facilities and the net proceeds of the placing. In the event that the Group wins a large order for ADM devices and/or new smart meters then the Group may consider supporting the working capital requirements for such order(s) by way of an issue of new equity or debt finance or a combination of both. If the Group is unable to raise the necessary financing it could adversely affect the Group's ability to expand its business.
The Group could be subject to increased operating costs, as well as claims, litigation or other potential liabilities, in connection with the security and control of the Group's systems and the personal data of users	The Group relies on systems and personnel in the Group's locations to physically secure IT infrastructure and user data. Any accidental or intentional actions, including computer viruses and unauthorised access, as well as other disruptions could result in increased operating costs or claims. The Group may incur significant additional costs to protect against such disruptions, the threat of security breaches (whether physical or electronic) or to alleviate problems caused by such interruptions or breaches. A party who is able to breach the physical premises and/or electronic security measures of the Group's systems could damage the Group's equipment and/or misappropriate either its proprietary information or the personal information of the Group's users and cause interruptions or malfunctions in its operations. If a third party were able to misappropriate data held on the Group's system then the Group could be subject to claims, litigation or other potential liabilities. Whilst security remains one of the Group's highest priorities, there can be no certainty that the security of its systems will not be breached and the information of the Group's clients and customers put at risk. Any security breach (whether physical or electronic) could have a serious effect on the Group's reputation and could lead to a loss of clients and/or existing clients seeking to claim damages. This could have a material adverse effect on the Group's business, financial condition and result of operations or future growth.
If the Group is not able to effectively manage its growth, its operations could be damaged and profitability reduced	The Group's business and operations have experienced rapid growth. If the Group fails to effectively manage this growth in the future, its operations could be harmed. This future growth could place significant demands on the Group's operational and financial infrastructure. If the Group is unable to effectively manage its growth its operations could be harmed and profitability reduced. The growth of the Group's sales and profits in the future will depend, in part, on its ability to expand its operation through the roll out of new products, the exchange of existing gas meters and the launching of its services into new markets and geographies. Furthermore, in order to manage its planned expansion, it will need continually to evaluate the adequacy of its management capability, operational procedures, financial controls and information systems. Accordingly, there can be no assurance that the Group will be able to achieve its expansion goals on a timely or profitable basis.

Board of directors

Kevin Lyon
Non-executive Chairman

A qualified chartered accountant, Kevin spent two years in merchant banking before joining the UK's leading private equity business, 3i plc. In a 17 year career with 3i, Kevin built and developed several successful investment teams across the UK and led transactions in a wide range of sectors, many leading to profitable exits or successful stock exchange listings. He also held a number of leadership and management positions including latterly managing director at UK Private Equity. He left in 2004 and, in the last eight years, he has served as an independent chairman or non-executive director on 16 boards. Of these, he has taken three to a public listing to raise capital or deliver an exit for shareholders, has sold ten in line with shareholder strategy and orchestrated a secondary MBO of two. Kevin is currently chairman of each of AIM-quoted Valiant Petroleum plc and of Mono Global Group. He also currently serves as an independent director of Adele Food Group. He was chair of the audit committee and senior independent director of Booker plc, a £4bn revenue wholesale cash and carry business, when it floated on AIM in June 2007. He graduated from Edinburgh University in 1982 and has attended Management and Business Development courses at INSEAD, IESE and Ashridge.

Steve Timoney
Deputy Chairman

Steve founded the Company in 1995. Prior to starting the business, he spent 14 years with British Gas Transco (now NGT) working within the engineering function with specific responsibility for gas pipelines and meter assets. He then moved on to work for Shell UK as Commercial Manager (Scotland) responsible for all commercial aspects of the marketing of natural gas to consumers. Steve became the recognised expert on contract development under the Network Code regime and was also responsible for setting up systems and procedures for the management of gas connection projects. Steve is a professional engineer and also has a Masters Degree in Corporate Leadership, studying both at Emory University, Atlanta and Napier University, Edinburgh, graduating with distinction in 2006.

Alan Foy
Chief Executive Officer

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

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

Glen Murray
Finance Director

Glen joined SMS in 2009 as a business accountant prior to assuming his current role as Finance Director. A qualified accountant and experienced financier, he provides the business with the structure and controls to diligently manage and report on all business activities. Glen has key responsibility for financial reporting, business plan modelling and business performance monitoring and reporting against the plan. Glen is also responsible for ensuring compliance with statute during the formation of the group structure and manages the migration of resources throughout the Company. Glen qualified with French Duncan in 1995 and in 1997 joined Shin-Etsu Handotia 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.

Nigel Christie
Non-executive Director

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

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 2011.

Change of name

On 14 June 2011 the Company changed its name from UK Smart Matering Group Limited to Smart Metering Systems Limited. The Company then re-registered as a plc on 17 June 2011.

Principal activities

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

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

Review of the business

The Company is required by section 417 of the Companies Act to set out in this report a fair review of the business and future developments of the Group during the financial year ended 31 December 2011 and of the position of the Group at the end of the year. This information can be found in the Chairman's Statement and Chief Executive's Review on pages 6 to 11.

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

Directors

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

Name of Director	Board title	Date of appointment	Date of resignation
K Lyon	Non-executive Chairman	27 May 2011	
N Christie	Independent Non-executive Director	27 May 2011	
A Foy	Chief Executive	24 December 2009	
S Timoney	Deputy Chairman	24 December 2009	
G Murray	Finance Director	1 January 2011	
P D Gregory	Non-executive Director	5 June 2010	27 May 2011
Rt Hon B Wilson	Non-executive Director	24 June 2010	27 May 2011
T E Alison	Non-executive Director	8 April 2010	27 May 2011

Charitable and political donations

During the year the Group made charitable donations of £3,450 (2010: £4,476) and sponsorship payments of £9,338 (2010: £15,794).

No political donations were made during the year (2010: Nil).

