

Safe Secure **SMART**



smsplc

Smart Metering Systems plc
Annual report and accounts 2016



A completely integrated service

Smart Metering Systems plc (SMS) installs, owns and manages utility assets and provides energy solutions.

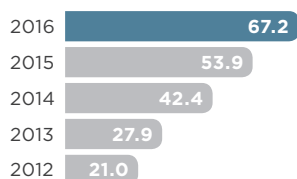
Financial highlights

Revenue

£m

£67.2m

+25%

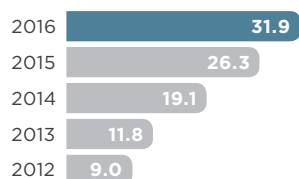


Underlying EBITDA

£m

£31.9m

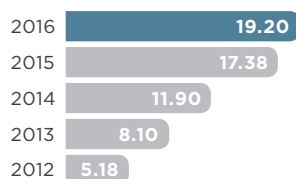
+21%



Underlying earnings per share p

19.20p

+10%

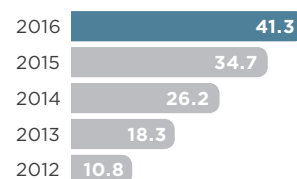


Annualised recurring income

£m

£41.3m

+19%



- ▶ Revenue increased by 25% to £67.2m (2015: £53.9m)
- ▶ Total annualised recurring income* increased by 19% to £41.3m (2015: £34.7m)
 - ▶ Gas: meter recurring rent increased by 13% to £31.5m (2015: £27.8m) and data recurring income increased by 17% to £2.6m (2015: £2.2m)
 - ▶ Electricity: meter recurring rent increased by 125% to £2.9m (2015: £1.3m) and data recurring income grew 23% to £4.3m (2015: £3.5m)
- ▶ Gross profit increased by 23% to £36.9m (2015: £30.1m)
- ▶ Gross profit margin remained consistent at 55% (2015: 56%)

- ▶ EBITDA increased by 17% to £32.5m (2015: £27.9m)
- ▶ Underlying EBITDA** increased by 21% to £31.9m (2015: £26.3m)
- ▶ Underlying EBITDA** margin at 48% (2015: 49%)
- ▶ PBT increased by 4% to £18.2m (2015: £17.5m)
- ▶ Underlying PBT** increased by 13% to £19.6m (2015: £17.4m)
- ▶ Earnings per share decreased to 17.33p (2015: 17.46p)
- ▶ Underlying earnings per share*** increased to 19.20p (2015: 17.38p)
- ▶ Final dividend of 2.73p per ordinary share totalling 4.1p for the full year (2015: 3.3p), an increase of 24%

Please note that all prior year data has been restated to reallocate meter asset depreciation from administrative costs to cost of sales.

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Read more about SMS online
at our investor website



sms-plc.com



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Operational highlights

- ▶ Total gas and electricity metering and data assets increased by 272,000 to just over 1.25 million under management at 31 December 2016 (2015: 979,000)
- ▶ Total gas meter portfolio increased by 22% to 881,000 (2015: 723,000), with industrial and commercial (I&C) meters increasing by 25% to 143,000 (2015: 114,000). Gas data portfolio increased by 27% to 108,000 (2015: 85,000)
- ▶ Total electricity meter portfolio increased by 166% to 77,000 (2015: 29,000). Electricity data portfolio increased by 31% to 186,000 (2015: 142,000)
- ▶ ADM™ installations up 23% to 91,000 units at 31 December 2016 (2015: 74,000) with international trials continuing
- ▶ Capital expenditure on meters was £42.5m (2015: £41.1m), reaching a monthly run rate of approximately £4.0m in December 2016
- ▶ Completed the acquisitions of CH4 Gas Utility and Maintenance Services Limited (CH4), Trojan Utilities Limited (Trojan) and Qton Solutions Limited (Qton), to further strengthen the Group ahead of the UK's domestic smart meter rollout programme with the full UK-wide direct installation and IT support capacity

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

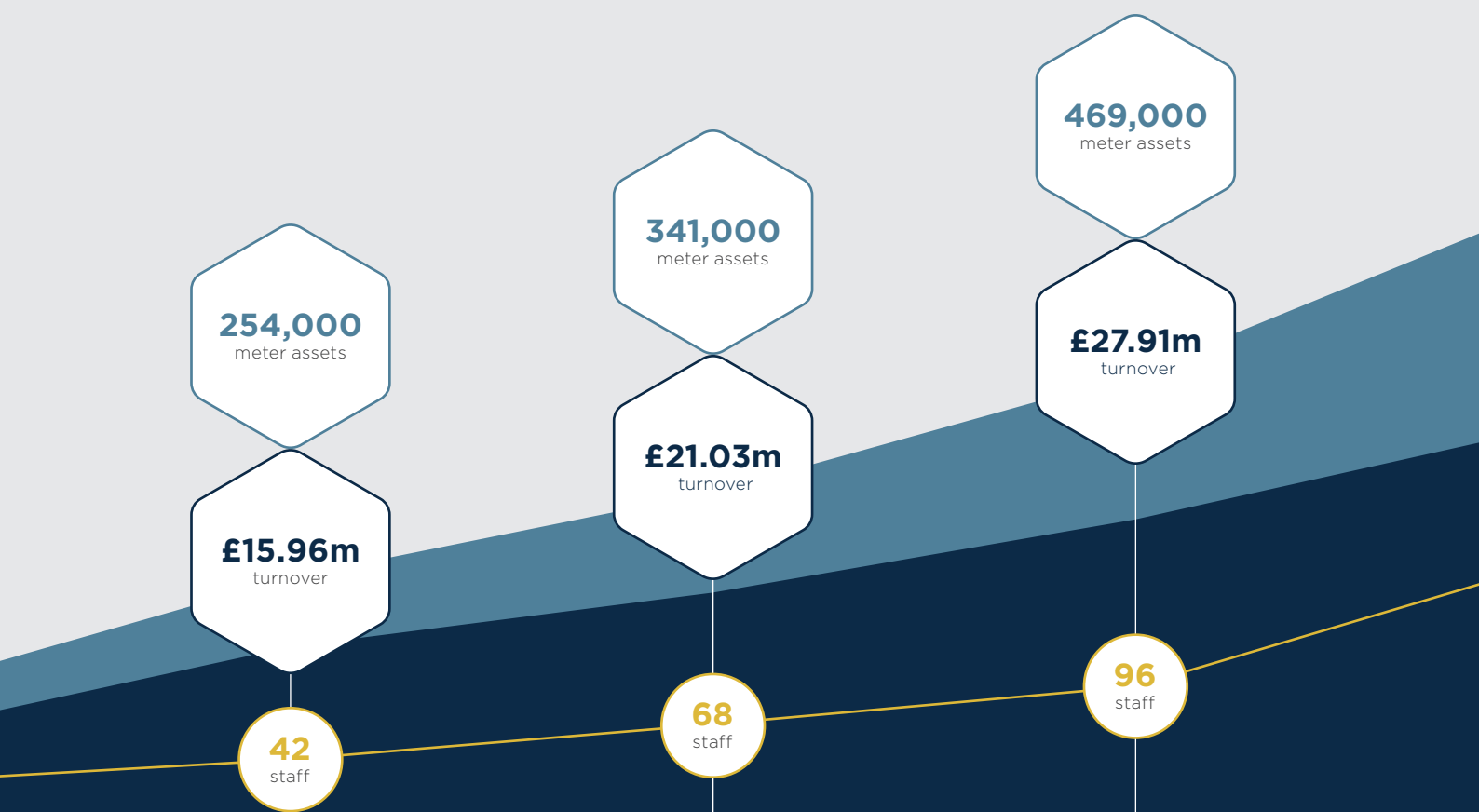
** Underlying PBT and EBITDA are before exceptional items, intangible amortisation and other operating income.

*** Underlying earnings per share is profit after taxation but before exceptional items, intangible amortisation and other operating income.

Invest to grow

Continued growth and investment

We have been at the heart of the UK energy market for over 21 years. We have full ownership, control and installation of our delivery model.



2011

Quoted on AIM

In July 2011 SMS began a new chapter as a public limited company when it quoted on the London Stock Exchange AIM.

2012

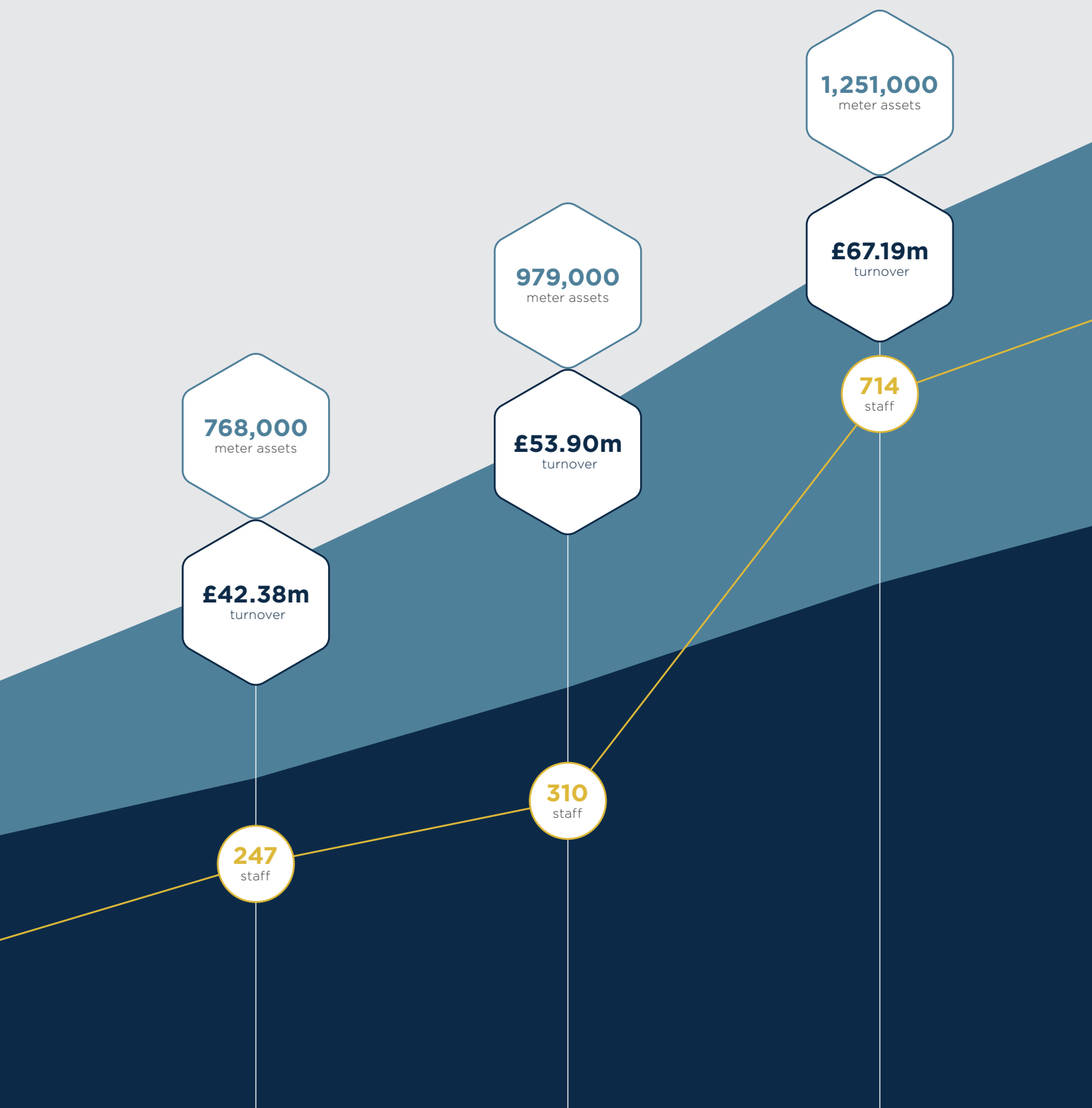
Secured patent for ADM™

In 2012 SMS secured a patent for our ADM™ smart meter technology device. ADM™ is a remote meter reading solution that can be used with a variety of meters from domestic to industrial and commercial applications, with a focus upon simplicity, reliability and ease of activation.

2013

Growth across all areas of our business

Progress in 2013 continued to be in line with our strategic priorities, at both a financial and operational level.



2014

SMS acquired Utility Partnership Limited (“UPL”)

2014 was a pivotal year in the SMS story as we launched electricity service offerings through the acquisition of Utility Partnership Limited, a leading manager of electricity meters in the UK and provider of electricity connections, design, meter installation, data management and energy management services.

2015

Began providing a fully integrated dual fuel offering to our customers

Less than a year after the acquisition of UPL the business was fully integrated operationally and SMS now provides gas and electricity customers with a full end-to-end dual fuel gas and electricity service.

2016

SMS acquired three new companies increasing the quality of its service

SMS’s strategy was to have a direct field force and this was developed to self-deliver and improve the way in which we service our customers.

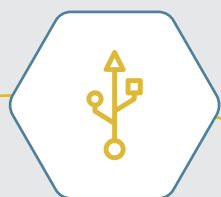
At a glance

A robust position in the energy market

We continue to increase our ownership of gas and electricity meters and provide installation and energy management services on behalf of our customers.

Our end-to-end service offering

We provide a completely integrated metering and data service from beginning to end. To see how we are structured to deliver our offering see our business model on page 11.



Asset Installation

Direct field force management and asset installation



Asset Management

Investing in assets and providing remote reading solutions



Energy Management

Providing energy efficiency strategies

What sets us apart?

Our approach

- ▶ Completely integrated service from beginning to end
- ▶ Our breadth of service makes us a completely solid partner in the industry
- ▶ We have the management team and experience to provide all our services simultaneously to the benefit of our customers
- ▶ Excellent customer experience – we build relationships that last

Our client collaboration

- ▶ Good customer service is underpinned by client and service provider collaboration in planning, forecasting and, most importantly, communication
- ▶ Every project SMS works on enjoys the support of a customer journey, where the outcome SMS strives towards is to “make a difference to a customer every day”, which we reinforce with our continued membership of the Institute of Customer Service

Our office coverage

The Company has twelve UK offices and has two training academy locations for domestic dual fuel engineers and the Group has dedicated helpdesk staff based at support centres in Cardiff, Glasgow and Cambridge.

Our assets

Managed meter assets

1,251,000

+28%

Gas data portfolio

108,000

+27%

Gas meter assets

881,000

+22%

Electricity meter portfolio

77,000

+166%

Electricity data portfolio

186,000

+31%

ADM™

91,000

+23%

16 Our markets



Our clients

Utilities include:

Top six UK energy suppliers and independent energy suppliers

Developers:

Six major UK house builders and numerous UK-wide private and public property development organisations

Enterprises include:

- ▶ Large supermarket chains
- ▶ Retail chains
- ▶ High street banks
- ▶ Major rail and telecommunication companies

Chairman's statement

A landmark year



Willie MacDiarmid
Non-executive Chairman

“

We are now in a position where we can have full ownership, control and installation of our delivery model.

Review of the year

I am delighted to be able to introduce my first Chairman's Statement. On behalf of all of my colleagues on the Board, I would like to thank my predecessor, Paul Dollman, for his contribution to SMS.

In 2016 SMS strategically changed its operational delivery model from being largely reliant on subcontractors for the installation of utility meters to gaining direct control of a large proportion of installation capacity and the end-to-end IT platform which underpins it. We are now in a position, with the acquisition and integration of smart meter installation businesses CH4 and Trojan and field services software and data security firm Qton Solutions, where we have full ownership, control and installation of our delivery model on a scalable and robust platform.

The change in our business model reinforces our credentials to install, own and manage utility metering assets for our energy supplier customers. This puts us in a strong position to increase the growth of our share of the UK's new domestic smart meter installation programme of c.30 million premises in the UK which represents c.48 million meters over the next four to five years.

In terms of our physical presence, SMS has grown from approximately 300 staff and two offices in 2015 to over 700 employees spread across twelve offices nationwide by the end of 2016.

SMS now manages over 1.25 million utility metering and data assets on behalf of an expanding customer base of energy suppliers in the Industrial and Commercial (I&C) and Domestic markets. This includes 51,000 in the new Domestic smart meter market installed by the end of 2016 as we commenced our operations in this new market segment.

During 2016 SMS signed eight new contracts for the installation and ownership of gas and electricity domestic smart meters with energy suppliers that currently supply gas and electricity to over 2.5 million homes.

Our business

SMS has continued to perform strongly through what has been a period of significant change and opportunity for the business. The Group has delivered double-digit growth, increasing revenue by 25% during the year with consistent growth in recurring income in our gas and electricity business and a substantial increase in our gas and electricity meter portfolio.

The UK domestic smart meter rollout, a UK government initiative, has mandated the installation of a smart meter in every home and small business across the UK by 2020. This represents a further new opportunity to increase the utility meters under management and hence index-linked recurring income. Over 48 million new meters are planned to be installed by 2020. SMS has geared up during 2016 for this market with significant investment in its systems, people and processes. With strategic acquisitions enhancing the business' existing strong metering services propositions, industry and product knowledge and reputation for customer services established over the last 21 years in the UK utility sector.

