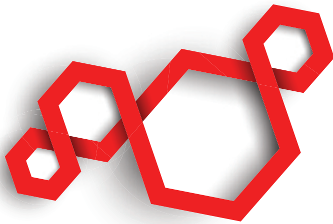

ServicePower
Innovating Field Service

# ServicePower Technologies plc

## Report and Financial Statements

Year ended 31 December 2013

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## Directors

L N Bury (Non-Executive Chairman) (Resigned as Chairman effective 24 March 2014)
M Duffin (Chief Executive Officer) (Resigned 10 September 2013)
H Fitzwilliam-Lay (Non-Executive Director) (Appointed as Chairman effective 24 March 2014)
R E Mace (Non-executive Director)
S A Gillings (Finance Director) (Resigned 28 February 2013)
M E Martin (Chief Executive Officer) (Appointed 11 September 2013)
(Chief Financial Officer) (Appointed 7 January 2013)

## Secretary

S A Gillings (Resigned 28 February 2013)
M E Martin (Appointed 1 March 2013)

## Registered Office

Petersgate House, 64, St Petersgate, Stockport, Cheshire, SK1 1HE

## Company number

3941006

## Auditor

Deloitte LLP, Chartered Accountants and Statutory Auditor
Manchester, United Kingdom.

# Joint statement of the Chairman and Chief Executive

## *Introduction*

ServicePower provides the leading optimisation technology in the field service industry for employed and contracted technicians. The patented technology provides field service organisations with a fully mobilised scheduling and dispatch solution which can be used to route and dispatch employed, contracted 3rd party or on demand field resources, based on robust rules based logic that enables clients to mix resources to achieve productivity, cost, margin and customer service objectives.

Continuous product investment and innovation like cutting edge mobile technology and M2M connected services, strategic alliances and partnerships, and excellent implementation and deployment services are driving increasing global contract momentum. Focused on delivering improved operating margins and shareholder value over time, ServicePower is positioned for financial success.

The financial results for 2013 represent a strong recovery and renewed confidence in the business as compared to 2012. The focus was returned to the core products and servicing client needs with a positive result. Clients were renewed at very high retention rate, some new clients were won, and interest remains strong in the overall product suite. Technologically, the Company is now in an improved position, with growing brand awareness in the marketplace.

With £2.7 million of cash at year end, increasing to £3.4 million in January 2014, the fundamentals of the business remain strong, with ServicePower having a powerful Field Service technology platform that is progressively differentiating itself from the competition.

The Company has two segments, ServiceScheduling (including ServiceMobility) and ServiceOperations (including ServiceClaims, ServiceDispatch, ServiceMarket, S2 and ServiceRatings). The source code and experienced employees that were commercialised in 2013 to launch the product ServiceMobility, were acquired from the Stratix Corporation in January 2013. SmartServices will be rolled out to customers in 2014 as an exciting step in the transformation of ServicePower. SmartServices combines the additional functionality and business logic available via ServiceBroker with the current product suite.

The Board is focused on generating increased organic profits, building channels and alliances, and winning new clients in the verticals where its products are best suited. Likewise, the Company will focus on moving towards a unified platform, and utilising its capabilities to partner with M2M and other technology platforms as SmartServices is commercialised in 2014.

## *Financial Review*

All streams of revenue grew in 2013.

Total revenue for the year increased by more than 25 per cent. to £14.0 million (2012: £11.1 million) reversing the decline seen in 2012. Within this, ServiceScheduling licence and consultancy revenue increased by 9 per cent. to £7.6 million (2012: £7.0 million), whilst ServiceOperations revenue increased by 32 per cent. to £6.4 million including £0.9m in license sales (2012: £4.1 million). Mobility, included within the ServicesScheduling segment, increased by 120 per cent. to £1.1 million (2012: £0.5 million) reflecting for the first time ServicePower having its own mobility product. The 2013 figures represent the revenue from ServiceMobility versus 2012 from mobility/GPS products re-sold by the Company.

The Company continued to invest in maintaining functionalities across all of its product range, investing £1.0 million in 2013 (2012: £1.0 million) in its organic development efforts separate from acquisitions. Of the £1.0 million invested in 2013, £0.6 million was capitalised based on development activities across ServiceScheduling, ServiceRatings and ServiceBroker in accordance with IAS 38.

Gross profit for the period increased by 47 per cent. to £6.6 million (2012: £4.5 million) and profit before tax increased to a profit of £0.05 million (2012: restated loss of £1.6 million*) including the gain from the Stratix acquisition.

The adjusted loss before tax was £0.6 million (2012: restated loss before tax £1.1 million*). The adjusted loss before tax refers to the loss before tax adjusted for a foreign exchange translation gain of £0.3 million (2012: loss of £0.5 million) and gain arising on the Stratix acquisition of £0.4 million). Profit after tax was £0.2 million (2012: restated £1.6 million*).

The basic and diluted profit per share for the full year was 0.1p (2012: restated basic and diluted loss per share of 0.87p*).