Supplier payment policy

The Group's policy is to meet obligations promptly on agreed payment dates, unless there is an unresolved query or dispute over the sum due. Trade creditors of the Group at 31 December 2011 were equivalent to 30 (2010: 28) days purchases, based on the average daily amount invoiced by suppliers during the year.

Substantial shareholdings

On 1 February 2012, the Company had been notified, in accordance with sections 791 to 828 of the Companies Act, of the following interest in the ordinary share capital of the Company.

Name of holder	Number	% held
Cazenove Capital Management	6,885,000	8.26%
Legal & General Investment Management	6,000,000	7.20%
Investec Asset Management	5,500,000	6.60%
Old Mutual Asset Managers (UK)	5,455,000	6.55%
BlackRock Merrill Lynch Investment Managers	4,844,427	5.81%
Liontrust Asset Management	4,409,442	5.29%
Odey Asset Management	3,440,000	4.13%

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 ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

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

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

Glen Murray
Company secretary
13 April 2012

Corporate governance statement

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

Board structure

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

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

Board committees

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

Audit committee

During the year the Audit Committee comprised Nigel Christie (Chair) and Kevin Lyon. 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 auditors 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 auditors.

Remuneration committee

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

Nomination committee

During the year the Nomination Committee consisted of a committee chaired by Kevin Lyon and also comprising Nigel Christie and Alan Foy. The Nomination Committee considers the selection and re-appointment of Directors. It identifies and nominates candidates to fill Board vacancies and reviews regularly 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 are of the view that due to the current size and composition of the Group, that it is not necessary to establish an internal audit function.

Relationship with shareholders

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

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

Notice of the Annual General Meeting will be issued in due course.

Going concern

The Directors confirm that they are satisfied that the Company and Group have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Directors' remuneration report

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

Remuneration committee

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

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

The Remuneration Committee meets at least annually.

Remuneration policy

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

Non-executive directors

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

Directors remuneration

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

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

Directors' emoluments

	Fees/ basic salary	Bonus £	Pension contribution £	Benefits in kind £	**2011 Total £**	2010 Total £
Executive						
S P Timoney	196,206	—	6,000	5,177	**207,383**	328,295
A H Foy	259,897	50,000	9,500	9,225	**328,622**	228,432
G Murray	66,333	14,000	3,317	925	**84,575**	—
Non-executive						
K J Lyon	50,000	—	—	—	**50,000**	—
N B Christie	32,000	—	—	—	**32,000**	—
T E Allison	150,000	—	—	—	**150,000**	—
P D Gregory	50,000	—	—	—	**50,000**	—
B Wilson	50,000	—	—	—	**50,000**	—
Total	854,436	64,000	18,817	15,327	**952,580**	556,727

Directors' remuneration report continued

Directors' interests

The Directors who held office at 31 December 2011 had the following interests in the shares of the Company:

	Ordinary shares	
	£0.01p each 2011	£1 each 2010
Executive		
S P Timoney	**25,004,810**	225
A H Foy	**13,334,937**	75
G Murray	**—**	—
Non-executive		
K J Lyon	**125,000**	—
N B Christie	**80,000**	—
	38,544,747	300

Directors' share options

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

Options that were granted during the year are summarised below:

	Type	Number of shares under option	Exercise price	Date of grant	Earliest date exercisable
Executive					
G Murray	Approved	39,474	76p	15/07/11	15/07/14
	Unapproved	666,667	60p	20/06/11	20/06/16
Non-executive					
K J Lyon	Unapproved	437,500	60p	20/06/11	20/06/12*
N B Christie	Unapproved	280,000	60p	20/06/11	20/06/12*

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

The share price at 31 December 2011 was 93.5p. The range in the period 8 July to 31 December 2011 was 60p to 97.5p.

Details of share options granted by the Company at 31 December 2011 are given in note 23.

Directors’ responsibilities statement

In the preparation of financial statements

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

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

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

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

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

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

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

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

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

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

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

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

Independent auditor's report

To the members of Smart Metering Systems plc

We have audited the Group and parent company financial statements (the financial statements) on pages 25 to 52 The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and auditor

As more fully explained in the Directors' Responsibilities Statement on page 23, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

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 2011 and of the Group's profit for the year then ended;

— the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

— the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

— the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the 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.

Alan Aitchison (Senior Statutory Auditor)
For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor
Chartered Accountants
Breckenridge House
274 Sauchiehall Street
Glasgow G2 3EH
13 April 2012

Consolidated statement of comprehensive income

For the year ended 31 December 2011

	Notes	2011 £'000	2010 £'000
Revenue	1	**15,964**	12,368
Cost of sales	2	**(7,109)**	(6,876)
Gross profit		**8,855**	5,492
Administrative expenses	2	**(5,050)**	(4,385)
Profit from operations	2	**3,805**	1,107
Attributable to:			
Operating profit before exceptional items		**4,482**	2,042
Exceptional items and fair value adjustments	2	**(677)**	(935)
Finance costs	5	**(535)**	(250)
Finance income	5	**41**	—
Profit before taxation		**3,311**	857
Taxation	6	**(1,121)**	(367)
Profit for the year attributable to equity holders		**2,190**	490
Other comprehensive income		**—**	—
Total comprehensive income		**2,190**	490

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

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

	Notes	2011	2010
Basic earnings per share (pence)	7	**2.93**	0.73
Diluted earnings per share (pence)	7	**2.90**	0.73