Our energy products and services continue to perform strongly for UK utility suppliers and blue chip UK and international customers in the I&C market. These include energy data analytics optimisation, which is becoming more prevalent because of the continuing installation of smart meters and provision of Energy Performance Certificates (EPC) and Energy Savings Opportunity Scheme (ESOS) consultancy services, which are ongoing requirements for large UK companies under the Energy Performance of Buildings Regulations 2007 and the ESOS Regulations 2014. The key driver for these services is to reduce carbon emissions through identification of viable energy initiatives which may then lead to capital investment and new asset classes under management to complement the existing and growing metering assets portfolio.

Strategy

Our strategy is to increase the meter installation and management run rates with our existing customers, and continue to grow the meter asset portfolio beyond the 1.25 million assets currently under management targeting in particular the new domestic smart meter.

Our strategic priorities, in 2017, will be to:

- 1 Continue to install and own utility metering infrastructure and secure recurring rental and data income from SMS's contracted energy suppliers in the I&C market.
- 2 Build on our investment, strategic acquisitions and new operational delivery model established in 2016 to take advantage of the significant Domestic smart meter market opportunity in the UK based on SMS's proven end-to-end delivery capability, increased capacity and long-established market position.
- 3 Maintain a focus on customer delivery and innovation across all aspects of our business and in particular in our Energy Management division where opportunities exist to assist our partners in reducing their carbon emissions.

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Our strategy

People and systems

I am pleased to announce Graeme Bissett's appointment as Non-executive Director and Chairman of the Audit Committee. Miriam Greenwood has become the Senior Independent Non-executive Director and Chair of the Remuneration Committee and we have recently appointed Craig McGinn as Company Secretary.

During the year SMS completed the strategic acquisitions of CH4, Trojan and Qton. This enabled the business to strengthen its position by having control over a directly employed dedicated installation field force, supported by two training academies ensuring the Group can conduct in-house training and increase its installation capacity further, particularly for the domestic smart meter rollout. This has been supported by market-leading internal IT work management systems.

All of these businesses have been brought under the SMS brand and the business has worked hard during the year to integrate the three businesses and establish a market-focused structure, with three main service lines:

- ▶ **Asset Management:** SMS secures funding at a commercially attractive rate for the purchase of metering assets that it installs directly or adopts from third parties in the energy market.
- ▶ **Asset Installation:** SMS offers a nationwide, large scale dual fuel metering installation service, aimed at helping energy suppliers achieve their obligations under the Government's smart meter programme. As pressure builds to deliver the programme so will the value of the installation capability that SMS has developed.
- ▶ **Energy Management:** SMS has a large team of experts which provides a full range of energy services, including risk management, billing, energy efficiency, carbon compliance, renewables and new energy networks. The increasing switch to smart metering in the I&C market now provides granularity of meter reads and consumptions; SMS is able to utilise these capabilities more efficiently and address its partners' challenges of reducing carbon emissions and as such provide revenue growth opportunity for the business.

The acquisition of Qton has created significant IT software and data security capabilities and capacity, not only to support our Asset Management, Asset Installation and Energy Management businesses but also to develop new applications and technologies to the ongoing benefit of our customers.

The safety of our staff and the general public is our primary concern, and as such the Group has a proactive operational culture that puts health and safety at the top of its agenda in order to reduce the likelihood of an accident. We work very closely with our customers, employees and Health and Safety authorities to evaluate and assess risks to ensure that health and safety procedures are rigorously followed.

Dividend

SMS is pleased to announce a proposed final cash dividend of 2.73p for the year ended 31 December 2016 (2015: 2.2p) to shareholders. In addition to the interim dividend of 1.37p (2015: 1.1p), this will make a total dividend of 4.1p (2015: 3.3p). The final dividend will be paid on 1 June 2017 to those shareholders on the register (record date) on 28 April 2017 with an ex-dividend date of 27 April 2017.

Outlook

SMS enters 2017 in a strong financial position with a strengthened and differentiated utility metering installation and ownership service proposition, and positive growth drivers in all of the markets it operates in.

SMS expects to make further investment to increase metering installation and ownership capacity, to be in a strong position to benefit from the new Domestic smart metering market. In addition we will establish opportunities for its existing energy products and services to reduce carbon emissions in the I&C market as more and more meter reading information at a granular level becomes available due to the installation of smart meters.

With the Domestic smart meter market due to enter a period of increased take-up in 2017, we are confident the leadership team will continue to build on our success story.

Willie MacDiarmid

Non-executive Chairman

Chief Executive Officer's statement

Continued growth



Alan Foy
Chief Executive Officer

“

The foundation of our business is customer experience and attention to detail in everything we do.

I am pleased to report on the continued strong business and financial performance of SMS for the year ended 31 December 2016.

2016 has been a year of transformation for the business as it grew to over 1.25 million utility metering and data assets under management generating £41.3m in annually recurring index-linked income. The strong financial position has supported three strategic acquisitions, which have delivered a scalable delivery platform with the opportunity to install and own new domestic smart utility meters (gas and electricity) mandated to be installed in every home in the UK over the next four to five years. The acquisitions were part of our strategy to obtain control over the installation element of asset ownership. These installation businesses by their nature typically operate at a lower margin to the core asset business. Combined with our strategic decision to invest for growth in additional engineering capacity, ahead of time, to ensure we are best placed to serve our energy supplier customers, the installation division has incurred planned training and investment costs in the period post acquisition. As we look to the 2017 financial year, these acquisitions are now well placed in the market and provide us with full control of a UK-wide installation workforce, training schools, ownership of end-to-end software IPR rights and scalability of the installed operating platform.

All our acquisitions have now been fully integrated into the business under the three functional divisions:

- ▶ **Asset Management:** investing in utility metering and data infrastructure assets in the UK for long-term recurring rental income.
- ▶ **Asset Installation:** high capacity, nationwide utility meter installation workforce, offering full-service end-to-end meter installation, utility connections and emergency support services in the Industrial and Commercial and now the Domestic smart metering market in the UK.
- ▶ **Energy Management:** expert engineering, data and energy management services, through long-term contracts with UK and international blue chip customers with the potential to create future energy related asset owning opportunities.

During the year we signed eight non-exclusive framework agreements with UK domestic energy suppliers, which currently supply over 2.5 million homes with energy, to install and own domestic smart meters. Installation began late in 2016 adding 51,000 meters by the year end and contributing £1.5m in recurring revenue to the Group's total recurring revenue from meters and data assets of £41.3m.

Operational review

During 2016 our gas and electricity meter and data portfolio increased 28% from just under 1 million to 1.25 million assets. Meter assets grew 27% from 752,000 to 958,000 and data assets grew by 29% from 227,000 data points to 294,000 data points.

Our two key financial metrics both demonstrated substantial growth in the year. Our total revenue increased by 25% from £53.9m to £67.2m, and our annualised long-term recurring revenue for recurring rental income from the installed meter and data assets increased by 19% from £34.7m at December 2015 to £41.3m at December 2016.

These metrics are core to our long-term annuity financial model and once installed these meters will provide recurring rental revenue for the lifetime of the assets.

Industrial and Commercial meter market

This remains an active market segment for SMS and we expect it to remain so over the short to medium term. SMS has a proven track record in the Industrial and Commercial market and we benefit from continued demand from existing contracted energy supplier customers to complete their mandated meter exchange programmes particularly in the small business segment.

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

In 2016 the number of ADM™ installations increased to 91,000, up from 74,000 in 2015, and SMS remains confident that its ADM™ device technology has potential applications in other utility metering solutions in the UK and internationally.

UK Domestic smart meter market

SMS has now commenced installation of domestic smart meters as part of the UK government's domestic smart meter programme, with every home and small business in the UK to be provided with smart meter functionality by 2020.

There are over 30 million homes in the UK representing over 48 million gas and electricity meters that will be changed during the programme, of which less than 11% have been exchanged to date.

Whilst there is continued scepticism in the press and industry to programme completion timescales, energy suppliers have begun to place contracts to commence their rollouts. SMS's size and increased capacity as a result of our acquisitions, together with our proven track record, position the business well to enable energy suppliers to meet their obligations.

We are well funded with a £280m revolving credit facility to fund our remaining industrial and commercial metering order book and the new domestic smart meter installations.

Energy management services

The Energy Management division continues to provide services to new retail, residential, commercial, and industrial and energy generation projects on a nationwide basis. SMS provides end-to-end design and delivery capability across all utilities for projects including one-off major and minor commercial connections and some of the largest long-term master plan mixed-use residential and commercial projects in the UK, as well as supporting a number of major national infrastructure projects.

The division also provides a full range of energy management services, including comprehensive bureau, energy efficiency, performance management, procurement and environmental compliance. It processed and analysed over 700,000 billing points and performed over 170 energy audits and compliance surveys, identifying potential opportunities for SMS to deliver turnkey energy reduction projects.

SMS works with some of the largest corporate multi-site energy users in the country and is increasingly focused on the turnkey funding and implementation of such energy reduction measures, often identified through SMS's own auditing services.

Alan Foy
Chief Executive Officer

Chief Executive Officer's statement continued

Q&A with the CEO

1. How would you summarise the year for SMS?

SMS now has over 1.25 million metering and utility assets under management in the UK as we continued to install and own meters in the I&C market and signed eight new domestic smart meter installation and ownership contracts from which 51,000 smart meters were installed. This is a significant step into a new market segment requiring c.48 million meters to be installed, under a government mandate, over the next four to five years.

2. How did this translate into financial performance?

Annual rental from the previous year's investments flow through to our profit and loss account to EBITDA as there is minimal cost of sales against this income stream. Underlying EBITDA increased to £31.9m in 2016 with annualised, index-linked, recurring rental at 31 December 2016 reaching £41.3m.

3. What are your key markets and what drives them?

Our primary function is as a solution provider to UK energy suppliers and end customers to enable them to benefit from smart metering. This market is driven not only by UK legislative requirements to reduce carbon and deliver smart metering to each home and business, but also driven by end consumers who are increasingly realising the benefits and savings that smart meters bring.

4. What went well for SMS in 2016?

SMS signed eight new agreements with domestic energy suppliers that supply over 2.5 million households in the UK for the installation and ownership of domestic smart meters. In support of the installation activity, three acquisitions (Trojan, CH4 and Qton) were fully integrated, with our staff increasing to over 700. This provides the direct labour and IT capacity to install smart meters under our full control from twelve operations locations across the UK.



Our focus is on building our long-term recurring income through installation, ownership and management of assets.

5. How is your strategy evolving?

We have direct control over every aspect of our core business activities from planning household visits through to smart meter installation and asset ownership. This includes full IPR rights to our key software and a dedicated IT department with several experts in software engineering, data and cyber security. As more consumption information becomes available from the installed smart meters, opportunities will exist to expand our energy services products and services aimed at targeting, monitoring and implementing recommendations to reduce consumers' carbon consumption.

6. What are the biggest challenge and the biggest opportunity in the medium term?

The smart domestic rollout is clearly a major short-term and medium-term opportunity, and the scale of the rollout and continued regulatory pressure regarding the end delivery date provide a significant logistical challenge for the industry. We are focused on maintaining our very high levels of customer service during this rollout.

7. What are the key risks and how do you manage them?

Safety and data security across all our business activities is our primary focus as we install smart meters and increase asset ownership. Our Health and Safety Policy ensures that health and safety issues are at the forefront of considerations when we install meters and when we train and educate our staff in the safe installation of our assets. Furthermore we have robust governance structures to ensure our employees', our customers' and our business' information is protected and continually monitored and controlled under our risk registers and control framework. This is routinely reviewed by our senior management, our Executive Board and our dedicated internal audit team under our ISO UKAS Accredited Management Systems. We are currently undergoing a significant restructuring of our ISO UKAS Accredited Management Systems and all areas of the business will be audited to ensure compliance with the requirements.

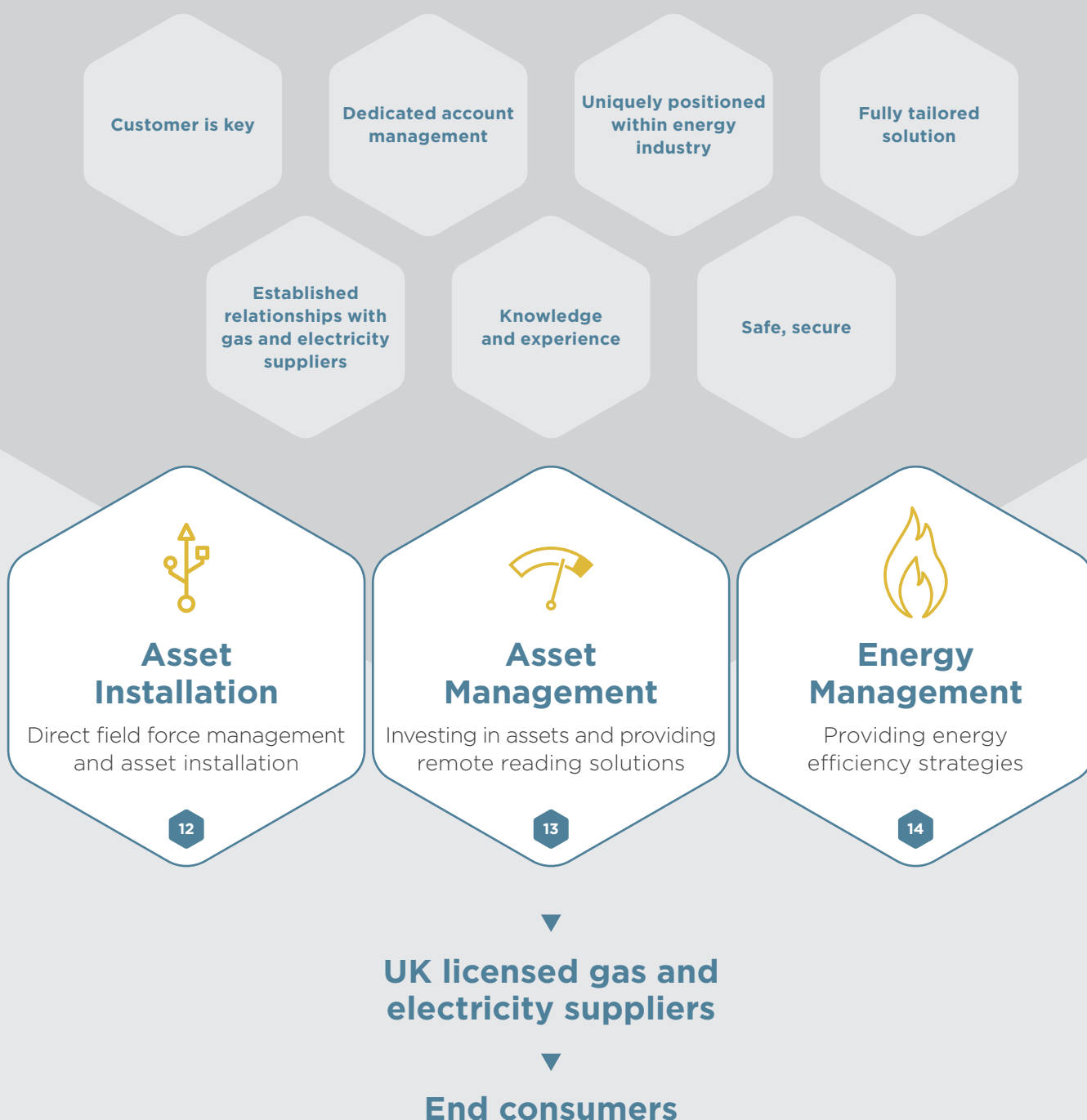
In addition we continually review our capacity of field service resource and meter supply availability linked to our current and future sales forecast. We ensure that we have an adequate supply chain to support the domestic smart meter rollout. This is a key focus as momentum builds in this market.

8. What is your outlook for 2017?

We have seen a strong start to 2017 and are well positioned to continue making progress in our core markets. We will continue to invest in meter and data assets and grow our recurring revenue base across both the I&C and Smart Domestic market segments. We have built the foundations to allow us to capitalise on future opportunities.

Our integrated service offering

The SMS approach



Our business model continued

Asset Installation



John Hall
MD of Asset Installation

Revenue

£26.1m

+34%

Gross profit

£12.4m

+43%

Case study

We are working with our energy supplier customers to install smart meters UK wide. Key to this is our own IT platform tailored specifically to our own health and safety and operational delivery model but, importantly, bespoke to our individual customer requirements. It is resilient but flexible operating models such as this that provide excellent value to our customers.



Business model

The key change in 2016 for our business was to move to an in-house delivery model. With the acquisitions of CH4 and Trojan, we have secured a workforce that undertakes over 80% of all our works.

This enables us to control the workforce and allows us to work more closely in partnership with our clients for delivery of their gas and electricity metering requirements in addition to offering tailored services to our clients, such as management of upgrades/new connections and potentially new asset classes required after the UK's smart meter rollout.

We also undertake large volume portfolio exchanges and transactional activities with many of the leading utility providers in the UK. We are focused on the UK's domestic smart meter rollout, one of the largest projects ever undertaken in the UK.

Asset Installation has two key objectives:

1. Delivery of target installations of Group-owned assets, which will provide long-term return for our shareholders, with increasing recurring rentals.
2. Delivery of strong operating profit contribution, which will provide short-term returns for our shareholders, with increasing operating profits.

Our strategy for delivery:

The key to driving both of these objectives will be a safe, customer-focused, trained and efficient workforce.

- Safe: "We will always place safety first and underpin this with our installation engineers' Safety Scheme."
- Customer focused: "The customer will always be right."
- Trained: "Provide our team with the training they need."
- Efficient: "Measure and act on our outputs."

Review of the year

During the year we took the strategic decision to grow our in-house capability of meter installation works with the acquisitions of CH4 and Trojan and we finished the year increasing our run rates month on month. This strategic decision has provided the Group with an in-house capacity of some 45,000 meters per month across domestic and I&C. This secures installation capacity for the ongoing smart meter programmes and provides the comfort to our clients of a secured workforce to deliver.

The aim is to continue to grow the Asset Installation business, as this will provide us with the platform to deliver expectations for 2017. This is supported with our in-house training centre, which provided over 100 smart meter trained engineers in 2016. The training centre is undergoing further development in order to secure further capacity, which will provide our clients with the assurance that we will be able to deliver on their regulatory obligations.

Asset Management



Willie Jeffrey
MD of Asset Management

Revenue

£37.4m

+24%

Gross profit

£22.9m

+16%

Business model

The Asset Management division is responsible for the journey of the metering asset from the initial acquisition stage, tracking the asset through its working lifetime and ensuring that the business benefits fully from the investment made. Key to the tracking of our assets are our robust IT systems that enable us to monitor where our assets are located at any time and identify who is responsible for payment of rental charges. The division is responsible for the commercial relationships with all of our clients and service providers and ensuring that the business' commercial interests are protected. In addition to asset tracking and commercial interests, the division is responsible for all aspects of the provision of data to our clients and compliance with industry bodies including MAMCoP, MOCOPA and Elexon.

Review of the year

Asset Management had a strong 2016, with overall annualised recurring rental totalling over £41.3m.

Annualised revenue from both gas and electricity data services was particularly strong, increasing by over 21% during the year to over £6.9m.

In 2016 several new contracted customers were added in the domestic dual fuel sector, including the UK's largest independent domestic energy supplier, First Utility Limited, which will receive a fully managed service for the installation and management of assets.

Case study

During 2016 SMS Meter Assets signed new contracts with domestic energy suppliers for the provision of smart meters. Senior management and staff have developed close working relationships and installation works commenced at the end of August 2016. Working closely together with our largest customer accounted for over 41,000 meters being successfully installed over four months to the end of December 2016. The relationship with our energy supplier customers continues to develop and goes from strength to strength, and both businesses expect monthly installation run rates of smart meters to continue to grow.



Our business model continued

Energy Management



Tim Mortlock
MD of Energy Management

Revenue

£3.7m

-11%

Gross profit

£1.6m

-9%

Case study

We have identified £21m of potential annual energy savings for our customers which requires a total capital investment of only £63m. We are now actively working to develop a complete end-to-end energy services contract framework which could fund and deliver such opportunities.



We see a continued demand for our services across a range of markets and have been engaged on a number of complex energy management projects.

Business model

Energy Management delivers energy cost, carbon and consumption reduction services, identifying and delivering measures that manage and reduce our customers' costs through our strategic engagement. In addition we assist our customers in the design and management of their utility infrastructure and connections requirements to serve their new and existing premises.

Review of the year

Energy Management has performed well over 2016, with our energy services activities, in particular, in line with expectations and investing in new data presentation systems and laying foundations for growth in line with our strategic objectives over coming years. We are also quietly confident in continued growth opportunities for our utility infrastructure and connections services as we see a continued significant demand for our services across a range of markets and have been engaged on a number of complex connections projects. For example we have started a project with a large energy supplier to undertake service alteration work at over 4,000 properties across the UK and will be delivering this work during 2017.

Positioned to own utility assets in a fast moving market

Key business focus – Customer accounts management

Eight new contracts with domestic suppliers with portfolio of over 2.5 million customers signed in 2016.



Asset Installation

Direct field force management and asset installation

Key strategic priorities

Target the domestic smart meter opportunity

Our current position in 2016

Secured direct control of the labour workforce and software applications. Established capacity to install 20,000 domestic smart meters monthly

Our focus for 2017

Increase capacity to over 40,000 smart meter installations monthly

Our potential for 2018 and beyond

Increase installation capacity organically through our established in-house training centres and align to our customer requirements



Asset Management

Investing in assets and providing remote reading solutions

Key strategic priorities

Increase growth rate of meter assets portfolio and drive recurring income

Our current position in 2016

28% increase in meter and data portfolio to 1.25 million assets
19% increase in annualised recurring rent to £41.3m

Our focus for 2017

Increase asset portfolio and annualised recurring rents

Our potential for 2018 and beyond

SMS will continue to secure market share in the addressable market for ownership of smart meters in the UK with an aim to capture up to 15% market share



Energy Management

Providing energy-efficient strategies

Key strategic priorities

Focus on cross-selling and establish additional energy-efficient products and services

Our current position in 2016

11% increase in billing point data analysed to 700,000
Over 170 energy audits and compliance surveys under government mandates on energy consumers

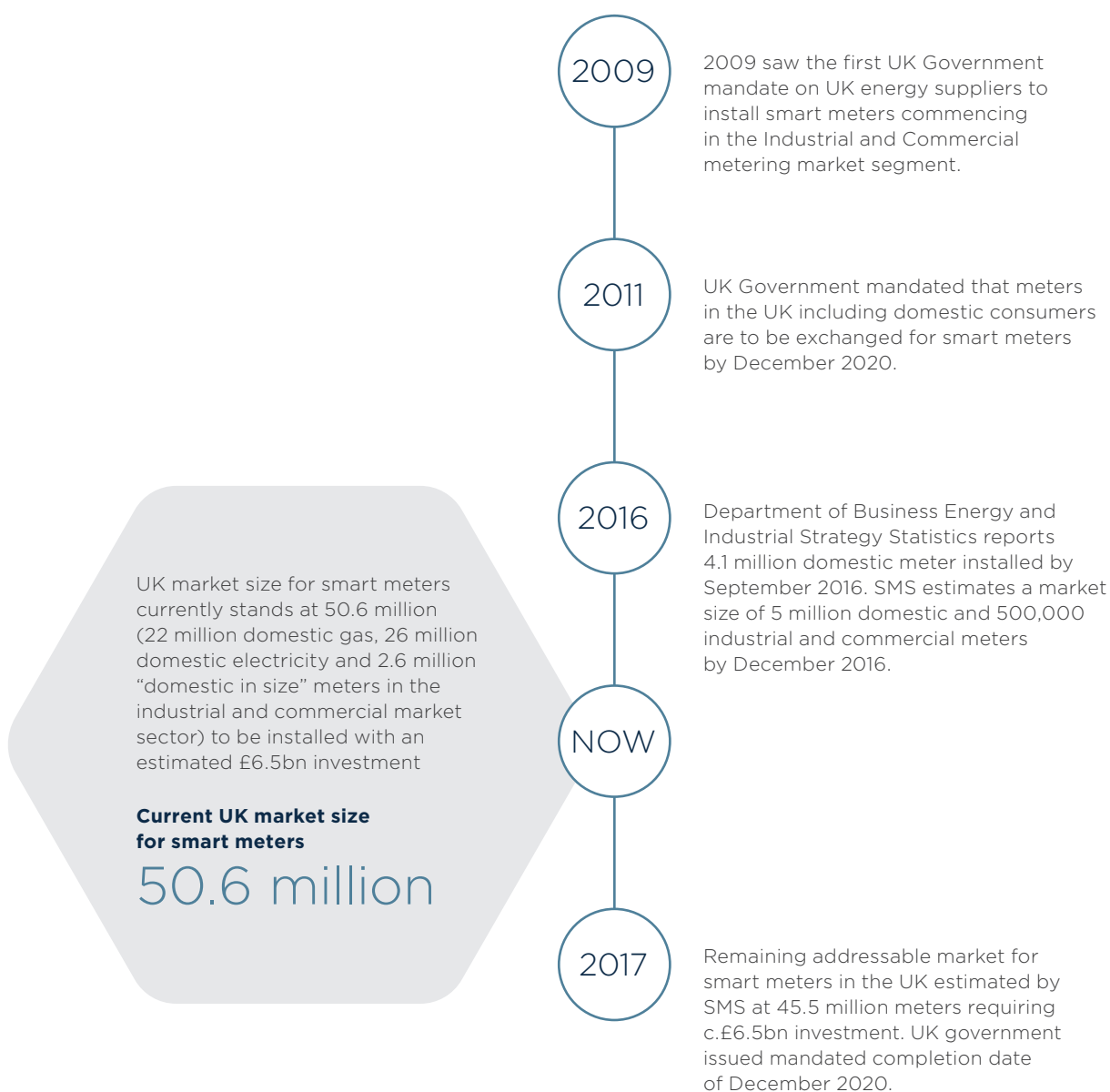
Our focus for 2017

Increase activities across all processes and services to new and existing Group customers and energy strategies for the evolving energy market post-smart metering

Our potential for 2018 and beyond

SMS believes the UK energy market will undergo significant change in pursuit of the costs and CO₂ reductions. SMS aims to provide investment in new utility and energy reduction assets which will be required, along with energy expertise, technology and service databases

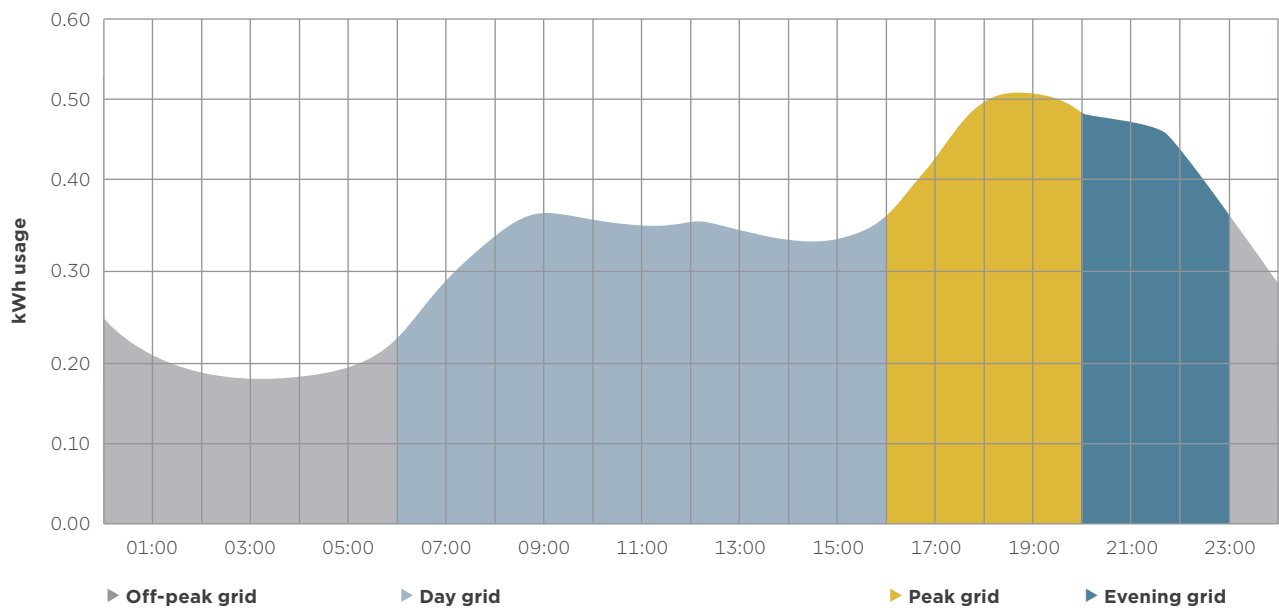
Evolution of the smart meter market



The energy revolution

MARKET DRIVER

Consumer daily demand of grid energy is high at peak times



Source: Elexon profiling datasets

SMART RESPONSE

Energy reduction through consumer behaviour and new technology asset installation



Energy reduced through:

- ▶ Consumer behaviour
- ▶ Consumption outside of high cost peak times
- ▶ New assets
 - ▶ Batteries
 - ▶ Solar
 - ▶ Car charging

Risk management and principal risks

Managing risks

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

Risk description	Mitigation	Change
Business continuity – failure or interruption of IT systems		
<p>The Group has always understood the competitive advantage that it has derived from the significant investment made in its bespoke market-leading IT systems. Failure or interruption of these systems could result in reputational damage and loss of customer confidence.</p> <p>The Company's IT infrastructure is subject to failure from a variety of causes, including human error, power loss and physical or electronic security breaches. Other factors which are out of the Company's control include sabotage, vandalism, network failures, natural disasters, fibre optic cable cuts, improper building maintenance by the landlords of the buildings in which the IT infrastructure is located, and terrorism.</p>	<ul style="list-style-type: none"> ▶ The Group regularly reviews its IT security policies and has successfully undergone penetration testing of its IT systems. ▶ Real-time offsite mirroring of its servers. ▶ Failover facility available for immediate redeployment of staff, enabling key operations to be serviced. ▶ Robust governance structures to ensure our employees', our customers' and our business' information is protected. 	 <p>No change</p> <p>The Group continually reviews its strategy and implements changes to its IT infrastructure in line with known threats.</p>
Funding		
<p>Being well funded is fundamental to our ability to provide continued growth. The Group is reliant on securing competitively priced funding to enable the continued investment in our growing asset portfolio. The ability to secure funding could be affected by prolonged periods of market volatility and political uncertainty.</p>	<ul style="list-style-type: none"> ▶ The Group continually reviews its capital requirements and funding options with potential funders. ▶ The Group has a long-term relationship and strong support from its existing banking syndicate which continues to support the growth of the business. ▶ The Group has recently agreed a £280m revolving credit facility with a syndicate of banks which includes Barclays Bank PLC, Santander UK PLC, HSBC UK, Clydesdale Bank PLC and Bank of Scotland PLC. This replaces the existing £150m facility. 	 <p>No change</p> <p>The Group has secured sufficient capital to fulfil the next 15 months' requirements.</p>
Dependent on a limited number of gas and electricity suppliers		
<p>The Group's core customers for growth are the UK gas and electricity suppliers; these are limited in number. The Group has contracts in place with key customers, which make up a large part of our existing portfolio. These contracts provide for the provision of meter rental, and in the event that our relationship with these suppliers were to be adversely affected by performance or damage to our relationship then termination charges would apply. Damage to these relationships would have an adverse impact on the revenue generated by the Group.</p>	<ul style="list-style-type: none"> ▶ Strong track record of maintaining these long-term partnering relationships over the last 21 years. ▶ Key account managers ensure that we are listening to our customers' requirements and translating these into business deliverables. ▶ Customer service is at the heart of our business; it is what we have built our reputation on and it is what is driving our future growth. ▶ Securing new contracts with new market entrants ensures that we are able to minimise the risk of loss of assets through change of supplier by end customers. 	 <p>Risk decreased</p> <p>The securing of new contracts reduces SMS's reliance on the big six suppliers.</p>

Risk description	Mitigation	Change
The Group may experience accelerated demand for its products and services		
<p>The Group expects to be able to meet its current capital expenditure from its internal resources and its debt facility. However, with the rollout of Domestic Smart, the Group is tendering for opportunities that may require the Group to consider supporting the working capital requirements for orders by the issue of new equity and/or debt finance.</p> <p>If the Company is unable to raise the necessary financing it could adversely affect the Group's ability to expand.</p>	<ul style="list-style-type: none"> ▶ The Group maintains close relationships with funding partners to give Directors confidence that future growth can be funded. ▶ Opportunities are continually reviewed and assessed. 	 <p>Risk increased The value of opportunities has significantly increased.</p>
Changes in government policy		
<p>Current Government policy is the mandating for all meters to be smart by 2020; this requires capital investment in excess of £6.5bn. A large part of the Group's growth strategy is geared around the exchange and delivery of these meter assets. Any changes in legislation may adversely affect the Group.</p>	<ul style="list-style-type: none"> ▶ Actively involved with the Department of Business Energy & Industrial Strategy (BEIS) in shaping future policies. ▶ Industry respected management team, playing a major role within important working groups. ▶ Lobbying on market-specific consultation, ensuring we understand the impact of a change in policy whilst having an active voice in the shaping of future policies. 	 <p>No change The foundation stage of Smart Domestic is being rolled out and adoption by new entrants is high.</p>
Reliance on performance of subcontractors		
<p>The Group relies on a number of third-party partners to deliver its meter exchanges and maintenance activities. Failure of one of these partners to deliver to the high expectation demanded by ourselves and our customers could result in loss of customer confidence or loss of accreditation. The Group has taken a strategic decision to safeguard its service standards through the acquisition of two of its third-party contractors.</p>	<ul style="list-style-type: none"> ▶ The acquisitions of CH4 and Trojan significantly reduce the Group's reliance on third-party providers and enable the Group to train and retain new dual fuel engineers to meet the demands of the domestic smart metering rollout. ▶ The Group monitors and independently audits third-party partners accreditations, working practices and employee competencies. 	 <p>Risk increased Resource availability will become increasingly tight with the anticipated increase in demand.</p>
Unforeseen delays and cost overruns when rolling out new, and upgrading existing, products		
<p>The Group may experience unforeseen delays and expenses in connection with a particular project or initiative. Although the Group has budgeted for expected costings, additional expenses may well be incurred. With the rollout of domestic smart resource retention, training and systems will be key. Inability to address these could negatively affect the Group.</p>	<ul style="list-style-type: none"> ▶ The Group has considerable experience in forecasting and managing project implementation timetables. ▶ The Group has taken steps, through its recent acquisitions, to ensure that it is able to mitigate future resource constraints that would otherwise have significantly hindered its ability to mitigate the above challenges. 	 <p>Risk increased Complexity and challenges of such a large rollout within truncated timelines, i.e. 50 million meter exchanges by 2020.</p>
Loss of required accreditations		
<p>The installation and maintenance of electricity and gas meters within the UK is a regulated activity and, as such, the organisations need to maintain the required industry accreditations, which are reviewed on an annual basis. Loss of these accreditations would mean that the Group would no longer be able to operate.</p>	<ul style="list-style-type: none"> ▶ The Group has a dedicated compliance team which is responsible for ensuring that all members of staff are aware of our obligations. Routine audits are carried out and reported to the senior management team to ensure that compliance is maintained to the highest standard. 	 <p>No change Robust audit processes ensure full compliance.</p>

Financial review



Glen Murray
Chief Financial Officer

HIGHLIGHTS

- ▶ Revenues increased by 25% from £53.9m to £67.2m
- ▶ Gross profit increased by 23% from £30.1m to £36.9m
- ▶ EBITDA increased by 17%, with underlying EBITDA* increasing by 21%
- ▶ PBT increased by 4% from £17.5m to £18.2m, with underlying PBT* increasing by 13% to £19.6m
- ▶ Capital investment in meters of £42.5m
- ▶ New £280m syndicate bank facility announced on 13 March 2017

* Underlying PBT and EBITDA are before exceptional items, intangible amortisation and other operational income.