Consolidated statement of financial position

As at 31 December 2011

	Notes	2011 £'000	2010 £'000	1 January 2010 £'000
Assets				
Non-current				
Intangible assets	9	**1,885**	1,731	1,863
Property, plant and equipment	10	**21,327**	12,951	8,303
Financial asset investments		**—**	—	20
		23,212	14,682	10,186
Current assets				
Inventories	12	**83**	—	—
Trade and other receivables	13	**1,606**	1,219	1,958
Financial asset investments	11	**—**	180	517
Cash and cash equivalents	14	**7,317**	1,835	592
Other current financial assets	18	**18**	99	—
		9,024	3,333	3,067
Total assets		**32,236**	18,015	13,253
Liabilities				
Current liabilities				
Trade and other payables	15	**6,379**	6,090	5,644
Bank loans and overdrafts	16	**1,328**	1,003	49
Commitments under hire purchase agreements	17	**3**	7	510
Other current financial liabilities	18	**339**	171	—
		8,049	7,271	6,203
Non-current liabilities				
Bank loans	16	**9,845**	8,253	427
Obligations under hire purchase agreements	17	**13**	—	3,973
Deferred tax liabilities	20	**1,873**	964	559
Other payables		**—**	—	554
		11,731	9,217	5,513
Total liabilities		**19,780**	16,488	11,716
Net assets		**12,456**	1,527	1,537
Equity				
Share capital	22	**833**	—	—
Share premium	22	**8,653**	—	—
Other reserve	24	**1**	1	1
Retained earnings		**2,969**	1,526	1,536
Total equity attributable to equity holders of the parent company		**12,456**	1,527	1,537

The financial statements on pages 25 to 52 were approved and authorised for issue by the Board of Directors and signed on its behalf by:

Glen Murray
Director
13 April 2012

Company Registration Number
SC367563

Statement of changes in equity

For the year ended 31 December 2011

Attributable to the owners of the parent company:	Share capital £'000	Share premium £'000	Other reserve £'000	Retained earnings £'000	Total £'000
As at 1 January 2010	—	—	1	1,536	1,537
Profit for the year	—	—	—	490	490
Transactions with owners in their capacity as owners:					
Dividends (Note 8)	—	—	—	(500)	(500)
As at 31 December 2010	—	—	1	1,526	1,527
Profit for the year	—	—	—	2,190	2,190
Transactions with owners in their capacity as owners:					
Share bonus issue (Note 22)	666	—	—	(666)	—
Shares issued (Note 22)	167	9,833	—	—	10,000
Share issue costs	—	(1,180)	—	—	(1,180)
Dividends (Note 8)	—	—	—	(180)	(180)
Share options	—	—	—	99	99
As at 31 December 2011	833	8,653	1	2,969	12,456

Consolidated statement of cash flows

For the year ended 31 December 2011

	2011 £'000	2010 £'000
Cash flow from operating activities		
Profit before taxation	3,311	857
Finance costs	535	250
Finance income	(41)	—
Fair value movement on derivatives	249	71
Depreciation	956	598
Amortisation	234	249
Share-based payment expense	99	—
Investment revaluation	—	337
Increase in inventories	(83)	—
(Increase)/decrease in trade and other receivables	(438)	775
Decrease in trade and other payables	128	448
Loss on disposal of investment	—	5
Cash generated from operations	4,950	3,590
Taxation	—	1
Net cash generated from operations	4,950	3,591
Investing activities		
Payments to acquire property, plant and equipment	(9,332)	(5,246)
Disposal of fixed assets investment	180	15
Payments to acquire intangible assets	(388)	(118)
Finance income	41	—
Net cash used in investing activities	(9,499)	(5,349)
Financing activities		
Net proceeds of new borrowings less capital repaid	1,937	4,304
Net outflow from other long-term creditors	—	(554)
Finance costs	(535)	(250)
Net proceeds from share issue	8,820	—
Dividend paid	(180)	(500)
Net cash generated from financing activities	10,042	3,000
Net increase in cash and cash equivalents	5,493	1,242
Cash and cash equivalents at the beginning of the financial year	1,824	582
Cash and cash equivalents at the end of the financial year (Note 13)	7,317	1,824

Accounting policies

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

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

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.

Statement of compliance
For all periods up to and including the year ended 31 December 2010, the Group prepared financial statements in accordance with generally accepted accounting practice in the United Kingdom (UK GAAP). These financial statements for the year ended 31 December 2011 are the first the Group has prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union. An explanation of the principal adjustments made by the Group in restating its UK GAAP statement of financial position as at 1 January 2010 and its previously published UK GAAP financial statements for the year ended 31 December 2010 is provided in note 28.

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

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

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

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

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

Revenue is recognised when the significant rewards and risk of ownership have been passed to the buyer. The risk and rewards of ownership transfer when the Company fulfils its contractual obligations to customers by supplying goods and services, or when they have the right to receive the income. Where revenue is recognised due to the right to receive the income and the Company has not invoiced for the goods or services supplier an accrual is incorporated for the estimate of providing such.

Rental income is accounted for on a straight line basis over the term.

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

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

Accounting policies continued

Financial assets

Initial recognition and measurement

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

Derecognition

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

Offsetting of financial instruments

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

Initial recognition and subsequent measurement

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

Current versus non-current classification

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

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

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

Exceptional items

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

Research and development

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

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

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

Amortisation is calculated 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	13% on cost straight line

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

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

Intangible assets are amortised over their useful lives as follows:

Software	eight years straight line

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

Property, plant and equipment
Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively.

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

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

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

Land is not depreciated.

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

All fixed assets are initially recorded at cost.