Results for the year

During 2016, SMS increased revenue by 25% to £67.2m. Recurring revenue, in line with the Company's strategy, increased by 24% from £30.2m to £37.4m and annualised recurring revenue increased by 19% to £41.3m (2015: £34.7m).

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

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

Asset Management recurring revenue grew 24% to £37.4m (2015: £30.2m), while Asset Installation revenue increased 34% to £26.1m (2015: £19.5m), of which the new subsidiaries contributed £6.9m. Energy Management revenue fell by 11% to £3.7m (2015: £4.2m) due to a significant one-off consultancy fee in the prior year, if we exclude this fee recurring Energy Management revenue is marginally ahead of last year. Asset Management revenue increased as a result of continued investment in our meter asset portfolio whilst Asset Installation revenue increased predominantly through the acquisitions of CH4, Trojan and Qton.

Gross profit increased by 23% from £30.1m to £36.9m with gross margin decreasing by 1pp to 55%. The decrease in margin is partly attributable to the subsidiaries that were acquired during the year with performance behind expectations, however these acquisitions allowed the Group to fulfil its strategy to be a key participant in the Domestic smart meter market. During the year the Directors decided to reallocate meter asset depreciation in the current year of £9.2m and £6.4m meter asset depreciation in the prior year from administrative costs to cost of sales to more accurately reflect all cost of sales associated with generating recurring revenue.

EBITDA increased by 17% to £32.5m with underlying EBITDA growing by 21% from £26.3m to £31.9m. The Directors consider that the underlying EBITDA calculation gives a better understanding of the Groups sustainable long term business performance as it removes revenue relating to terminations which are driven by third parties on de-appointment and one off exceptional items.

Our meter asset management contracts entitle the Company to termination fees should we be de-appointed from a meter. During the year termination fees of £1.1m were included in other operating income.



During 2016, SMS increased revenue by 25% to £67.2m. Recurring revenue, in line with the Company's strategy, increased by 24% from £30.2m to £37.4m and annualised recurring revenue increased by 19% to £41.3m.

	2016 £'m	2015 £'m	Percentage increase
Revenue	67.2	53.9	25%
Statutory profit from operations	20.5	19.6	
Amortisation of intangibles	2.0	1.5	
Depreciation	10.0	6.8	
Statutory EBITDA	32.5	27.9	17%
Other operating income	(1.1)	(1.5)	
Exceptional items	0.5	0.0	
Underlying EBITDA	31.9	26.3	21%
Net interest	(2.3)	(2.1)	
Depreciation	(10.0)	(6.8)	
Underlying PBT	19.6	17.4	13%
Exceptional items	(0.5)	0.0	
Other operating income	1.1	1.5	
Amortisation of intangibles	(2.0)	(1.5)	
Statutory PBT	18.2	17.5	4%

Exceptional items

The definition of exceptional items is contained within the accounting policies on pages 49 to 54. An exceptional charge of £455k before tax was recorded in the year to 31 December 2016 in respect of the Group's strategic acquisitions. These costs include professional fees and expenses directly related to the acquisitions.

Interest

The net interest charge of £2.3m is in line with last year, despite a higher average net debt year on year, reflecting the revised facility that was agreed in March 2016. Interest cover, measured against rolling twelve-month EBITDA (earnings before interest, taxes, depreciation and amortisation), remained strong at 13 times (2015: 13 times) relative to the financial covenant attached to our borrowing facilities that EBITDA should be no less than four times interest.

Cash and borrowings

SMS was delighted to announce in March 2017 a new £280m revolving credit facility with a syndicate of banks: Barclays Bank Plc, Santander UK Plc, HSBC UK, Clydesdale Bank Plc and Bank of Scotland plc. This facility will fund the purchase of meter assets as part of a phased installation programme in line with recent substantial contract wins, and under this facility we can fund 100% of the value of meter assets purchased.

As at 31 December 2016, the Company had net debt of £94.2m compared to £79.0m in 2015, cash resources including unused facilities of £55.8m compared to £26.0m in 2015 and gearing of 142% (2015: 166%).

Capital investment in meters and data assets in 2016 was £42.5m compared to £41.1m in 2015. During 2016 the I&C investment programme was coming to an end and, with the domestic smart programme starting to build momentum, the capital expenditure run rate was at £4m per month by the year end.

Treasury policies

The Company uses interest rate swaps, where appropriate, to manage interest rate movements on borrowings by paying a fixed interest rate rather than a variable rate. The interest rate swaps in place during 2016 matured on 15 September 2016. The Company continually reviews the requirement for hedging to be in place.

Glen Murray
Chief Financial Officer

Our people

Investing in people

Investing in our people, their passion and their commitment is a significant contributor to our success. They are highly skilled, do a professional job and, above all, deliver it in a safe manner. These attributes underpin the customer-focused culture that SMS is known for. We are therefore focused on providing an environment in which our people can flourish and make the greatest possible difference to the Company's performance.



Param Sangha

Smart Meter Engineer

Param Sangha used to spend his working day in our back office speaking to both customers and engineers; liaising with customers to ensure that they were at home to provide access for the engineers; and controlling the SMS asset stock ensuring all meters were available for the smart meter engineers to carry out their roles efficiently and effectively. He has now joined the ranks and become a dual fuel smart engineer himself. Param is part of a wave of qualified smart meter engineers who have trained internally through the academy. We operate a groundbreaking go-to-market business model to recruit, train, supply and retain specialist NSAP and Gas Safe accredited dual fuel and smart meter engineers to the market. "Although I had a job as a Meter Asset Co-ordinator it wasn't something I wanted to do forever. I was ready to do something different; I really wanted to better myself and progress. I had a lot to learn, not just about gas but electric and the meters. It was hard work but the tutors gave me good advice; I read up on the subject every night and really applied myself. The results speak for themselves; I'm now a smart meter engineer installing smart meters on my own."

“

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The business has always supported and invested in me, most recently through the IOD Diploma in Company Direction programme, and constantly provides exciting and challenging opportunities.

Tim Mortlock

MD of Energy Management

Tim joined SMS in 1997, aged 20 whilst still at university, initially for an eight-week summer work placement. Starting his SMS career as a Project Manager of electricity connections, Tim has subsequently fulfilled a variety of roles in the business as Account Manager, Regional Manager, Business Development Manager and Operations Director prior to his current role of Managing Director. Tim has strong experience in corporate governance, strategy and financial management and has played a key leadership role in developing Company strategy. Since 2010, Tim has also led the Energy Management division to becoming a recognised leading expert in the delivery of energy and carbon cost and consumption reduction projects, for both UK and international commercial organisations. "The business has always supported and invested in me, most recently through the IOD Diploma in Company Direction programme, and constantly provides exciting and challenging opportunities. It's the variety, constant change and challenge to grow the business and deliver for our customers that I have found most rewarding, and I've had the support of working alongside great people who have contributed towards the development of my career along the way."

Health and Safety

SMS recognises its obligations under the Health and Safety at Work etc. Act 1974 to ensure the health and safety of all its employees, contractors and subcontractors, members of the public and all who come into contact with the Company. SMS is committed to achieving the highest standards of health and safety in every area of the business and attention to all aspects of health and safety management is a fundamental part of that commitment. We believe that accidents, injuries, occupational illness and damage to property or the environment can be prevented by the application of sound management practices.

We have established, and maintain, safe, documented working practices for all our activities. All employees receive health and safety training relevant to their role in the Company. Health and safety is no less important than any other aspect of business performance and as such is actively managed and measured on a regular and consistent basis. SMS has a formal health and safety management system certified to OHSAS 18001:2007, which sets out arrangements and procedures and ensures compliance with legal obligations. SMS also complies with the requirements of gas and electricity company procedures and authorisations and those of the Meter Asset Manager Code of Practice and Electrical Contractors Association.

Talent management

Learning and development continues to be an area of focus. We firmly believe that investment in our employees has a direct and positive impact on our employee retention rates and the engagement levels of our staff. It is essential that our people are properly trained and training programmes are in place to provide our employees with the necessary skills to perform their roles. Our in-house, fully accredited training academy means that we have the ability to recruit and train our own workforce. With further investment we are increasing capacity and capability. Training programmes have already begun, forming part of our vision to improving our already established excellent customer service. As the demand for dual fuel meter workers increases the training academy will be welcoming the ability to train learners in real life scenarios with a team of passionate trainers, assessors and mentors to become fully compliant, safe and competent. This helps to create a workforce that represents the high levels of performance the business demands.

Reward and performance

The Company's remuneration policy is aligned with the key objectives of growing earnings and delivering strong returns on capital employed. We also encourage all employees to own shares in the Company and currently nearly 312 people participate in the Share Incentive Plan and CSOP programme.

Our people continued



Claire Corrins

Graduate employee

I joined SMS in 2004, just as we were entering the gas metering market, following completion of a postgraduate diploma in IT. I joined in a temporary role within the connections team as a Project Co-ordinator. It soon became clear that there was room for growth within the Company; my first degree had been gained in engineering from the University of Glasgow in 1997 and alongside the IT qualification gained from the University of Paisley, it was a perfect fit for the direction SMS was heading in. I progressed to lead the connections business by 2006 before then taking over the domestic metering operations, then becoming the Group Operations Director in 2012 before settling in my current role as Commercial Director in late 2015. I have been given great opportunities throughout my years at SMS, including participating in a leadership programme in the United States, which have helped my progression through the Company.

“

I have been given great opportunities throughout my years at SMS, including participating in a leadership programme in the United States, which have helped my progression through the Company.

Social responsibility

SMS seeks to deal with the most important issues that affect our business and are relevant to our many stakeholders and neighbours. Our aim is to understand the impact our business has on our environment, on society and on each other. As a growing company we promote staff confidence, reward initiative and encourage honesty, integrity, openness and professionalism. We take the health and safety of our employees and the safe operation of our facilities and care for the environment as being of the highest importance. We are ISO 14001 accredited and currently operate an environmental, quality and information security management system. Environmental awareness is important to us and we ensure all new and existing employees at SMS receive our environmental management system awareness training. Our solutions enable us to have significant overall positive environmental impact by influencing both our supply chain and customers in the energy and utility choices they make. When appointing an outsourced contractor to deliver any works on our behalf, environmental considerations are agreed as part of our contract specifications and competencies are assessed prior to acceptance onto the SMS contractor supply database. We are proud that all of our contractors operate within our environmental policy and contractor's code of conduct before carrying out any work on behalf of SMS.

Our culture and values

Our philosophy is all about providing solutions through excellent customer experience, ensuring we deliver value to our customers every day. Our core values are central to our heritage and our culture. We endeavour to supply all customers with the fastest and most economical and environmentally friendly energy solutions by achieving high standards of excellence.



CORPORATE GOVERNANCE

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Board of Directors



Willie MacDiarmid
Non-executive Chairman

Date of appointment

14 April 2014, Chairman 26 May 2016

Committees

Audit, Remuneration, Nomination (Chair)

Background and experience

Willie is a very experienced non-exec and executive director having held a number of senior posts across various sectors.

Amongst a number of previous senior positions, he was formerly interim CEO at Barchester Healthcare, CEO of May Gurney, a main board director at Eaga PLC and on the executive board at ScottishPower for ten years. ScottishPower's successful metering business was part of his portfolio. Willie also acts as an independent consultant for a number of companies.

External appointments

He is currently chairman of both Fallago Rigg, a joint venture between Hermes Capital and EDF Renewables and chairman of Ogilvie Group, a Stirling-based family owned business with interests spanning construction, fleet hire and IT. He is also a non-executive director at Grove, the holding company for Barchester Healthcare and Business Stream (Retail Water and Waste).



Alan Foy
Chief Executive Officer

Date of appointment

24 December 2007

Committees

Nomination

Background and experience

Alan has been Chief Executive Officer of SMS since 2007. He led the flotation of the Company on the London Stock Exchange AIM market in July 2011. In the past five years, annual turnover and profits have risen significantly through a combination of strategic acquisitions and organic growth. Prior to joining SMS in 2004, Alan worked for ScottishPower and, in 1997, gained approval to establish its regulated gas transportation and metering business, SP Gas Ltd, which under his management grew to become a major gas transporter in the UK.

External appointments

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



Glen Murray
Chief Financial Officer

Date of appointment

1 January 2011

Committees

None

Background and experience

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

External appointments

None



Miriam Greenwood
Senior Independent
Non-executive Director

Date of appointment

3 February 2014

Committees

Audit, Remuneration (Chair), Nomination

Background and experience

With qualifications as a barrister and in corporate finance, Miriam has spent more than 30 years working for a number of leading investment banks and other financial institutions. She was, for nine years until 2013, a non-executive director of the Gas and Electricity Markets Authority (Ofgem) for which she is currently chair of the Gas Network Innovation Expert Panel. A Deputy Lieutenant of the City of Edinburgh, Miriam was awarded an OBE for services to corporate finance in 2000.

External appointments

Miriam is a founding partner in SPARK Advisory Partners, a corporate advisory business, and a non-executive director of Mithras Investment Trust plc and Eclipse Shipping.



Graeme Bissett
Non-executive Director

Date of appointment

1 June 2016

Committees

Audit (Chair), Remuneration, Nomination

Background and experience

Graeme is an experienced corporate financier and qualified chartered accountant, having previously been a partner with Arthur Andersen LLP and finance director of international groups. He has served on the boards of a number of other companies, including Interbulk plc, Belhaven Group plc and Black Circles Holdings Ltd.

External appointments

He is currently chairman of Macfarlane Group PLC and Curo Compensation Limited, holds non-executive appointments with Cruden Group Limited, Scottish Futures Trust Limited and Anderson Strathern LLP and undertakes a number of pro bono appointments, including as a member of court at the University of Glasgow.



Craig McGinn
Group Company Secretary and
General Counsel for the Group

Background and experience

Craig is a qualified corporate and banking lawyer with over 16 years of experience.

Craig joined SMS in October 2016 having previously been a partner in international legal firm CMS Cameron McKenna and also Dundas & Wilson prior to its merger with CMS. Prior to joining Dundas & Wilson in 2004 Craig was a member of the in-house legal team at Bank of Scotland. He has responsibility for the management of all legal matters affecting the Group, for ethical risk matters and for supporting the Board in setting and maintaining standards of corporate governance. Craig is a qualified solicitor in Scotland and England & Wales.

Craig is also a director of River Clyde Homes, a charitable registered social landlord based in the west coast of Scotland.

Senior management team



Willie Jeffrey
MD of Asset Management

Background and experience

Willie has 35 years' expertise in the utilities industry across a variety of operational and commercial roles. He spent 15 years in operations with British Gas, five years in a commercial director role with Alfred McAlpine and with Bglobal Metering for six years as operations director. Willie joined SMS in 2013 as Operations Director and is now Managing Director of the Asset Management division with responsibility for management of the entire portfolio of SMS assets, all commercial relationships with clients and compliance with all industry legislative bodies. Throughout his career he has championed attention to detail and the ethos of health and safety being the number one priority in all businesses he has worked for in order to protect the interests of the end user, the client and the employer.



John Hall
MD of Asset Installation

Background and experience

John joined SMS in July 2016 to head up the Asset Installation division. He brings over 20 years of senior management experience to the Group, with the last eight years in the industry as MD of one of the largest independent metering installation businesses. He believes in strong leadership and enabling a culture which puts the power in his team to ensure successful service delivery.

He has the skills and proven track record for key stakeholder delivery and his knowledge and experience make him perfectly placed to lead our newly formed Asset Installation business.



Tim Mortlock
MD of Energy Management

Background and experience

Tim has 20 years' experience in the energy/utility industry across utility connections, smart metering, data and energy services having been part of the UPL business almost since its inception and is now Managing Director of SMS's Energy Management business.

Tim has expert knowledge of smart metering having been responsible for setting up the SMS electricity metering business following deregulation in 2004, now a fully accredited HH and NHH MOP /DCDA, specifically to provide AMR services to the I&C supplier market. Health and safety has always been at the heart of the electricity metering business, which is recognised for its quality of delivery and installation.

Corporate governance statement

As an AIM-listed company, the Company is not required to comply with any specific requirements for corporate governance procedures. Nevertheless, in considering its own arrangements for governance, the Company has regard, so far as is practicable and appropriate for a company of its size and nature, to the provisions of the UK Corporate Governance Code, and to the recommendations of the Quoted Companies Alliance (QCA). The key elements of the Company's corporate governance arrangements are described below.