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

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

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

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

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

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

Accounting policies continued

Pension costs

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

Share-based payments

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

Taxation

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

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

Adoption of the international accounting standards

Standards affecting presentation and disclosure

In the current year, the following new and revised Standards have been adopted but have not had any material impact on the amounts reported in these financial statements:

IFRS 1 (amended 2010)	Additional exemptions for first time adopters
IFRS 3 (amended 2010)	Business combinations
IFRS 7(amended 2010)	Financial instruments: disclosures
IAS 1 (amended 2010)	Presentation of financial statements
IAS 21 (amended 2010)	The effects of foreign exchange rates
IAS 24 (revised 2009)	Related party disclosures
IAS 27	Consolidated and separate financial statements
IAS 34 (amended 2010)	Interim financial reporting
IFRIC 19	Extinguishing financial liabilities with equity instruments

At the date of authorisation of the financial statements, the following Standards and Interpretations which have not been applied in the financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 1 (amended 2010)	First time adoption of IFRS: Hyperinflation
IFRS 7 (amended 2010)	Financial instruments disclosures: transfers of financial assets
IFRS 7 (amended 2011)	Financial instruments disclosures: offsetting financial assets and financial liabilities
IFRS 9	Financial instruments
IFRS 10	Consolidated financial statements
IFRS 11	Joint arrangements
IFRS 12	Disclosure of interests in other entities
IFRS 13	Fair value measurement
IAS 1 (amended 2011)	Presentation of other comprehensive income
IAS 12 (amended 2010)	Income taxes: deferred tax
IAS 19 (amended 2011)	Employee benefits
IAS 27 (amended 2011)	Separate financial statements
IAS 28 (amended 2011)	Investments in associates and joint ventures
IAS 32 (amended 2011)	Financial instruments presentation: offsetting financial assets and financial liabilities

The Directors do not expect that the adoption of these Standards or Interpretations in future periods will have a material impact on the financial statements of the Company or the Group, except for IFRS 11 Joint arrangements.

Notes to the financial statements
For the year ended 31 December 2011

1 Segmental reporting
For management purposes, the Group is organised into two core divisions, management of assets and installation of meters, which form the basis of the Group's reportable operating segments. Operating segments within those divisions are combined on the basis of their similar long term economic characteristics and similar nature of their products and services, as follows:

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

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

Management monitors the operating results of its divisions separately for the purpose of making decisions about resource allocation and performance assessment. The operating segments disclosed in the financial statements are the same as reported to the Board. Segment performance is evaluated based on gross profit or loss excluding operating costs not reported by segment, depreciation, amortisation of intangible assets and exceptional items.

The following tables present information regarding the Group's reportable segments for the years ended 31 December 2011 and 31 December 2010.

31 December 2011	**Asset management £'000**	**Asset installation £'000**	**Unallocated £'000**	**Total operations £'000**
Segment/Group revenue	**6,614**	**9,350**	**—**	**15,964**
Operating costs	**(1,973)**	**(5,136)**	**—**	**(7,109)**
Segment profit – Group gross profit	**4,641**	**4,214**	**—**	**8,855**
Items not reported by segment:				
Other operating costs			**(3,182)**	**(3,182)**
Depreciation	**(918)**		**(38)**	**(956)**
Amortisation	**(235)**	**(14)**		**(235)**
Exceptional items			**(677)**	**(677)**
Group operating profit after amortisation and exceptional items	**3,488**	**4,214**	**(3,897)**	**3,805**
Net finance costs	**—**	**—**	**(494)**	**(494)**
Profit before tax	**3,488**	**4,214**	**(4,391)**	**3,311**
Tax expense				**(1,121)**
Profit for year				**2,190**

31 December 2010	Asset management £'000	Asset installation £'000	Unallocated £'000	Total operations £'000
Segment/Group revenue	4,372	7,996	—	12,368
Cost of sales	(1,850)	(5,026)	—	(6,876)
Segment profit – Group gross profit	2,522	2,970	—	5,492
Items not reported by segment:				
Other operating costs			(2,603)	(2,603)
Depreciation	(551)		(47)	(598)
Amortisation	(235)	(14)		(249)
Exceptional items			(864)	(864)
Group operating profit after amortisation and exceptional items	1,736	2,956	(3,514)	1,178
Net finance costs	—	—	(321)	(321)
Profit before tax	1,736	2,956	(3,835)	857
Tax expense				(367)
Profit for year				490

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

Notes to the financial statements continued

For the year ended 31 December 2011

1 Segmental reporting continued

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

	2011 £'000	2010 £'000
Customer 1 – Asset Management	**4,380**	3,071
Customer 1 – Asset Installation	**2,860**	1,987
	7,240	5,058

The majority of assets and liabilities are managed at subsidiary and Group level and are not integral to the operations of any of the Group's segments.

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

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

Segment assets and liabilities

31 December 2011	Asset management £'000	Asset installation £'000	Total operations £'000
Assets reported by segment			
Intangible assets	**1,885**	**—**	**1,885**
Plant and machinery	**21,125**	**—**	**21,125**
Inventories	**83**	**—**	**83**
			23,093
Assets not reported by segment			**9,143**
Total assets			**32,236**
Liabilities reported by segment			
Obligations under hire purchase agreements	**16**	**—**	**16**
			16
Liabilities not reported by segment			**19,764**
Total liabilities			**19,780**

31 December 2010	Asset management £'000	Asset installation £'000	Total operations £'000
Assets reported by segment			
Intangible assets	1,731	—	1,731
Plant and machinery	12,875	—	12,875
Inventories	—	—	—
			14,606
Assets not reported by segment			3,409
Total assets			18,015
Liabilities reported by segment			
Obligations under hire purchase agreements	7	—	7
			7
Liabilities not reported by segment			16,481
Total liabilities			16,488

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

	2011 £'000	2010 £'000
Revenue	**15,964**	12,368
Direct rental costs	**(1,973)**	(1,655)
Direct subcontractor costs	**(4,437)**	(3,684)
Other direct sales costs and systems rental	**(699)**	(1,538)
Staff costs	**(1,965)**	(1,676)
Depreciation:		
– owned assets	**(948)**	(576)
– leased assets	**(8)**	(23)
Amortisation	**(234)**	(249)
Other operating income	**—**	—
Auditor's remuneration:		
– as auditor	**(59)**	(33)
Exceptional costs	**(677)**	(935)
Operating lease costs:		
– plant and equipment	**(25)**	(5)
Loss on disposal of fixed assets	**—**	(5)
Other operating charges	**(1,134)**	(882)
Operating profit	**3,805**	1,107
Finance costs	**(535)**	(250)
Finance income	**41**	—
Profit before taxation	**3,311**	857

Included in exceptional administrative expenses are: i) £329,000 (2010: £Nil) that relates to costs incurred during the listing process, ii) £249,000 (2010: £71,000) relates to the interest rate hedge fair value adjustment, iii) £Nil (2010: £527,000) of costs associated with new debt facilities, iv) £Nil (2010: £337,000) of a write down on current asset investments, and v) £99,000 (2010: £Nil) that relates to share-based payments.