Board structure

The Board currently comprises a Chairman, a Chief Executive, one other Executive Director and two Non-executive Directors; their details are set out in the Board of Directors section. During the year, a number of changes have been made to the Board. All of the changes made in 2016 and to date in 2017 are set out below:

- ▶ Paul Dollman resigned from the Board as a Director and Chairman at the close of our AGM on 26 May 2016;
- ▶ Willie MacDiarmid was appointed as Chairman from the close of the AGM on 26 May 2016;
- ▶ Miriam Greenwood was appointed as Senior Independent Non-executive Director on 1 June 2016; and
- ▶ Graeme Bissett was appointed to the Board as a Non-executive Director on 1 June 2016.

The Board is responsible for formulating, reviewing and approving the Group's strategy, budgets and corporate actions.

In 2016, the Board held eight scheduled meetings. At each meeting the Board received reports from:

- ▶ the CEO on health and safety, strategic, operational and business developments, and investor relations;
- ▶ the CFO on the financial performance of the business, budget, funding and capital; and

- ▶ each of the Board Committees on matters discussed at their meetings.

Matters for review by the Board are communicated in advance of formal meetings. All of the Directors are subject to election by shareholders at the first AGM after their appointment to the Board and to re-election by shareholders at least once every three years. In addition, any Non-executive Director who has served on the Board for more than nine years will be subject to annual re-election.

The Chairman and Non-executive Directors have other third-party commitments including directorships of other companies. The Company is satisfied that these associated commitments have no measurable impact on their ability to discharge their responsibilities effectively. The Executive Directors have no third-party commitments.

All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. In addition, the Company Secretary will ensure that the Directors receive appropriate training as necessary. The appointment and removal of the Company Secretary is a matter for the Board as a whole. All Directors are supplied with information in a timely manner in a form, and of a quality, appropriate to enable them to discharge their duties.



Paul Dollman attended all required Committee and Board meetings up to his resignation on 26 May 2016.

Corporate governance statement continued

Board evaluation

The Company has implemented a formal process of annual performance evaluation for the Board, its Committees and individual Directors. The intention is that a performance evaluation of the Board, the Board Committees and individual Directors will be conducted annually and the method for such review will continue to be reviewed by the Board in order to optimise the process.

The Company has directors' and officers' liability insurance in place.

Audit Committee

During the year the Audit Committee comprised Graeme Bissett (Chair), Miriam Greenwood and Willie MacDiarmid. Meetings are also attended, by invitation, by the Chief Financial Officer and Head of Internal Audit.

The Audit Committee meets at least three times in each financial year and has unrestricted access to the Group's external auditor.

During the year the Board took the decision to implement an internal audit function consisting of full time dedicated members of staff. The Audit Committee will review the effectiveness of the internal audit function and its terms of reference on an annual basis and recommend to the Board any changes required as a result of the review. Reports from internal audit are considered at each meeting and, as part of its deliberations, the Committee will actively engage in selecting areas to be audited.

Remuneration Committee

During the year the Remuneration Committee comprised Miriam Greenwood (Chair), Willie MacDiarmid and Graeme Bissett. 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.

Nomination Committee

During the year the Nomination Committee was chaired by Willie MacDiarmid and also comprised Miriam Greenwood, Graeme Bissett and Alan Foy. The Nomination Committee considers the selection and re-appointment of Directors. It identifies and nominates candidates to fill Board vacancies and regularly reviews the structure, size and composition (including the skills, knowledge and experience) of the Board and makes recommendations to the Board with regard to any changes.

Internal control

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

Relationship with shareholders

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

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

We actively seek dialogue with the market as understanding what analysts and investors think about us is a key part of driving our business forward. Discussions with the market provide us with the opportunity to understand analysts' and investors' views on the Company's strategy and performance. The Board receives regular updates on the views of shareholders through briefings and reports from the CEO and our retained advisers. In addition, our Non-executive Directors are available to meet shareholders if they wish to raise any issues separately.

Financial results and other notable news releases such as contract wins and changes to our strategy are published via the London Stock Exchange's Regulatory News Service (RNS).

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

Going concern

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

On behalf of the Board

Willie MacDiarmid
Non-executive Chairman
21 March 2017

Audit Committee



Members

- ▶ Graeme Bissett (Chair)
- ▶ Miriam Greenwood
- ▶ Willie MacDiarmid

Secretary

- ▶ Craig McGinn

Attending by invitation

- ▶ Chief Executive Officer
- ▶ Chief Financial Officer
- ▶ Head of Internal Audit
- ▶ External auditor

Number of meetings in 2016

- ▶ 5

Role of the Committee

- ▶ Monitoring the integrity of the financial statements, including reviewing significant financial reporting issues and judgements alongside the findings of the external auditor.
- ▶ Advising the Board on the effectiveness of the fair, balanced and understandable review of the Annual Report.
- ▶ Overseeing the relationship with the external auditor, the external audit process and the nature and scope of the external audit, including their appointment, effectiveness, independence and fees.
- ▶ Overseeing the nature and scope of internal audit, ensuring co-ordination with the activities of the external auditor.
- ▶ Reviewing the effectiveness of the Group's systems for internal financial control, financial reporting and risk management.

Main activities in 2016

- ▶ Review of internal audit function.

Audit Committee statement

The Committee meets at least three times a year generally just prior to Board meetings to facilitate immediate and efficient reporting to the Board, with additional meetings where necessary. The external auditor, the Chief Executive Officer and the Chief Financial Officer attend Committee meetings by invitation. The Committee also meets separately with the external auditor without others being present, and the Chairman of the Committee maintains a regular dialogue with the Chief Financial Officer and his team.

Objectives and responsibilities

The Committee's key objectives are to provide effective governance over SMS's financial reporting and the performance of the external auditor; to provide oversight of the Group's systems of internal financial control; and to report to the Board on these matters.

In fulfilment of these objectives the Committee:

- ▶ reviews SMS's financial statements and announcements;
- ▶ considers whether these statements and announcements provide a balanced and understandable view of the strategy and performance of SMS, and of the associated risks;
- ▶ considers the appropriateness of accounting policies and significant accounting judgements and the disclosure of these in the financial statements;
- ▶ oversees the relationship with and performance of the external auditor; and
- ▶ reviews the effectiveness of financial controls and systems.

Activities of the Committee during the year

In fulfilment of the responsibilities set out above, the Committee's activities have focused on financial reporting and the related statutory audit, and the assessment of internal controls. In particular the review of significant judgements applied in the preparation of the Annual Report and Accounts and monitored the development of an internal audit function.

Audit Committee continued

Financial reporting and statutory audit

The Committee has reviewed with both management and the external auditor the half year and annual financial statements, focusing on: the overall truth and fairness of the results and financial position, including the clarity of disclosures shown in the statements and their compliance with best practice requirements; the appropriateness of the accounting policies and practices used in arriving at those results; the resolution of significant accounting judgements or of matters raised by the external auditor during the course of their half year review or annual statutory audit; and the quality of the Annual Report taken as a whole, including disclosures on governance, strategy, risks and remuneration, and whether it gives a fair and balanced picture of the Group.

External audit

The Committee discussed, challenged and agreed with Ernst & Young their detailed audit plans prepared in advance of the audit, which set out their assessment of key audit risks and materiality accounting policies, practices and judgements.

The selection of appropriate accounting policies and practices is the responsibility of management, and the Committee discussed these with both management and the external auditor. Significant areas considered by the Committee in relation to the 2016 financial statements are set out below.

- ▶ Recognition of installation revenue in advance of the work being performed. Gas connections income is recognised on a transactional basis. Customers often pay in advance of the work being completed therefore possible for revenue to be recognised in the wrong period when cash is received rather than when the work is completed. The Committee considered the quantum and disclosure of relevant amounts.
- ▶ Capitalisation of internal installation costs – SMS carries out a significant level of in-house installation which are capitalised and amortised where appropriate. The Committee considers management's capitalisation process and the assumptions used when assessing whether expenditure should be capitalised.
- ▶ Impairment of goodwill – in accordance with accounting standards, SMS is required to test annually whether goodwill has suffered any impairment. The Committee reviews the impairment testing carried out, including the achievability of the long-term business plan and the choice of discount rate.
- ▶ Useful life of meter assets – the Committee considers that an appropriate policy of depreciating domestic traditional, industrial and commercial and smart meter assets is applied. Significant judgement and analysis of the current meter portfolio have been performed and reviewed by the committee to determine the most appropriate accounting policy.
- ▶ Invoiced and uninvoiced termination income may not be recoverable. Termination income is a relatively new concept and income stream within the SMS business and the level of recoverability requires significant judgement. The Committee consider the judgements made by management, the quantum and disclosure of relevant amounts.

Graeme Bissett

Chair of the Audit Committee

21 March 2017

Nomination Committee



Members

- ▶ Willie MacDiarmid (Chair)
- ▶ Graeme Bissett
- ▶ Miriam Greenwood
- ▶ Alan Foy

Secretary

- ▶ Craig McGinn

Number of meetings in 2016

- ▶ 2

Role of the Committee

- ▶ To review the structure, size and composition (including skills, knowledge, experience, diversity and balance of Executive and Non-executive Directors) of the Board and its Committees and make recommendations to the Board with regard to any changes.
- ▶ Identify and nominate, for the approval of the Board, candidates to fill Board vacancies or expand the Board.
- ▶ Keep under review the time commitment expected from the Chairman and the Non-executive Directors.

Main activities in 2016

- ▶ Appointment of Non-executive Director.
- ▶ Appointment of new Company Secretary.

The Nomination Committee is currently made up of the Non-executive Directors, each of whom is independent and one executive Director. The main focus for the Committee in 2016 was appointment of a new Non-executive Director and appointment of a new Chairman. You will see from the table that the Committee met on two occasions. In addition, we held a number of informal meetings and discussions with the CEO and others.

Appointment of Non-executive Director and Company Secretary

During 2016 the Committee was delighted to appoint Graeme Bissett as a Non-executive Director. Graeme is currently chairman of Macfarlane Group PLC and Curo Compensation Limited, holds non-executive director appointments with Cruden Group Limited, Scottish Futures Trust Limited and Anderson Strathern LLP and undertakes a number of pro bono appointments, including as a member of court at the University of Glasgow. In addition the Committee appointed Craig McGinn as Company Secretary and General Counsel for the Group. Craig is a qualified corporate and banking lawyer with over 16 years of experience.

Board composition and diversity

Our policy is to have a broad range of skills, background and experience.

We do not set any particular targets but we fully recognise the benefits of greater diversity and will continue to take account of this when considering any particular appointment. We will continue to ensure that we appoint the best people for the relevant roles.

All Directors will be consulted on the composition of the Board, as to size, the appropriate range of skills and balance between Executive and Non-executive Directors, as part of the Board evaluation process to be undertaken in 2017.

Willie MacDiarmid

Chair of the Nomination Committee

21 March 2017

Remuneration Committee



Members

- ▶ Miriam Greenwood (Chair)
- ▶ Willie MacDiarmid
- ▶ Graeme Bissett

Secretary

- ▶ Craig McGinn

Number of meetings in 2016

- ▶ 2

Role of the Committee

- ▶ Determine and agree with the Board the policy for remuneration for the Executive Directors.
- ▶ Agree KPIs for the Executive Directors and senior management team.
- ▶ Determine, having taken appropriate legal advice, the level of any payment made to the Executive Directors or members of the senior management team by way of compensation for, or otherwise in connection with, loss of office or employment.
- ▶ Approve the design of, and determine targets for, performance related pay schemes operated by the Group and approve the total annual payments made under such schemes.
- ▶ Review the design of all share incentive plans for approval by the Board and shareholders. For any plan, determine each year the overall amount of awards, along with the individual awards to Executive Directors and members of the senior management team.
- ▶ Oversee Group-wide salary increases.
- ▶ Oversee any major changes in employee benefits structures throughout the Group.

Main activities in 2016

- ▶ Executive Directors compensation benchmarking.
- ▶ LTIP and CSOP re-design.

Anticipated focus for 2017

- ▶ Introduction of LTIP scheme.
- ▶ Gender pay gap reporting.

As Chair of the Remuneration Committee (“the Committee”), I am pleased to present the Directors’ Remuneration Report (“the Report”) for the financial year ended 31 December 2016. The Report has been prepared by the Committee and approved by the Board of Directors (“the Board”).

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

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

The report has been arranged in the following three parts:

- ▶ the Chair’s Annual Statement, summarising and explaining the major decisions on, and any substantial changes to, Directors’ remuneration in the year;
- ▶ the Directors’ Remuneration Policy, which sets out the Group’s forward-looking policy for Executive and Non-executive Directors and the key factors which were taken into account in setting the Directors’ Remuneration Policy; and
- ▶ the Annual Report on Remuneration, which sets out details of Directors’ remuneration for the financial year ended 31 December 2016. The Annual Report on Remuneration is subject to an advisory shareholder vote at the AGM on Wednesday 24 May 2017.

Annual statement from the Chair of the Remuneration Committee

Remuneration outcomes for the year to 31 December 2016

The principal aim of our remuneration policy is to reward Executives for achieving our strategy of delivering long-term value to our shareholders. Our reward package for Executive Directors is structured to ensure that:

- ▶ the fixed element of pay, salary, pension and benefits, is benchmarked against comparable companies of similar size and complexity;
- ▶ a substantial proportion of Executive remuneration is linked to the Group's performance, with a heavier weighting on long-term rather than on short-term performance; and
- ▶ the remuneration packages reward specific KPIs which deliver, inter alia, long-term value to shareholders, a safe operating environment and outstanding service to customers.

In line with our remuneration policy, the Company has an annual bonus plan with the aim of incentivising Executive Directors on achieving demanding annual targets relating to the Company's financial performance, health and safety performance and personal strategic objectives. In summary, the bonus and benefits payout for Executive Directors for 2016 was as follows:

- ▶ The Chief Executive Officer (CEO) earned a bonus equating to 50% of basic salary.
- ▶ The Chief Financial Officer (CFO) earned a bonus equating to 45% of basic salary.
- ▶ In 2016 the Company made a 5% pension contribution to the scheme on behalf of the Chief Financial Officer.
- ▶ Share options were granted at the time of IPO under the IPO Award Plan, of which five tranches have vested in full.
- ▶ No LTIPs were issued in 2016; however, it is our intention to introduce a re-designed LTIP and CSOP plan in 2017 (deferred from 2016), which will be subject to Board approval.

External advice

- ▶ During the period, the Committee engaged FIT Remuneration Consultants to assist them benchmarking Executive Directors' remuneration and the re-design of the LTIP and CSOP scheme.

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

On behalf of the Board

Miriam Greenwood

Chair of the Remuneration Committee

21 March 2017

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Directors' remuneration policy ("the Policy")

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

The Policy will be displayed on the Group's website (www.sms-plc.com) within the Annual Report under the investor relations section immediately following the 2017 AGM (to be held on Wednesday 24 May 2017).

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

In 2016 the Committee has undertaken a review of the long term incentives on offer for Executive Directors and other senior members of staff which has led to the development of a Long Term Incentive Plan and CSOP intended for introduction during 2017.

In 2017 the Committee will introduce a number of new remuneration conditions (as outlined below) to the structure of overall remuneration.

Non-executive Directors

The remuneration of the Non-executive Directors, including the Chairman, is determined by the Executive Directors. Non-executive Directors are not entitled to pensions, annual bonuses or employee benefits.

Each of the Non-executive Directors has a letter of appointment stating their annual fee and that their appointment is for a term of three years. Their appointment may be terminated on three months' written notice at any time.

Executive Directors' remuneration

The main components of the remuneration policy for the year ended 31 December 2016 and how they are linked to and support the Company's business strategy are summarised below:

Purpose and link to strategy	Operation	Potential remuneration	Performance metrics
Salary			
To be set at a level which is sufficiently competitive to recruit and retain individuals of the appropriate calibre to deliver the Company's strategy, and which takes into account the Director's experience and personal contribution to the Company's strategy.	<p>Salaries are typically reviewed annually, with any changes effective from 1 January. The review takes into account:</p> <ul style="list-style-type: none"> ▶ Company performance; ▶ the role, experience and performance of the individual Director; and ▶ average workforce salary adjustments within the Company. <p>Salaries are benchmarked from time to time against comparable roles at companies of a similar size and complexity.</p>	The CEO's base salary was reviewed on 1 January 2016 and no change was applied.	n/a
Benefits			
To complement basic salary by providing market competitive benefits to attract and retain Executives.	<p>Reviewed from time to time to ensure that benefits when taken together with other elements of remuneration remain market competitive.</p> <p>Benefits for the Executive Directors currently comprise participation in the Company's life assurance and income protection schemes.</p>	<p>The cost of providing these benefits varies year on year depending on the schemes' premia. The Remuneration Committee monitors the overall cost of the benefits package.</p>	n/a

Purpose and link to strategy	Operation	Potential remuneration	Performance metrics
Pension			
To provide retirement benefits which, when taken together with other elements of the remuneration package, will enable the Company to attract and retain Executives.	<p>The Executive Directors (together with all other eligible staff) are able to participate in the Company's defined contribution (money purchase) pension scheme.</p> <p>The Company contributes a maximum of 5% of salary.</p>	<p>A contribution of up to 5% per annum of salary is paid into the scheme, by the Company, on behalf of the CFO.</p> <p>The CEO does not participate in the scheme, but the Company contributes 4% of salary to the CEO's personal pension plan.</p>	n/a
Annual bonus			
To incentivise the achievement of the Company's annual financial targets.	<p>The Executive Directors (as well as the other senior management team) participate in a discretionary, annual, performance related bonus scheme. Targets are set at the beginning of each year based on the recommendations of the Remuneration Committee.</p> <p>Bonuses are paid in cash based on audited financial results.</p>	For the Executive Directors, the maximum capped bonus potential is 50% of salary.	For the year ended 2016, the targets were based on inter alia, profit before tax including exceptionals, recurring revenues, and there being no material Health and Safety incidences.