Auditor's remuneration amounts in total to £247,000 (2010: £47,000).

This can be analysed as:

	2011 £'000	2010 £'000
Statutory audit (Baker Tilly UK Audit LLP)	**59**	33
Reporting accountant services (Baker Tilly Corporate Finance LLP)	**167**	—
Taxation services (Baker Tilly Tax and Accounting Limited)	**15**	11
Non-statutory audit services (Baker Tilly UK Audit LLP)	**6**	3
	247	47

3 Particulars of employees

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

	2011 Number	2010 Number
Number of administrative staff	**5**	4
Number of operational staff	**34**	28
Number of Directors	**3**	3
	42	35

Notes to the financial statements continued

For the year ended 31 December 2011

3 Particulars of employees continued

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

	2011 £'000	2010 £'000
Wages and salaries	**1,711**	1,468
Social security costs	**195**	172
Staff pension costs	**40**	23
Director pension costs	**19**	13
	1,965	1,676

4 Directors' emoluments

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

	2011 £'000	2010 £'000
Emoluments receivable	**586**	614
Fees	**333**	—
Value of Group pension contributions to money purchase schemes	**3**	6
Other pension	**16**	7
	937	627

Emoluments of highest paid Director	2011 £'000	2010 £'000
Total emoluments	**310**	317
Pension contributions	**10**	4

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

	2011 Number	2010 Number
Money purchase schemes	**2**	1

5 Finance costs and finance income

	2011 £'000	2010 £'000
Finance costs		
Bank loans and overdrafts	**533**	235
Finance leases	**2**	15
Total finance costs	**535**	250
Finance income		
Bank interest receivable	**41**	—

6 Taxation

	2011 £'000	2010 £'000
Analysis of charge in the year		
Current tax:		
Current income tax expense	**212**	—
Over provision in prior year	**—**	(38)
Total current income tax	**212**	(38)
Deferred tax:		
Origination and reversal of temporary differences	**909**	405
Tax on profit on ordinary activities	**1,121**	367

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

	2011 £'000	2010 £'000
Profit before tax	**3,311**	857
Tax at the UK corporation tax rate of 26.5% (2010: 28%)	**877**	240
Expenses not deductible for tax purposes	**228**	170
Adjustments to tax charge in respect of previous periods	**51**	10
Change in tax rate	**(35)**	(36)
R&D enhanced deductions	**—**	(17)
Tax expense in the income statement	**1,121**	367

7 Earnings per share

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

	2011 £'000	2010 £'000
Profit for the year used for calculation of basic EPS	**2,190**	490
Amortisation of intangible assets	**235**	235
Exceptional costs	**677**	864
Tax effect of adjustments	**(92)**	(242)
Earnings for the purpose of adjusted EPS	**3,010**	1,347

Number of shares	2011	2010
Weighted average number of ordinary shares for the purposes of basic EPS	**74,709,610**	66,673,080
Effect of potentially dilutive ordinary shares:		
– share options	**728,577**	—
Weighted average number of ordinary shares for the purposes of diluted EPS	**75,438,187**	66,673,080
Earnings per share:		
– basic (pence)	**2.93**	0.73
– diluted (pence)	**2.90**	0.73
Adjusted earnings per share:		
– basic (pence)	**4.03**	2.02
– diluted (pence)	**3.99**	2.02

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

Notes to the financial statements continued

For the year ended 31 December 2011

8 Dividends

	2011 £'000	2010 £'000
Equity dividends		
Paid during the year:		
Dividends on equity shares £600 (2010: £1,166.67)	**180**	350
Approved and unpaid:		
Dividends on equity shares £Nil (2010: £500)	**—**	150
Total dividends	**180**	500

9 Intangible assets

	Research and development £'000	Software £'000	Total £'000
Cost			
As at 1 January 2010	53	1,810	1,863
Additions	118	—	118
As at 31 December 2010	171	1,810	1,981
Additions	388	—	388
As at 31 December 2011	**559**	**1,810**	**2,369**
Amortisation			
As at 1 January 2010	—	—	—
Charge for year	14	235	249
As at 31 December 2010	14	235	249
Charge for year	—	235	235
As at 31 December 2011	**14**	**470**	**484**
Net book value			
At 31 December 2011	**545**	**1,340**	**1,885**
At 31 December 2010	157	1,574	1,731
At 1 January 2010	53	1,810	1,863

10 Property, plant and equipment

	Short leasehold property £'000	Plant and machinery £'000	Fixtures and fittings £'000	Equipment £'000	Total £'000
Cost					
As at 1 January 2010	18	8,663	8	105	8,794
Additions	13	5,189	16	28	5,246
As at 31 December 2010	31	13,852	24	133	14,040
Additions	—	9,168	1	163	9,332
As at 31 December 2011	**31**	**23,020**	**25**	**296**	**23,372**
Depreciation					
As at 1 January 2010	7	425	—	59	491
Charge for year	5	552	4	37	598
As at 31 December 2010	12	977	4	96	1,089
Charge for year	6	918	5	27	956
As at 31 December 2011	**18**	**1,895**	**9**	**123**	**2,045**
Net book value					
At 31 December 2011	**13**	**21,125**	**16**	**173**	**21,327**
At 31 December 2010	19	12,875	20	37	12,951
At 1 January 2010	11	8,238	8	46	8,303

Hire purchase agreements

Included within the net book value of £21,327,000 (2010: £12,951,000, 2009: £8,703,000) is £145,418 (2010: £Nil, 2009: £4,711,000) 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 £7,654 (2010: £23,000, 2009: £248,000).