It is our intention in 2017 to seek Board approval for the following new terms as part of the Executive Directors' remuneration and for participates in the LTIP and CSOP:

- ▶ a shareholding requirement of 100% of salary, to be achieved over a three to four-year period;
- ▶ a clawback clause for Executive Director bonuses covering both short and long-term incentives. The percentage of clawback and the period for this will be agreed by the Board during 2017; and
- ▶ the discretionary issue of shares under the LTIP and CSOP, in line with the Company's remuneration policy.

Annual report on remuneration

Directors' emoluments for the financial year ended 31 December 2016

	Fees/ basic salary £	Bonus £	Pension contribution £	Benefits in kind £	2016 Total £	2015 Total £
Executive						
A H Foy	340,000	170,000	13,414	3,217	526,631	504,234
G Murray	110,000	49,500	5,500	2,510	167,510	157,684
Non-executive						
P Dollman*	36,577	—	—	—	36,577	90,000
W MacDiarmid*	75,000	—	—	—	75,000	45,000
M Greenwood	45,000	—	—	—	45,000	45,000
G Bissett*	26,250	—	—	—	26,250	—
Total	632,827	219,500	18,914	5,727	876,968	841,918

* Partial year payment.

The pensions contributions for Directors in 2015 were £21,475.

Directors' remuneration policy ("the Policy") continued

Annual report on remuneration continued

Directors' interests

The Directors who held office at 31 December 2016 had the following interests in the shares of the Company:

	Ordinary shares	
	2016 £0.01 each	2015 £0.01 each
Executive		
A H Foy	7,180,608	7,780,608
G Murray	—	—
Non-executive		
M Greenwood	14,650	10,000
W MacDiarmid	—	—
G Bissett	—	—
	7,195,258	7,810,608

Paul Dollman served as Non-executive Chairman of the Company until his resignation at the end of the AGM on 26 May 2016. At that date Paul had a shareholding of 20,000 (2015: 20,000).

Directors' share options

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

	Type	Number of shares under option	Exercise price	Date of grant	Earliest date exercisable
Executive					
G Murray	Approved	35,974	76p	15/07/11	15/07/14
	Unapproved	166,667	60p	20/06/11	20/06/16
	Unapproved	28,700	60p	20/06/13	20/06/13

The share price at 31 December 2016 was 541.5p. The range in the period 1 January to 31 December 2016 was 317.5p to 609.0p.

Details of share options granted by the Company at 31 December 2016 are given in note 24.

Directors' report

Directors' report

The Directors submit their Annual Report on the affairs of the Group together with the financial statements and Auditor's Report for the year ended 31 December 2016.

Outlook

An indication of the likely future developments in the business of the Company (and its subsidiaries) is included in the Strategic Report of this Annual Report and Accounts 2016 (pages 1 to 24) which is incorporated by reference into this Directors' Report.

Directors

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

Name of Director	Board title	Date of appointment
W MacDiarmid	Non-executive Chairman	26 April 2016
A H Foy	Chief Executive Officer	24 December 2009
M Greenwood	Non-executive Director	3 February 2014
G Bissett	Non-executive Director	1 June 2016
G Murray	Chief Financial Officer	1 January 2011

In addition Paul Dollman served as Non-executive Chairman of the Company until his resignation at the end of the AGM on 26 May 2016.

Political contributions

No political contributions were made during the year (2015: £Nil).

Substantial shareholdings

On 1 February 2017, the Company had been notified, in accordance with sections 791 to 828 of the Companies Act, of the following interests in the ordinary share capital of the Company:

Name of holder	Number	% held
Old Mutual Asset Manager (UK)	8,599,533	9.61
Liontrust Asset Management	7,388,115	8.25
Mr Alan Foy	7,180,608	8.02
River & Mercantile Asset Management	7,166,498	8.01
Hargreave Hale	5,615,726	6.27
Schroders Investment Management	5,389,394	6.02
Mr Steve P Timoney	4,584,344	5.12
Standard Life Investments	4,551,963	5.09
Abdiel Capital Management LLC	4,534,120	5.07
Legal & General Investment Management	4,009,963	4.48

Dividends

The Directors recommend the payment of a final dividend of 2.73p per ordinary share (2015: 2.20p), payable on 1 June 2017 to shareholders on the Company's Register of Members as at the close of business on 28 April 2017. The shares will be quoted as ex-dividend on 27 April 2017. This final dividend, together with the interim dividend of 1.37p per ordinary share (2015: 1.10p) paid on 25 November 2016, makes a total dividend of 4.10p per ordinary share for the 2016 financial year (2015: 3.30p).

Financial instruments

Details of the use of financial instruments and financial risk management are included in note 20 of the notes to the accounts contained in this Annual Report and Accounts 2016, which is incorporated by reference into this Directors' Report.

Directors' report continued

Employees

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

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

Research and development

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

Director qualifying indemnity provisions

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

Auditor

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

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

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

Ernst & Young LLP has expressed its willingness to continue in office as auditor and a resolution to re-appoint Ernst & Young LLP will be proposed at the forthcoming AGM.

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

Glen Murray

Chief Financial Officer

21 March 2017

Directors' responsibilities statement

In the preparation of financial statements

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

Company law requires the Directors to prepare Group and Company financial statements for each financial year. The Directors are required by the AIM Rules of the London Stock Exchange to prepare Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and have elected under company law to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland.

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

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

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

- ▶ select suitable accounting policies and then apply them consistently;
- ▶ make judgements and accounting estimates that are reasonable;
- ▶ for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU and, for the Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Company financial statements; and
- ▶ prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

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

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

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

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Independent auditor's report

To the members of Smart Metering Systems plc

We have audited the financial statements of Smart Metering Systems plc for the year ended 31 December 2016 which comprise the Consolidated Statement of Financial Position, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity, the Parent Company Balance Sheet, the Company Statement of Changes in Equity and the related notes 1 to 28 and 1 to 7. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 41, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- ▶ the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 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; and
- ▶ the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- ▶ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- ▶ based on the work undertaken in the course of the audit.
 - ▶ the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
 - ▶ the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Independent auditor's report continued

To the members of Smart Metering Systems plc

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Annie Graham (Senior statutory auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor

Glasgow

21 March 2017

Notes

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

Consolidated statement of comprehensive income

For the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000 restated
Revenue	1	67,188	53,945
Cost of sales	2	(30,257)	(23,805)
Gross profit		36,931	30,140
Administrative expenses	2	(17,438)	(12,106)
Other operating income	2	1,075	1,546
Profit from operations	2	20,568	19,580
Attributable to:			
Operating profit before exceptional items, other operating income and amortisation of intangibles		21,939	19,493
Amortisation of intangibles		(1,991)	(1,459)
Other operating income		1,075	1,546
Exceptional items and fair value adjustments	2	(455)	—
Finance costs	5	(2,327)	(2,118)
Finance income	5	2	3
Profit before taxation		18,243	17,465
Taxation	6	(2,998)	(2,463)
Profit for the year attributable to equity holders		15,245	15,002
Other comprehensive income		—	—
Total comprehensive income		15,245	15,002

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

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

	Notes	2016	2015
Basic earnings per share (pence)	7	17.33	17.46
Diluted earnings per share (pence)	7	17.02	16.78

Consolidated statement of financial position

As at 31 December 2016

	Notes	2016 £'000	2015 £'000
Assets			
Non-current assets			
Intangible assets	9	14,611	10,028
Property, plant and equipment	10	157,977	125,700
Investments	11	118	83
Trade and other receivables	14	628	901
		173,334	136,712
Current assets			
Inventories	13	6,121	1,099
Trade and other receivables	14	15,794	10,205
Cash and cash equivalents	15	7,999	5,711
Other current financial assets	19	—	—
		29,914	17,015
Total assets		203,248	153,727
Liabilities			
Current liabilities			
Trade and other payables	16	26,742	15,364
Bank loans and overdrafts	17	14,530	8,496
Commitments under hire purchase agreements	18	28	64
Other current financial liabilities	19	—	46
		41,300	23,970
Non-current liabilities			
Bank loans	17	87,646	76,219
Commitments under hire purchase agreements	18	1	14
Deferred tax liabilities	21	7,885	6,139
		95,532	82,372
Total liabilities		136,832	106,342
Net assets		66,416	47,385
Equity			
Share capital	23	892	861
Share premium		10,861	9,650
Other reserve	25	8,447	4,258
Treasury shares	24	(327)	(231)
Retained earnings		46,543	32,847
Total equity attributable to equity holders of the parent company		66,416	47,385

The financial statements on pages 45 to 72 were approved and authorised for issue by the Board of Directors and signed on its behalf by:

Glen Murray

Director

21 March 2017

Company registration number

SC367563

Consolidated statement of changes in equity

For the year ended 31 December 2016

Attributable to the owners of the parent company:	Share capital £'000	Share premium £'000	Other reserve £'000	Treasury shares £'000	Retained earnings £'000	Total £'000
As at 1 January 2015	856	9,291	4,258	(92)	20,096	34,409
Total comprehensive income for the year	—	—	—	—	15,002	15,002
Transactions with owners in their capacity as owners:						
Dividends (note 8)	—	—	—	—	(2,564)	(2,564)
Shares issued	5	359	—	—	—	364
Shares held by SIP	—	—	—	(139)	—	(139)
Share options	—	—	—	—	410	410
Income tax effect of share options	—	—	—	—	(97)	(97)
As at 31 December 2015	861	9,650	4,258	(231)	32,847	47,385
Total comprehensive income for the year	—	—	—	—	15,245	15,245
Transactions with owners in their capacity as owners:						
Dividends (note 8)	—	—	—	—	(3,145)	(3,145)
Shares issued	31	1,211	4,189	—	—	5,431
Shares held by SIP	—	—	—	(96)	—	(96)
Share options	—	—	—	—	444	444
Income tax effect of share options	—	—	—	—	1,152	1,152
As at 31 December 2016	892	10,861	8,447	(327)	46,543	66,416

See notes 24 and 25 for details of the treasury shares and other reserve.

Consolidated statement of cash flows

For the year ended 31 December 2016

	2016 £'000	2015 £'000
Cash flow from operating activities		
Profit before taxation	18,243	17,465
Finance costs	2,327	2,118
Finance income	(2)	(3)
Fair value movement on derivatives	(46)	(24)
Depreciation	9,977	6,816
Amortisation	1,991	1,459
Share-based payment expense	348	271
Movement in inventories	(4,773)	112
Movement in trade and other receivables	(2,646)	(1,689)
Movement in trade and other payables	6,330	(1,776)
Cash generated from operations	31,749	24,749
Taxation	(401)	(304)
Net cash generated from operations	31,348	24,445
Investing activities		
Payments to acquire property, plant and equipment	(42,904)	(41,474)
Disposal of property, plant and equipment	2,499	235
Payments to acquire intangible assets	(1,084)	(555)
Acquisition of subsidiary	(35)	—
Cash acquired with subsidiary	452	—
Finance income	2	3
Net cash used in investing activities	(41,070)	(41,791)
Financing activities		
New borrowings	30,442	33,059
Capital repaid	(12,845)	(9,893)
Hire purchase repayments	(1,028)	(76)
Finance costs	(2,646)	(2,118)
Net proceeds from share issue	1,232	364
Dividend paid	(3,145)	(2,564)
Net cash generated from financing activities	12,010	18,772
Net increase in cash and cash equivalents	2,288	1,426
Cash and cash equivalents at the beginning of the financial year	5,711	4,285
Cash and cash equivalents at the end of the financial year (note 15)	7,999	5,711

Accounting policies

The consolidated financial statements of the Group for the year ended 31 December 2016 were approved and authorised for issue in accordance with a resolution of the Directors on 21 March 2017. Smart Metering Systems plc is a public limited company limited by shares and incorporated in Scotland, with its registered office at 2nd Floor, 48 St. Vincent Street, Glasgow G2 5TS. The Company's ordinary shares are traded on AIM.

Basis of preparation

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

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

During the year the Directors decided to reallocate meter asset depreciation of £9.2m (2015: £6.4m) from administrative costs to cost of sales to reflect all associated costs with generating recurring revenue and also bring in line with other operators in the industry. If meter asset depreciation had not been reallocated during the year gross profit for 2016 would have been £46.2k (2015: £36.5k).

Going concern

Management prepares budgets and forecasts on a rolling 24-month basis. These forecasts cover operational cash flows and investment capital expenditure. The Group has committed bank facilities of £280m which extend to March 2019.

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

Basis of consolidation

The consolidated accounts of the Group include the assets, liabilities and results of the Company and subsidiary undertakings in which Smart Metering Systems plc has a controlling interest. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has all of the following: power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee); exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect its returns.

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

Use of estimates and judgements

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

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

- ▶ recognition of installation revenue in advance of the work being performed;
- ▶ capitalisation of internal installation costs;
- ▶ impairment of goodwill; and
- ▶ useful life of a meter assets.

Please refer to the Audit Committee report on pages 31 and 32 for further details.

Accounting policies continued

Revenue recognition

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

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

Meter rental income

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

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

Utility connection

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

Data management

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

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 derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

The Group's financial assets include cash and short-term deposits, trade and other receivables, 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 derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

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

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.

Exceptional items and separately disclosed items

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

Research and development

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

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

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

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

Amortisation	10% on cost straight line
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Intangible assets

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

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

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

Intangible assets are amortised over their useful lives as follows:

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

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

Longer life software is related to underlying meter assets.

Goodwill

Goodwill arising on consolidation represents the excess of the consideration transferred and the fair value of the identifiable assets and liabilities of the acquiree at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but is tested annually for impairment and is carried at cost less accumulated impairment losses. See note 12 for detailed assumptions and methodology. Impairment losses are not subsequently reversed.

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

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

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

Accounting policies continued

Impairment

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

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

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

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

Detailed assumptions with regard to discount, growth and inflation rates are set out in note 12 to the accounts.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Pursuant to the acquisition of the meter installation businesses on 18 March 2016 (see note 28) certain internal costs to the Group are also capitalised where they are demonstrated as being directly attributable to bringing the meter rental assets into their useable condition.

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

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

Freehold property	2% on cost
Short leasehold property	Shorter of the lease term or 15% and 20% on cost
Plant and machinery	5%, 10% and 20% on cost
Fixtures, fittings and equipment	15% and 33% on cost
Motor vehicles	25% on cost

Land is not depreciated.

During the year, the Directors reassessed the useful life of domestic meters that are due to be replaced before the end of their useful life as part of the smart meter rollout programme. An exercise was undertaken to identify all meters affected and their useful life has been shortened from 20 years to 5 years. In addition, the receipt of termination income under certain circumstances when meter rental assets are removed before the end of their useful life has also been reflected in a revision to residual values. These factors have resulted in a net increase to the overall depreciation charge that amounted to £685,000 in the current year. As this change is prospective, there is no corresponding change to depreciation in prior years.

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

Property, plant and equipment is initially recorded at cost.

Inventories

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

Cash and cash equivalents

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

Hire purchase agreements

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

Leased assets and obligations as lessee

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

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

Group as lessor

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

Pension costs

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

Share-based payments

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

Taxation

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

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

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

Accounting policies continued

Standards and interpretations

The following standards and interpretations have been adopted in these financial statements and have not had a material impact on the Group's accounts in the period of initial application:

Standard or interpretation		Periods commencing on or after
Amendment to IAS 27	Equity Method in Separate Financial Statements	1 January 2016
Amendments to IAS 1	Disclosure Initiative	1 January 2016
Annual Improvements to IFRSs	2012-2014 Cycle*	1 January 2016
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2016
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to IFRS 11	Accounting for Acquisitions of Interests and Joint Operations	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities – Applying the Consolidation Exception	1 January 2016
Standard or interpretation		Periods commencing on or after
Amendment to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017*
Amendments to IAS 7	Disclosure Initiative	1 January 2017*
IFRS 15	Revenue from Contracts with Customers	1 January 2018
Clarifications to IFRS 15	Revenue from Contracts with Customers	1 January 2018*
IFRS 9	Financial Instruments	1 January 2018
IFRS 16	Leases	1 January 2019*
Amendments to IFRS 2	Classifications and Measurement of Share-based Payment Transactions	1 January 2018*
Annual Improvements to IFRSs	2014-2016 Cycle	1 January 2017/2018*
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration	1 January 2018*

* Not yet adopted for use in the European Union.

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

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

Notes to the financial statements

For the year ended 31 December 2016

1 Segmental reporting

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

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

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

Energy Management comprises the provision of energy advice.