The assets are secured by a bond and floating charge (note 15).

11 Financial asset investments

	2011 £'000	2010 £'000	1 Jan 2010 £'000
Current			
Investments	**—**	180	517

Subsidiary undertakings

	Country of incorporation	Holding	Proportion of shares held	Nature of business
All held by the Company:				
UK Gas Connection Limited (formerly Eco Project Management Limited)	Scotland	Ordinary shares	100%	Gas Utility management
UK Meter Assets Limited (formerly The UK Meter Exchange Limited)	Scotland	Ordinary shares	100%	Gas Utility management
UK Data Management Limited	Scotland	Ordinary shares	100%	Data management

Notes to the financial statements continued

For the year ended 31 December 2011

12 Inventories

	2011 £'000	2010 £'000	1 Jan 2010 £'000
Inventories	**83**	—	—

13 Trade and other receivables

	2011 £'000	2010 £'000	1 Jan 2010 £'000
Trade receivables	**480**	330	838
Other receivables	**1,052**	823	690
Corporation tax repayable	**—**	51	15
VAT recoverable	**74**	—	415
Other debtors	**—**	15	—
	1,606	1,219	1,958

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

	2011 £'000	2010 £'000	1 Jan 2010 £'000
Other receivables	**34**	31	30

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. The amounts presented in the statement of financial position are net of allowances for doubtful receivables. There was no allowance for doubtful receivables in the year (2010: £Nil, 2009: £Nil). The ageing profile of trade receivables is shown below:

	2011 £'000	2010 £'000	1 Jan 2010 £'000
Current	**435**	113	323
31–60 days	**20**	124	270
60–90 days	**15**	26	57
over 90 days	**10**	67	188
	480	330	838
Allowance for doubtful receivables	**—**	—	—
	480	330	838

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

Trade receivables due from related parties at 31 December 2011 amounted to £34,000 (2010: £31,000, 2009: £30,000).

Receivables are all in Sterling denominations.

The Directors are of the opinion that none of the overdue debts as at 31 December 2011 (2010: £Nil, 2009: £Nil) require impairment.

14 Cash and cash equivalents

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

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

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

	2011 £'000	2010 £'000	1 Jan 2010 £'000
Cash	**7,317**	1,835	592
Bank overdraft	**—**	(11)	(10)
	7,317	1,824	582

15 Trade and other payables

	2011 £'000	2010 £'000	1 Jan 2010 £'000
Current			
Trade payables	**2,035**	1,568	1,394
Other payables	**10**	274	72
Other taxes	**143**	245	59
Corporation tax	**161**	—	—
Accruals and deferred income	**4,030**	4,003	4,119
	6,379	6,090	5,644

The maturity profile of trade payables is given below:

	2011 £'000	2010 £'000	1 Jan 2010 £'000
Current	**1,530**	1,113	673
31–60 days	**281**	122	584
60–90 days	**39**	198	72
over 90 days	**185**	135	65
	2,035	1,568	1,394

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

All trade liabilities are Sterling denominated.

Notes to the financial statements continued
For the year ended 31 December 2011

16 Bank loans and overdrafts

	2011 £'000	2010 £'000	1 Jan 2010 £'000
Current			
Bank loans	**1,328**	992	39
Bank overdrafts	**—**	11	10
	1,328	1,003	49
Non-current			
Bank loans	**9,845**	8,253	427
Bank overdraft	**—**	—	—
	9,845	8,253	427

Bank loans at 31 December 2011 relate to a term loan facility of £0.5m and a master lease facility of £19.5m. The master lease facility was increased from £12m to £19.5m in October 2011.

The term loan is for a term of five years and is payable in equal quarterly instalments of £25,000. The term loan attracts interest at a rate of 3.5% over the three month LIBOR.

The master lease facility has a term of ten years following drawdown period (September 2011) and is repayable in monthly instalments. This facility attracts interest at a rate of 3.1% over three month LIBOR for the original facility and 3.25% over three month LIBOR for the increase of £7.5m. The bank retains ownership of all assets acquired using this facility until full repayment.

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

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

17 Commitments under hire purchase agreements
Future minimal commitments under hire purchase agreements are as follows:

	2011 £'000	2010 £'000	1 Jan 2010 £'000
Current			
Amounts payable within 1 year	**3**	7	510
Non-current			
Amounts payable between 2 to 5 years	**13**	—	3,973
Amounts payable after more than 5 years	**—**	—	—
	13	—	3,973

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

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

18 Other financial liabilities and assets
The Group's treasury policy and management of financial instruments, which form part of these financial statements, are set out in the financial review.

	2011 £'000	2010 £'000	1 Jan 2010 £'000
Other financial assets	**18**	99	—
Non-current liabilities			
Other financial liabilities	**339**	171	—

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 £5,500,000 as at 31 December 2011 (2010: £3,800,000, 2009: £Nil) and an interest rate cap over an amount of £5,500,000 as at 31 December (2010: £4,000,000, 2009: £Nil).

18 Other financial liabilities and assets continued

The interest rate swap results in a fixed interest rate of 2.99% and the interest rate cap applies a floating rate with a cap of 2.99%.

The termination date for both derivatives is 15 September 2015.

The Group completed a transaction for a further interest rate cap in November 2011 with an effective date of January 2012 applying a floating rate with a cap of 2.25%.