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

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

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

31 December 2016	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Unallocated £'000	Total operations £'000
Segment/Group revenue	37,359	26,115	3,714	—	67,188
Cost of sales	(14,441)	(13,735)	(2,081)	—	(30,257)
Segment profit – Group gross profit	22,918	12,380	1,633	—	36,931
Items not reported by segment:					
Other operating costs/income	—	—	—	(13,174)	(13,174)
Depreciation	—	(22)	—	(721)	(743)
Amortisation	(1,991)	—	—	—	(1,991)
Exceptional items	—	—	—	(455)	(455)
Profit from operations	20,927	12,358	1,633	(14,350)	20,568
Net finance costs	(2,325)	—	—	—	(2,325)
Profit before tax	18,602	12,358	1,633	(14,350)	18,243
Tax expense					(2,998)
Profit for year					15,245
31 December 2015	Asset Management restated £'000	Asset Installation £'000	Energy Management £'000	Unallocated £'000	Total operations restated £'000
Segment/Group revenue	30,233	19,535	4,177	—	53,945
Cost of sales	(10,526)	(10,891)	(2,388)	—	(23,805)
Segment profit – Group gross profit	19,707	8,644	1,789	—	30,140
Items not reported by segment:					
Other operating costs/income	—	—	—	(8,663)	(8,663)
Depreciation	—	—	—	(438)	(438)
Amortisation	(121)	—	—	(1,338)	(1,459)
Exceptional items	—	—	—	—	—
Profit from operations	19,586	8,644	1,789	(10,439)	19,580
Net finance costs	(2,127)	—	4	8	(2,115)
Profit before tax	17,459	8,644	1,793	(10,431)	17,465
Tax expense					(2,463)
Profit for year					15,002

Notes to the financial statements continued

For the year ended 31 December 2016

1 Segmental reporting continued

Depreciation associated with meter assets has been reported within cost of sales as the meter assets directly drive revenue.

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

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

	2016 £'000	2015 £'000
Customer 1 – Asset Management	10,752	11,865
Customer 1 – Asset Installation	4,991	4,704
	15,743	16,569

Segment assets and liabilities

	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Unallocated £'000	Total operations £'000
31 December 2016					
Assets reported by segment					
Intangible assets	11,114	3,497	—	—	14,611
Property, plant and equipment	155,131	66	—	2,780	157,977
Inventories	5,569	446	106	—	6,121
	171,814	4,009	106	2,780	178,709
Assets not by segment					24,539
Total assets					203,248
Liabilities by segment					
Bank loans	102,176	—	—	—	102,176
Obligations under hire purchase agreements	—	29	—	—	29
	102,176	29	—	—	102,205
Liabilities not by segment					34,627
Total liabilities					136,832

	Asset Management restated £'000	Asset Installation £'000	Energy Management restated £'000	Total operations £'000
31 December 2015				
Assets reported by segment				
Intangible assets	10,028	—	—	10,028
Property, plant and equipment	125,700	—	—	125,700
Inventories	996	—	103	1,099
	136,724	—	103	136,827
Assets not reported by segment				16,900
Total assets				153,727
Liabilities reported by segment				
Bank loans	84,715	—	—	84,715
Obligations under hire purchase agreements	63	—	15	78
	84,778	—	15	84,793
Liabilities not reported by segment				21,549
Total liabilities				106,342

The prior year assets by segment have been restated to show a reallocation of £6.2m of property, plant and equipment from Energy Management to Asset Management as these assets are attributable to the operations of Asset Management.

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

	2016 £'000	2015 £'000
Revenue	67,188	53,945
Direct rental costs	(4,684)	(4,148)
Direct subcontractor costs	(4,054)	(6,504)
Other direct sales costs and systems rental	(12,285)	(6,775)
Staff costs	(9,710)	(7,166)
Depreciation:		
– owned assets	(9,898)	(6,751)
– leased assets	(79)	(65)
Amortisation	(1,991)	(1,459)
Other operating income	1,075	1,546
Auditor's remuneration:		
– as auditor	(136)	(80)
– other services	(9)	—
Exceptional costs	(455)	—
Operating lease costs:		
– plant and equipment	—	—
Other operating charges	(4,394)	(2,963)
Profit from operations	20,568	19,580
Finance costs	(2,327)	(2,118)
Finance income	2	3
Profit before taxation	18,243	17,464

Included in exceptional items are £455,000 (2015: £Nil) of acquisition costs. Included within depreciation – owned assets is £9,235,000 (2015: £6,378,000) of depreciation that has been allocated and reported in cost of sales.

Auditor's remuneration can be analysed as:

	2016 £'000	2015 £'000
Statutory Group audit	136	80
Other services	9	—
	145	80

3 Particulars of employees

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

	2016 Number	2015 Number
Number of administrative staff	100	17
Number of operational staff	580	276
Number of sales staff	2	3
Number of IT staff	30	12
Number of Directors	2	2
	714	310

Notes to the financial statements continued

For the year ended 31 December 2016

3 Particulars of employees continued

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

	2016 £'000	2015 £'000
Wages and salaries	18,880	9,205
Social security costs	1,895	935
Staff pension costs	240	192
Share-based payment	444	410
Director pension costs	19	20
	21,478	10,762

Included with wages and salaries are £8,432,000 (2015: £Nil) of costs from the new acquisitions.

4 Directors' emoluments

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

	2016 £'000	2015 £'000
Emoluments receivable	858	821
Value of Group pension contributions to money purchase schemes	6	5
Other pension	13	16
	877	842

During the year one of the Directors exercised 500,000 unapproved share options, resulting in a gain of £1,725,000.
Please refer to pages 34 to 38 for details of Directors' remuneration.

	2016 £'000	2015 £'000
Emoluments of highest paid Director		
Total emoluments	513	488
Pension contributions	13	16
	526	504

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

	2016 Number	2015 Number
Money purchase schemes	2	2

5 Finance costs and finance income

	2016 £'000	2015 £'000
Finance costs		
Bank loans and overdrafts	2,323	2,134
Interest rate hedge fair value	(46)	(24)
Hire purchase	50	8
Total finance costs	2,327	2,118
Finance income		
Bank interest receivable	2	3
Total finance income	2	3

6 Taxation

	2016 £'000	2015 £'000
Analysis of charge in the year		
Current tax:		
Current income tax expense	1,362	1,159
Adjustment to tax charge in respect of previous periods	450	(163)
Total current income tax	1,812	996
Deferred tax:		
Origination and reversal of temporary differences	1,186	1,467
Tax on profit on ordinary activities	2,998	2,463

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

Profit before tax	18,243	17,465
Tax at the UK corporation tax rate of 20.00% (2015: 20.25%)	3,649	3,536
Expenses not deductible for tax purposes	11	(62)
Adjustments to tax charge in respect of previous periods	123	(107)
Change in tax rate	(785)	(904)
Tax expense in the income statement	2,998	2,463

Current tax credit through equity in the year was £1.25m (2015: £0.2m).

7 Earnings per share

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

	2016 £'000	2015 £'000
Profit for the year used for calculation of basic EPS	15,245	15,002
Amortisation of intangible assets	1,991	1,459
Other operating income	(1,075)	(1,546)
Exceptional costs	455	—
Tax effect of adjustments	274	19
Earnings for the purpose of adjusted EPS	16,890	14,934
Number of shares	2016	2015
Weighted average number of ordinary shares for the purposes of basic EPS	87,955,744	85,928,114
Effect of potentially dilutive ordinary shares:		
– share options	1,604,623	3,463,275
Weighted average number of ordinary shares for the purposes of diluted EPS	89,560,367	89,391,389
Earnings per share:		
– basic (pence)	17.33	17.46
– diluted (pence)	17.02	16.78
Adjusted earnings per share:		
– basic (pence)	19.20	17.38
– diluted (pence)	18.86	16.70

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

Notes to the financial statements continued

For the year ended 31 December 2016

8 Dividends

	2016 £'000	2015 £'000
Equity dividends		
Paid during the year:		
Interim paid in respect of 2016, 1.37p per share	1,226	—
Final paid in respect of 2015, 2.20p per share	1,919	—
Interim paid in respect of 2015, 1.10p per share	—	947
Final paid in respect of 2014, 1.88p per share	—	1,617
Total dividends	3,145	2,564

A final dividend of 2.73p per share for the year ended 31 December 2016 has been proposed and is due to be paid in June 2017.

9 Intangible assets

	Goodwill £'000	Software £'000	Development £'000	Customer contracts £'000	Total £'000
Cost					
As at 1 January 2015	4,112	2,160	1,548	5,251	13,071
Additions	—	—	525	30	555
As at 31 December 2015	4,112	2,160	2,073	5,281	13,626
Additions	—	—	454	630	1,084
Additions from acquisitions	3,497	6	—	2,000	5,503
Disposals	—	—	(13)	—	(13)
As at 31 December 2016	7,609	2,166	2,514	7,911	20,200
Amortisation					
As at 1 January 2015	—	332	121	1,686	2,139
Charge for year	—	666	121	672	1,459
As at 31 December 2015	—	998	242	2,358	3,598
Charge for year	—	432	228	1,331	1,991
As at 31 December 2016	—	1,430	470	3,689	5,589
Net book value					
As at 31 December 2016	7,609	736	2,044	4,222	14,611
As at 31 December 2015	4,112	1,162	1,831	2,923	10,028
As at 1 January 2015	4,112	1,828	1,427	3,565	10,932

10 Property, plant and equipment

	Freehold/ leasehold property £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Total £'000
Cost					
As at 1 January 2015	2,131	98,646	1,162	112	102,051
Additions	13	41,192	256	—	41,461
Disposals	—	(222)	—	(32)	(254)
As at 31 December 2015	2,144	139,616	1,418	80	143,258
Additions	20	42,503	381	—	42,904
Additions from acquisitions	75	69	309	1,384	1,837
Disposals	—	(1,479)	—	(1,295)	(2,774)
As at 31 December 2016	2,239	180,709	2,108	169	185,225
Depreciation					
As at 1 January 2015	106	10,142	492	34	10,774
Charge for year	64	6,378	340	34	6,816
Disposals	—	(21)	—	(11)	(32)
As at 31 December 2015	170	16,499	832	57	17,558
Charge for year	93	9,235	508	141	9,977
Disposals	—	(217)	—	(70)	(287)
As at 31 December 2016	263	25,517	1,340	128	27,248
Net book value					
As at 31 December 2016	1,976	155,192	768	41	157,977
As at 31 December 2015	1,974	123,117	586	23	125,700
As at 1 January 2015	2,025	88,504	670	78	91,277

Hire purchase agreements

Included within the net book value of £157,977,000 (2015: £125,700,000) is £16,839 (2015: £73,258) relating to assets held under hire purchase agreements. The depreciation charged to the consolidated financial statements in the year in respect of such assets amounted to £79,578 (2015: £65,060).

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

11 Financial asset investments

	Shares in Group undertaking £'000	Unlisted investments £'000	Total £'000
Cost			
As at 1 January 2016	43	40	83
Additions as part of acquisitions	—	35	35
As at 31 December 2016	43	75	118

Financial asset investments are not consolidated on the basis that they are not material to the Group.

Notes to the financial statements continued

For the year ended 31 December 2016

11 Financial asset investments continued**Subsidiary undertakings**

	Registered office	Holding	Proportion of shares held	Nature of business
All held by the Company:				
SMS Connections Limited	1	Ordinary shares	100%	Gas utility management
SMS Meter Assets Limited	1	Ordinary shares	100%	Gas utility management
SMS Data Management Limited	1	Ordinary shares	100%	Data management
UKMA (AF) Limited*	2	Ordinary shares	100%	Leasing
SMS Energy Services Limited	3	Ordinary shares	100%	Electricity utility management
SMS Italia SRL*	4	Ordinary shares	100%	Electricity utility management
CH4 Gas Utility and Maintenance Services Limited	3	Ordinary shares	100%	Meter installation
Trojan Utilities Limited	3	Ordinary shares	100%	Meter installation
Qton Solutions Limited	3	Ordinary shares	100%	Business and domestic software development

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

1. Registered office address: 2nd Floor, 48 St. Vincent Street, Glasgow G2 5TS.

2. Registered office address: CMS Cameron McKenna LLP, Cannon Place, 78 Cannon Street, London EC4N 6AF.

3. Registered office address: Prennau House, Copse Walk, Cardiff Gate Business Park, Cardiff CF23 8XH.

4. Registered office address: Via Gaudenzio Ferrari, 21/C 21047 Saronno VA, Italy.

12 Impairment of goodwill

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

Goodwill has been tested for impairment by comparing the carrying amount of each CGU, including goodwill, with the recoverable amount. The recoverable amounts are determined from value-in-use calculations.

The key assumptions for the value-in-use calculations are those regarding pre-tax cash flow projections, discount rates and growth rates. The pre-tax cash flow is based on past performance and expectations as set out in the latest projections based on financial budgets approved by management. This discount rate reflects the current market assessment of the time value of money. Long-term growth is assumed at 2% and the estimated cash flows are derived by discounting future cash flows that are based on conservative growth and attrition rates and discounted at a pre-tax rate of 8.2%.

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

13 Inventories

	2016 £'000	2015 £'000
Finished goods	5,569	996
Consumables	552	103
	6,121	1,099

14 Trade and other receivables

	2016 £'000	2015 £'000
Trade receivables	7,610	4,815
Prepayments	1,369	221
Accrued income	5,248	5,145
Other receivables	617	24
VAT recoverable	892	—
Income tax recoverable	58	—
	15,794	10,205

Amounts falling due after more than one year:

	2016 £'000	2015 £'000
Accrued income	628	901

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

The Group's credit risk is primarily attributable to trade receivables and accrued income. The amounts presented in the Consolidated statement of financial position are net of allowances for doubtful receivables. The allowance for doubtful receivables or provision against accrued income in the year was £1,081,541 (2015: £367,253). The ageing profile of trade receivables past due date is shown below:

	2016 £'000	2015 £'000
31-60 days	1,039	1,168
61-90 days	391	321
Over 90 days	1,883	776
	3,313	2,265
Allowance for doubtful receivables	(1,082)	(367)
	2,231	1,898

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

Trade receivables due from related parties at 31 December 2016 amounted to £Nil (2015: £Nil).

Receivables are all in Sterling denominations.

The Directors are of the opinion that £1,082,000 of the overdue debts as at 31 December 2016 require impairment.

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

15 Cash and cash equivalents

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

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

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

	2016 £'000	2015 £'000
Cash	7,999	5,711
	7,999	5,711

Notes to the financial statements continued

For the year ended 31 December 2016

16 Trade and other payables

	2016 £'000	2015 £'000
Current		
Trade payables	11,421	5,324
Other payables	2,913	94
Advance payments	2,700	3,105
Other taxes	1,782	827
Deferred income	790	602
Accruals	6,411	4,967
Income tax payable	725	445
	26,742	15,364

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

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

All trade liabilities are Sterling denominated.

17 Bank loans and overdrafts

	2016 £'000	2015 £'000
Current		
Bank loans	14,530	8,496
	14,530	8,496
Non-current		
Bank loans	87,646	76,219
	87,646	76,219

Bank loans at 31 December 2016 relate to a revolving credit facility of £150.0m that was finalised in March 2016.

The loan is available for 24 months and is payable in equal quarterly instalments based on a ten-year repayment profile, with a final repayment date of 14 March 2019. The loan attracts interest at a rate of 1.9% over the three-month LIBOR. 0.76% is paid on undrawn funds.

Since the year end a new £280m revolving credit facility has been agreed with a syndicate of banks which comprises Barclays Bank PLC, Santander UK PLC, HSBC UK, Clydesdale Bank PLC and Bank of Scotland PLC. The revolving credit facility replaces the Group's existing £150m revolving credit facility.

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

18 Commitments under hire purchase agreements

Future minimal commitments under hire purchase agreements are as follows:

	2016 £'000	2015 £'000
Current		
Amounts payable within one year	28	64
Non-current		
Amounts payable between two and five years	1	14

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.

19 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.

	2016 £'000	2015 £'000
Other financial assets	—	—
Non-current liabilities		
Other financial liabilities	—	46

Other financial assets and liabilities relate to the fair value adjustment on interest rate swaps. In December 2015 the fair values of financial instruments were valued using Level 2 techniques.

The interest rate swaps cover an interest rate swap for an amount of £Nil as at 31 December 2016 (2015: £26,400,000).

The interest rate swap was settled on 15 September 2016.

20 Financial risk management

The Board reviews and agrees policies for managing the risks associated with interest rate, credit and liquidity risk.

The Group has in place a risk management policy that seeks to minimise any adverse effect on the financial performance of the Group by continually monitoring the following risks:

Interest rate risk

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

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

Interest rate sensitivity

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

Pounds Sterling	Increase/decrease in basis points	Effect on profit before tax £'000
2016	—	46
2015	1%	329

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
2016	—	112,796	112,796
2015	26,400	58,556	84,956
1 January 2015	30,153	31,550	61,703

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

Interest rate risk profile of financial assets

The Group's financial assets at 31 December 2016 comprise cash and trade receivables. The cash balance of £7,999,000 (2015: £5,711,000) is a floating rate financial asset.

Fair values of financial liabilities and financial assets

The fair values, based upon the market value or discounted cash flows of financial liabilities and financial assets held in the Group, were not materially different from their book values.

Foreign currency risk

The Group's exposure to the risk of changes in foreign exchange is insignificant as primarily all of the Group's operating activities are denominated in Pounds Sterling.

Notes to the financial statements continued

For the year ended 31 December 2016

20 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; this is considered to be institutions with a credit rating of AA- and above. Currently, all of the chosen investment institutions are in line with this criteria.

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

	2016 £'000	2015 £'000
Fixed rate		
Less than one year	—	3,392
Two to five years	—	12,497
Over five years	—	14,119
	—	30,008
Variable rate		
Less than one year	16,574	6,728
Two to five years	62,792	25,597
Over five years	33,430	35,096
	112,796	67,421

Credit risk

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

The Group's maximum exposure to credit risk from its customers is £12,858,000 (2015: £9,960,000) as disclosed in note 14 – trade and other receivables, and accrued income.