The movement in the fair value is shown below:

	2011 £'000	2010 £'000	1 Jan 2010 £'000
Interest rate swap			
Opening position	**99**	—	—
Adjustment to fair value	**(81)**	99	—
Closing position	**18**	99	—
Interest rate cap			
Opening position	**(171)**	—	—
Adjustment to fair value	**(168)**	(171)	—
Closing position	**(339)**	(171)	—

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 2011, the Group held the following financial instruments measured at fair value:

Assets measured at fair value	**31 December 2011 £'000**	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets at fair value through the income statement:				
Interest rate derivatives	**18**	—	18	—

Liabilities measured at fair value	**31 December 2011 £'000**	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial liabilities at fair value through the income statement:				
Interest rate derivatives	**(339)**	—	(339)	—

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

The above liabilities 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 2011, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Notes to the financial statements continued

For the year ended 31 December 2011

19 Financial risk management

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

Interest rate risk

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

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

Interest rate sensitivity

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

Pound Sterling	Increase/decrease in basis points	Effect on profit before tax £'000
2011	**1%**	**51**
2010	1%	49

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
2011	**5,516**	**5,673**	**11,189**
2010	5,000	4,434	9,434
1 January 2010	—	4,960	4,960

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

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

	2011 £'000	2010 £'000	1 Jan 2010 £'000
Fixed rate			
Less than 1 year	**642**	500	—
2–5 years	**2,555**	2,000	—
Over 5 years	**2,444**	2,500	—
	5,641	5,000	—
Variable rate			
Less than 1 year	**630**	570	560
2–5 years	**2,521**	1,567	4,400
Over 5 years	**2,522**	2,297	—
	5,673	4,434	4,960

Interest rate risk profile of financial assets

The Group's financial assets at 31 December 2011 comprise cash and trade receivables. The cash balance of £7,317,000 (2010: £1,835,000, 2009: £592,000) 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, was 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.

19 Financial risk management continued

Liquidity risk

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

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

Credit risk

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

The Group's maximum exposure to credit risk from its customers is £480,000 (2010: £330,000, 2009: £838,000) as disclosed in note 12 – trade and other receivables.

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

Capital management

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

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

20 Deferred taxation

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

	2011 £'000	2010 £'000	1 Jan 2010 £'000
Opening deferred tax liability	**964**	559	131
Increase in provision through income statement	**909**	405	428
Closing deferred tax liability	**1,873**	964	559

All movements identified have gone through the income statement.

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

Group	**2011 £'000**	2010 £'000	1 Jan 2010 £'000
Excess of taxation allowances over depreciation on fixed assets	**2,329**	1,405	928
Tax losses available	**(371)**	(421)	(369)
Fair value of interest rate swaps (net)	**(85)**	(20)	—
	1,873	964	559

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

	2011 £'000	2010 £'000
Accelerated capital allowances	**924**	477
Tax losses	**50**	(52)
Movement in fair value of interest rate swaps	**(65)**	(20)
	909	405

Notes to the financial statements continued
For the year ended 31 December 2011

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

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

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

During the year the Group paid rent amounting to £41,500 (2010: £65,500, 2009: £65,500) to the Directors' pension scheme, Eco Retirement Benefit Scheme, for the use of certain premises. Both Stephen Timoney and Alan Foy are trustees of the scheme. At the year-end date, an amount of £4,150 (2010: £6,414, 2009: £13,000) was outstanding in this regard.

During the year, the Group paid management charges to FM Assets Limited, a Company owned and controlled by Stephen Timoney and Alan Foy of £Nil (2010: £16,000, 2009: £315,000). As at the year end an amount of £27,709 was due from FM Assets Limited (2010: £121,000 was due to FM Assets Limited, 2009: £57,000).

22 Share capital

	2011 £'000	2010 £'000	1 Jan 2010 £'000
Allotted and called up:			
83,339,747 ordinary shares of £0.01 each (2010 and 2009: 300 ordinary shares – of £1 each)	**833**	—	—

On 17 June 2011 each of the 300 ordinary shares of £1 each then in issue was sub-divided into 100 Ordinary shares of £0.01 each.

On 17 June 2011 4,980,000 ordinary shares of £0.01 each were issued to Steve Timoney and Alan Foy by means of a bonus issue.

On 20 June 2011 61,663,080 ordinary shares of £0.01 each were issued to Steve Timoney and Alan Foy by means of a bonus issue.

On 8 July 2011 16,666,667 ordinary shares were issued for £0.60.

23 Share-based payments
On 20 June 2011 the Company adopted both an Approved Company Share Option Plan (the CSOP) and an Unapproved Company Share Option Plan (the Unapproved Plan).

CSOP
The CSOP is open to any employee of any member of the Group up to a maximum value of £30,000 per employee. No option can be exercised within three years of its date of grant.

Unapproved plan
The unapproved plan is open to any employee, Executive Director or Non-Executive Director of the Company or any other Group Company who is required to devote substantially the whole of his time to his duties under his contract of employment. Except in certain specified circumstances no option will be exercisable within five years of it grant.

Plan	At 1 January 2011	Granted	At 31 December 2011	Exercise price (pence)	Date exercisable	Expiry date
CSOP	—	578,947	578,947	76	15/7/14	15/7/21
Unapproved	—	3,800,833	3,800,833	60	20/6/16	20/6/21

Valuation
The fair value of all options granted has been estimated using the Black Scholes option model, taking into the account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2011.

	CSOP	Unapproved plan
Dividend yield	1.18%	1.25%
Expected share price volatility	45%	45%
Risk-free interest rate	1.18%	2.12%
Expected life of option (years)	3	5
Option strike price (£)	0.76	0.60
Share price (£)	0.765	0.60

24 Other reserve

This is a non-distributable reserve that arose by applying merger relief under s162 CA06 to the shares issued in 2008 in connection with the Group restructuring. This was previously recognised as a merger reserve under UK GAAP. Under IFRS, this has been classed as an "other reserve".

25 Commitments under operating leases

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

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

	2011 £'000	2010 £'000	1 Jan 2010 £'000
Future minimal commitments under operating lease agreements are as follows:			
Payable within one year	**68**	82	42
Payable within 2 and 5 years	**166**	166	166
Payable after 5 years	**218**	291	332
	452	539	540

26 Ultimate controlling party

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

27 Contingent liability

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

28 Transition to IFRS

For all periods up to and including the year ended 31 December 2010, the Group prepared its financial statements in accordance with generally accepted accounting practice in the United Kingdom (UK GAAP). These financial statements for the year ended 31 December 2011, are the first the Group has prepared in accordance with International Financial Reporting Standards (IFRS).

The Group has prepared financial statements which comply with IFRS applicable for periods beginning on or after 1 January 2011 as described in the accounting policies. The Group's opening statement of financial position was prepared as at 1 January 2010, the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in restating its Local GAAP statement of financial position as a 1 January 2010 and its previously published UK GAAP financial statements for the year ended 31 December 2010.

Reconciliation of consolidated equity

At 1 January 2010

	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Assets			
Non-current assets			
Intangible assets	1,863	—	1,863
Property, plant and equipment	8,303	—	8,303
Financial asset investments	20	—	20
	10,186	—	10,186
Current assets			
Trade and other receivables	1,958	—	1,958
Financial asset investments	517	—	517
Cash and cash equivalents	592	—	592
Non-current assets classified as held for sales	3,067	—	3,067
Total assets	13,253	—	13,253
Liabilities			
Current liabilities			
Trade and other payables	5,644	—	5,644
Bank loans and overdrafts	49	—	49
Obligations under finance leases	510	—	510
	6,203	—	6,203
Non-current liabilities			
Bank loans	427	—	427
Other creditor	554	—	554
Deferred tax liabilities	559	—	559
Obligations under finance leases	3,973	—	3,973
Total liabilities	11,716	—	11,716
Net assets	1,537	—	1,537
Equity			
Share capital			
Other reserve	1	—	1
Retained earnings	1,536	—	1,536
Total equity	1,537	—	1,537

Reconciliation of consolidated total comprehensive income

For the year ended 31 December 2010

	Notes	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Revenue		12,368	—	12,368
Cost of sales		6,876	—	6,876
Gross profit		5,492	—	5,492
Administrative expenses		3,450	—	3,450
Gains/(losses) on remeasurement of investment properties				
Profit from operations		2,042	—	2,042
Exceptional costs and fair value adjustments	a	865	70	935
Finance costs		250	—	250
Profit before tax	a	927	(70)	857
Income tax expense	a	387	(20)	367
Profit for the year		540	(50)	490

Notes to reconciliation of consolidated total comprehensive income.

a) Fair value of interest rate derivatives

Under IFRS financial derivatives such as interest rate swaps are recognised in the statement of financial position at fair value with corresponding movements in fair value being taken to the income statement. Under UK GAAP the Group did not previously recognise the fair value of these derivatives on the balance sheet. Derivatives were entered into during the year ended 31 December 2010, therefore this impact on net assets in the statement of financial position at 1 January 2010 but an increase to costs of £70k for the year ended 31 December 2010. Deferred tax has been provided in respect of the fair value of the financial instruments.

Parent company balance sheet

As at 31 December 2011

	Notes	2011 £'000	2010 £'000
Fixed assets			
Investments	2	—	—
Current assets			
Debtors	3	9,685	150
Creditors			
Amounts falling due within one year	4	5	150
Net current assets		9,680	—
Total assets less current liabilities		9,680	—
Capital and reserves			
Called up share capital	6	833	—
Share premium	7	8,653	—
Profit and loss account	7	194	—
Equity shareholders' funds		9,680	—

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

Glen Murray
Director
13 April 2012

Company Registration Number
SC367563

Notes to the parent company financial statements

For the year ended 31 December 2011

1 Parent company accounting policies

Basis of accounting

The consolidated financial statements have been prepared under the historical cost convention, with the exception of current asset investments held at valuation.

Going concern

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

Turnover

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

Deferred taxation

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

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

Financial instruments

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

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

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

2 Investments

Company	Group companies £'000
Cost	
At 1 January 2011	—
Additions	—
At 31 December 2011	—
Net book value	
At 31 December 2011	—
At 31 December 2010	—

Subsidiary undertakings

	Country of incorporation	Holding	Proportion of shares held	Nature of business
All held by the Company:				
UK Gas Connection Limited (formerly Eco Project Management Limited)	Scotland	Ordinary shares	100%	Gas utility management
UK Meter Assets Limited (formerly The UK Meter Exchange Limited)	Scotland	Ordinary shares	100%	Gas utility management
UK Data Management Limited	Scotland	Ordinary shares	100%	Data management

Notes to the parent company financial statements continued

For the year ended 31 December 2011

3 Debtors amounts falling due within one year

	2011 £'000	2010 £'000
Amounts owed by Group undertakings	**9,685**	150
Other debtors	**—**	—
	9,685	150

4 Creditors amounts falling due within one year

	2011 £'000	2010 £'000
Other creditors	**5**	—
	5	—

5 Related party transactions

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

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

6 Share capital

	2011 £'000	2010 £'000
Allotted and called up:		
83,339,747 Ordinary shares of £0.01 each (2010: 300 Ordinary shares – of £1 each)	**833**	—

On 17 June 2011 each of the 300 ordinary shares of £1 each then in issue was sub-divided into 100 Ordinary shares of £0.01 each.

On 17 June 2011 4,980,000 ordinary shares of £0.01 each were issued to Stephen Timoney and Alan Foy by means of a bonus issue.

On 20 June 2011 61,663,080 ordinary shares of £0.01 each were issued to Stephen Timoney and Alan Foy by means of a bonus issue.

On 8 July 2011 16,666,667 ordinary shares were issued for £0.60.

7 Reserves

	Profit and loss reserve £'000	Share premium £'000	Share capital £'000
As at 1 January 2011	—	—	—
Returned earnings	1,040	—	—
Dividend paid	(180)	—	—
Bonus issue	(666)	—	666
Arising on shares issued	—	9,833	167
Share issue costs	—	(1,180)	—
As at 31 December 2011	**194**	**8,653**	**833**

8 Contingent liability

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

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