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

Capital management

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

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

The objective of SMS's strategy is to deliver long-term value to its shareholders whilst maintaining a balance sheet structure that safeguards the Group's financial position. From an ordinary dividend perspective our objective is to provide a progressive, through cycle dividend that reflects the potential volatility of our business.

21 Deferred taxation

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

	2016 £'000	2015 £'000
Opening deferred tax liability	6,139	4,395
Increase in provision through Consolidated statement of comprehensive income	1,186	1,467
Increase in provision through equity	98	97
Deferred tax on intangibles acquired as part of acquisitions	462	—
Other	—	180
Closing deferred tax liability	7,885	6,139

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

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

	2016 £'000	2015 £'000
Excess of taxation allowances over depreciation on property, plant and equipment	8,934	7,029
Tax losses available	(265)	—
Deferred tax asset on share options	(1,643)	(1,708)
Deferred tax on intangible acquired	679	828
Fair value of interest rate swaps (net)	—	(10)
Other	180	—
	7,885	6,139

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

	2016 £'000	2015 £'000
Accelerated capital allowances	1,690	1,736
Tax losses	(175)	—
Deferred tax asset on share options	(33)	36
Movement in fair value of intangibles	(491)	(309)
Movement in fair value of interest rate swaps	10	4
Other	184	—
	1,185	1,467

The Finance Bill 2016, which was substantively enacted on 6 September 2016, includes legislation reducing the main rate of UK corporation tax from 20% to 17%. This decrease is to be phased in with a reduction to 19% effective from 1 April 2017, then a further reduction to 17% effective from 1 April 2020. Consequently, deferred tax has been provided at the tax rates at which temporary differences are expected to reverse.

Notes to the financial statements continued

For the year ended 31 December 2016

22 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 (2015: £41,500) to the Directors' pension scheme, Eco Retirement Benefit Scheme, for the use of certain premises. Alan Foy is a trustee of the scheme. At the year-end date, an amount of £4,150 (2015: £4,150) was outstanding in this regard.

The Group also paid rent of £28,417 (2015: £32,000) to another individual classified as key management for the use of certain premises.

During the year, the Group paid dividends to Alan Foy of £269,548 (2015: £252,178) and Miriam Greenwood of £401 (2015: £298).

At the year end Trojan Utilities Limited had a balance with Utilities Academy Limited of £26,442 with transactions during the year amounting to £49,508.

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

	2016 £'000	2015 £'000
Salaries and other short-term employee benefits	1,622	1,227

23 Share capital

	2016 £'000	2015 £'000
Allotted and called up:		
89,203,739 ordinary shares of £0.01 each (2015: 86,112,912 ordinary shares of £0.01 each)	892	861

On 11 January 2016, 6,579 ordinary share options were exercised, 5,008 retained and 1,571 subsequently sold by staff.

On 31 March 2016, 17,598 ordinary share options were exercised, 11,722 retained and 5,876 subsequently sold by staff.

On 5 April 2016, 1,072,055 ordinary shares were issued as consideration for the acquisition of CH4 Gas Utility and Maintenance Services Limited ("CH4"), Trojan Utilities Limited ("Trojan") and Qton Solutions Limited ("Qton"). See note 28 for further information.

On 12 April 2016, 35,378 ordinary share options were exercised, 26,560 retained and 8,818 subsequently sold by staff.

On 25 April 2016, 4,079 ordinary share options were exercised, 2,704 retained and 1,375 subsequently sold by staff.

On 23 June 2016, 1,452,725 ordinary share options were exercised, 412,912 retained and 1,039,812 subsequently sold by staff.

On 8 July 2016, 500,000 ordinary share options were exercised and subsequently sold by staff.

On 12 July 2016, 713 ordinary share options were exercised and subsequently sold by staff.

On 10 November 2016, 1,700 ordinary share options were exercised and subsequently sold by staff.

24 Share-based payments

On 20 June 2011, the Company adopted both an Approved Company Share Option Plan (CSOP) and an Unapproved Company Share Option Plan ("the Unapproved Plan").

CSOP

The CSOP is open to any employee of any member of the Group up to a maximum value of £30,000 per employee. No option can be exercised within three years of its date of grant. The performance conditions for awards are based on market capitalisation and individual performance targets.

Unapproved Plan

The Unapproved Plan is open to any employee, Executive Director or Non-executive Director of the Company or any other Group company who is required to devote substantially the whole of his time to his duties under his contract of employment. Except in certain specified circumstances no option will be exercisable within five years of its grant. The performance conditions for awards are based on market capitalisation and individual performance targets. The options granted on 28 June 2013 were granted following the surrender of previously vested awards held by the Non-Executive directors and became exercisable immediately on the date of grant.

Plan	At 1 January 2016	Granted	Exercised	Lapsed	At 31 December 2016	Exercise price (pence)	Date exercisable	Expiry date
CSOP	179,961	—	(93,834)	—	86,127	76.0	15/07/14	15/07/21
CSOP	3,500	—	(3,500)	—	—	153.5	28/05/15	28/05/22
Unapproved	2,560,393	—	(1,920,725)	(50,002)	589,666	60.0	20/06/16	20/06/21
Unapproved	1,150,737	—	—	(49,548)	1,101,189	153.5	28/05/17	28/05/22
Unapproved	28,700	—	—	—	28,700	60.0	28/06/13	28/06/23
Unapproved	1,337,935	—	(713)	(36,152)	1,301,070	350.0	12/11/19	12/11/24
Unapproved	—	317,382	—	—	317,382	391.8	20/03/21	19/03/26
Unapproved	—	172,634	—	—	172,634	470.0	18/08/21	17/08/26

The average weighted average share price at the date of exercise was £4.90.

Valuation

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

Grant date	Plan	Fair value (pence)
15 July 2011	CSOP	17.1
28 May 2012	CSOP	31.5
20 June 2011	Unapproved	17.4
20 June 2011	Unapproved	13.0
28 May 2012	Unapproved	40.0
28 June 2013	Unapproved	244.0
12 November 2014	Unapproved	84.8
20 March 2016	Unapproved	61.5
18 August 2016	Unapproved	87.2

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

Notes to the financial statements continued

For the year ended 31 December 2016

24 Share-based payments continued**Share Incentive Plan (SIP)**

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

SIP awards

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

Type of award	At 1 January 2016	Awarded shares	Sold	Lapsed	At 31 December 2016	Weighted average acquisition price
Partnership	60,895	35,662	(2,450)	—	94,107	£4.90
Matching	60,549	35,662	(624)	(1,880)	93,707	£4.90
Dividend	317	1,200	(20)	—	1,497	£3.58
Total	121,761	72,524	(3,094)	(1,880)	189,311	

25 Other reserve

This is a non-distributable reserve that initially arose by applying merger relief under section 162 of the Companies Act 2006 to the shares issued in 2009 in connection with the Group restructuring. This was previously recognised as a merger reserve under UK GAAP. Under IFRS, this has been classed as an "other reserve". Additionally, the premium of £4,189,000 arising on the issue of shares as part of the acquisitions of CH4 Gas Utility and Maintenance Services Limited ("CH4"), Trojan Utilities Limited ("Trojan") and Qton Solutions Limited ("Qton") has been credited to this reserve.

26 Commitments under operating leases

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

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

	2016 £'000	2015 £'000
Future minimal commitments under operating lease agreements are as follows:		
Payable within one year	1,543	271
Payable within two and five years	2,144	375
Payable after five years	162	259
	3,849	905

During the year vehicles acquired as part of Trojan Utilities Limited that were previously financed under hire purchase agreements were subject to a sale and operating leaseback arrangement with a third party at arms length rates.

27 Ultimate controlling party

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

28 Business combinations

Acquisitions of Trojan, CH4 and Qton

On 18 March 2016, the Group acquired 100% of the issued share capital of CH4 Gas Utility and Maintenance Services Limited ("CH4"), 100% of the issued share capital of Trojan Utilities Limited ("Trojan") and 100% of the issued share capital of Qton Solutions Limited ("Qton").

CH4 and Trojan are meter suppliers and they will enhance SMS's capability to be a key participant in the substantial new Domestic smart meter market for homes and small businesses in the UK.

Alongside these installation businesses, Qton will help to serve SMS's existing and future contracts, most of which use its systems already. This will ensure full confidence to energy suppliers throughout the domestic smart meter rollout.

CH4 is a specialist in traditional and smart gas and electricity metering installations to the Domestic and I&C sectors. It operates throughout the UK and is a current service provider to SMS.

Trojan is a leading installation service provider to energy suppliers in the UK and delivers domestic smart gas and electricity trained and accredited installation services.

Qton has a team of IT professionals specialising in the provision of work and field management IT systems applications for gas and electricity metering installations. The customers for the company's solutions are energy suppliers, installations contractors and meter asset managers and owners in the UK with specific applications tailored for domestic dual fuel smart installations.

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

	CH4 £'000	Trojan £'000	Qton £'000	Total £'000
Property, plant and equipment	366	1,459	18	1,843
Software	—	500	1,500	2,000
Customer contracts	—	—	—	—
Other financial assets	—	109	—	109
Inventories	175	73	—	248
Trade and other receivables	1,622	673	228	2,523
Cash and cash equivalents	167	88	197	452
Total assets	2,330	2,902	1,943	7,175
Trade and other payables	(551)	(516)	(38)	(1,105)
Accruals and deferred income	(1,046)	(1,624)	(564)	(3,234)
Obligations under hire purchase agreements	(92)	(923)	—	(1,015)
Total liabilities	(1,689)	(3,063)	(602)	(5,354)
Acquisition date fair value of the assets	641	(161)	1,341	1,821
Goodwill arising on acquisition	1,359	579	1,559	3,497
Total consideration transferred (as equity instruments)	2,000	418	2,900	5,318

Analysed as:

	CH4 £'000	Trojan £'000	Qton £'000	Total £'000
Ordinary shares	4	—	7	11
Merger reserve	1,596	—	2,593	4,189
Deferred consideration (included within other creditors)	400	418	300	1,118
Total consideration	2,000	418	2,900	5,318

On 5 April 2016 1,072,055 ordinary shares were issued as consideration for the acquisitions of CH4, Trojan and Qton at a price of 391.775p.

Notes to the financial statements continued

For the year ended 31 December 2016

28 Business combinations continued**Acquisitions of Trojan, CH4 and Qton** continued

The fair value of the equity instruments (ordinary shares) issued as consideration paid was determined on the basis of the closing market price of SMS's ordinary shares on the date of acquisition.

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

The financial information included the results of CH4, Trojan and Qton for the period 18 March 2016 to 31 December 2016, during which time:

	CH4 £'000	Trojan £'000	Qton £'000	Total £'000
The contribution to revenue by each company was:	907	5,115	871	6,893
And to Group profit for the period was:	(1,224)	(1,502)	351	(2,376)

If the combinations had each taken place at the beginning of the period:

	CH4 £'000	Trojan £'000	Qton £'000	Total £'000
The contribution to Group profit from each would have been:	(1,521)	(1,698)	(158)	(3,377)
And the contribution to revenue from continuing operations from each would have been:	2,140	6,576	1,163	9,879

The acquisitions of CH4 and Trojan are part of the Group's strategy to gain direct control of a large proportion of our installation capacity for ongoing delivery of our customer contracts in the I&C and Domestic meter markets. This will provide confidence to our customers in our delivery model for the new Domestic smart metering market. In addition, the acquisition of Qton allows the Group to gain direct control and ownership of all software applications used by SMS for asset installation and ongoing management.

The goodwill recognised above is attributed to the expected benefits of securing our installation capacity and controlling our software applications.

None of the goodwill recognised is expected to be deductible for income tax purposes.

The primary components of this residual goodwill comprise:

- ▶ the workforce;
- ▶ the software capability;
- ▶ revenue synergies from dual fuel; and
- ▶ new opportunities available to each company as part of the larger AIM-listed Group.

The identifiable intangible assets will be amortised as follows:

- ▶ Software – 20%
- ▶ Customer contracts – 20%

Transaction costs and expenses directly relating to the acquisitions of £455,000 have been disclosed as exceptional items in the consolidated financial statements and are included within administrative expenses.

Parent company balance sheet

As at 31 December 2016

	Notes	2016 £'000	2015 £'000
Fixed assets			
Investments	2	22,254	16,902
Current assets			
Debtors	3	5,860	808
Creditors			
Amounts falling due within one year	4	1,118	—
Net current assets		4,742	808
Total assets less current liabilities		26,996	17,710
Capital and reserves			
Called up share capital	6	892	861
Share premium	7	10,860	9,649
Other reserve	7	8,446	4,257
Profit and loss account	7	6,798	2,943
Equity shareholders' funds		26,996	17,710

No profit and loss account is presented by the Company as permitted by section 408 of the Companies Act 2006. The profit after taxation dealt with in the financial statements of the Company was £7,000,000 for the financial year ended 31 December 2016 (2015: £3,500,000).

The parent company financial statements on pages 73 to 76 were approved and authorised for issue by the Board of Directors and signed on its behalf by:

Glen Murray

Director

21 March 2017

Company registration number

SC367563

Parent company statement of changes in equity

As at 31 December 2016

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 2015	856	9,291	4,257	2,006	16,410
Total comprehensive income for the year	—	—	—	3,500	3,500
Transactions with owners in their capacity as owners:					
Dividends (note 8)	—	—	—	(2,564)	(2,564)
Shares issued	5	359	—	—	364
As at 31 December 2015	861	9,650	4,257	2,942	17,710
Total comprehensive income for the year	—	—	—	7,000	7,000
Transactions with owners in their capacity as owners:					
Dividends (note 8)	—	—	—	(3,145)	(3,145)
Shares issued	31	1,211	4,189	—	5,431
As at 31 December 2016	892	10,861	8,446	6,797	26,996

Notes to the parent company financial statements

For the year ended 31 December 2016

The parent company financial statements of SMS plc ("the Company") for the year ended 31 December 2016 were authorised for issue by the Board of Directors on the 21 March 2017 and the balance sheet was signed on the Board's behalf by Glen Murray. Smart Metering Systems plc is a public limited company limited by shares and incorporated and domiciled in Scotland, with its registered office at 2nd Floor, 48 St. Vincent Street, Glasgow G2 5TS. The Company's ordinary shares are traded on AIM.

1 Parent company accounting policies

Basis of accounting

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

The accounting policies of the parent company financial statements follow those policies which apply in preparing the consolidated financial statements for the year ended 31 December 2016. The financial statements are prepared in Sterling and are rounded to the nearest thousand Pounds (£'000).

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

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

Going concern

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

Investments

Investments in subsidiary undertakings are stated in the balance sheet of the Company at cost, or nominal value of the shares issued as consideration where applicable, less provision for any impairment in value.

2 Investments

Company	Group companies £'000
Cost	
As at 1 January 2016	16,902
Additions	—
As at 31 December 2015	16,902
Additions	5,352
As at 31 December 2016	22,254
Net book value	
As at 31 December 2016	22,254
As at 31 December 2015	16,902

Notes to the parent company financial statements continued

For the year ended 31 December 2016

2 Investments continued**Subsidiary undertakings**

	Registered office	Holding	Proportion of shares held	Nature of business
All held by the Company:				
SMS Connections Limited	1	Ordinary shares	100%	Gas utility management
SMS Meter Assets Limited	1	Ordinary shares	100%	Gas utility management
SMS Data Management Limited	1	Ordinary shares	100%	Data management
UKMA (AF) Limited*	2	Ordinary shares	100%	Leasing
SMS Energy Services Limited	3	Ordinary shares	100%	Electricity utility management
SMS Italia SRL*	4	Ordinary shares	100%	Electricity utility management
CH4 Gas Utility and Maintenance Services Limited	3	Ordinary shares	100%	Meter installation
Trojan Utilities Limited	3	Ordinary shares	100%	Meter installation
Qton Solutions Limited	3	Ordinary shares	100%	Business and domestic software development

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

1. Registered office address: 2nd Floor, 48 St. Vincent Street, Glasgow G2 5TS.

2. Registered office address: CMS Cameron McKenna LLP, Cannon Place, 78 Cannon Street, London EC4N 6AF.

3. Registered office address: Prennau House, Copse Walk, Cardiff Gate Business Park, Cardiff CF23 8XH.

4. Registered office address: Via Gaudenzio Ferrari, 21/C 21047 Saronno VA, Italy.

3 Debtors: amounts falling due within one year

	2016 £'000	2015 £'000
Amounts owed by Group undertakings	5,860	808

4 Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Other creditors	1,118	—

5 Related party transactions

During the year, the Group paid dividends to Alan Foy of £269,548 (2015: £252,178) and Miriam Greenwood of £421 (2015: £298).

6 Share capital

	2016 £'000	2015 £'000
Allotted and called up:		
89,203,739 ordinary shares of £0.01 each (2015: 86,112,912 ordinary shares of £0.01 each)	892	861

7 Other reserve

This is a non-distributable reserve that initially arose by applying merger relief under section 162 of the Companies Act 2006 to the shares issued in 2009 in connection with the Group restructuring. This was previously recognised as a merger reserve under UK GAAP. Under IFRS, this has been classed as an "other reserve". Additionally, the premium of £4,189,000 arising on the issue of shares as part of the acquisitions of CH4 Gas Utility and Maintenance Services Limited ("CH4"), Trojan Utilities Limited ("Trojan") and Qton Solutions Limited ("Qton") has been credited to this reserve.



Smart Metering Systems plc

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