Cash balances were £2.7 million at 31 December 2013 (£3.4 as of 17 January 2014), compared to the cash balances at 31 December 2012 of £4.5 million. The decline in cash is primarily related to non-recurring transaction costs detailed in the 2013 Interim Statement and the overhead burden of the staff hired on as part of the Stratix acquisition.

*During the latter part of 2013, the new management team undertook a review of the accounting for the convertible loan note. This review is explained further in note 2- critical accounting judgements.

## *Operational Review*

### *Creating a complete field services platform*

2013 saw ServicePower go back to basics to rebuild its brand awareness in its core product lines, utilising the strength of its products and customer relationships.

Our platform, acknowledged as the leading optimisation technology, has been developed over 20 years by field service experts. The patented technology provides field service organisations with a fully mobilised scheduling and dispatch solution which can be used to route and dispatch employed, contracted 3rd party or on demand field resources, based on robust rules based logic that enables clients to mix resources to achieve productivity, cost, margin and customer service objectives.

Our scheduling technology is unique to the industry. Its patented Simulated Annealing technology and proprietary travel matrix engine enable field service organisations to intelligently schedule the best technicians, for the best job, with the right parts to get the job completed the first time. It also provides robust logic to manage SLA work and complex jobs that other competitive rules based products cannot deliver.

Our M2M connected services technology, a partnership with global device or other product manufacturers and a leading M2M technology provider enables proactive automation of field based events and tie in with our Smart Services business and parts logic in order to provide far superior results for customers compared to competitors which simply monitor GPS devices.

Developed as a global, industry agnostic platform, the ServicePower software supports clients ranging from insurance, third party administration and home warranty providers, to manufacturers of appliances and electronics, heating and air systems, food service, and pool and spa products.

Clients also include global retail, telecom providers, utilities, social housing, facilities management, direct mail/digital messaging, and information/media measurement, in addition to fire and security and managed print services.

Our innovative field service management platform offers:

- Demonstrated productivity gains of 25-50 per cent. with best in class scheduling and mobility solution for SLA, parts management and complex jobs.
- Improved line of sight, fraud control and cost savings of 30 per cent. with Industry Leading SaaS Warranty Claims and Dispatch Software and fully outsourced service management.
- 40 per cent. more efficiently scheduled field resources with Innovative Business Process Logic, Parts Intelligence and Analytics.

As a result of building the platform to contain all of the necessary tools, a customer can now turn to ServicePower to manage the complete lifecycle of a job, using a variety of field resources, from optimised scheduling and 3rd party dispatch, to mobile status updates, job based parts management, signature capture, GPS tracking, 3rd party claim payments and analytics.

### *ServiceScheduling*

ServiceScheduling had a resurgence of momentum in 2013 with the release of version nine of the software, a 100 per cent. renewal rate of customers (including transitioning many customers to an auto renewal relationship), and the addition of some new customers. The average longevity of ServiceScheduling customer relationships and the average number of technicians/jobs scheduled each day leads the industry. ServicePower was able to complete the development of the enterprise ServiceMobility product in 2013, launch it with a number of blue chip clients, and fully integrate it into its Scheduling product. The integration with our ServiceOperations product is underway and the launch of a cloud version of ServiceMobility is imminent.

### *ServiceOperations*

ServiceOperations had a good year in terms of commercializing new client wins and building transactional volume. Key US customers include: Global Warranty Group, AIG Warranty, Bosch, Square Trade, Brandsmart, Haier America, and many others. Key clients in the UK include Richer Sounds, John Lewis, Tesco and others. A key new contract win in late 2013 was with Electrolux Home Appliances, building on a late 2012 contract for ServiceMarket, and it has now implemented warranty claims management and ServiceStats, followed by dispatch and eventually also ServiceScheduling, ServiceMobility and ServiceGPS.

### *Market*

The Field Service industry is one which is rapidly evolving. Increased competition in service, changing customer dynamics and reduced margins are driving field service organisations toward technology which can be used to improve their competitive edge, increase productivity and efficiency, as well as improve customer service through frequent communications via consumer centric channels like email, mobile 'apps' and social media.

Customers also expect scheduled appointments to eliminate wasted time, and technicians are prepared and knowledgeable enough to complete the job on the first visit.

Smart appliances and connected services or machine to machine technology are driving even more change as field service organisations strive to proactively address repair and maintenance issues, in an effort to reduce costs and improve margin, while anticipating outages and improving customer service.

ServicePower, the acknowledged leader in Optimisation Technology, provides a global, fully mobilized field service management software platform used by clients to improve productivity and efficiency, intelligently schedule appointments, SLA and complex jobs, as well as parts. It automates and enables proactive response to issues detected through connected devices. Our field service platform also enables clients to fully mobilise their field resources through a cutting edge MVEAP mobile application, which supports any connected device, as well as asynchronous movement between devices as onsite conditions change.

Clients may also manage, dispatch and pay 3rd party service providers, seamlessly mixing a variety of labour sources to achieve organisational metrics such as cost and margin, while managing seasonal demand spike and meeting customer response time expectations.

Completing our platform, business intelligence provides clients with the ability to monitor, analyse and adjust its processes based on data collected from across the field service organisation. We are seeking to provide more consulting services around the analysis and recommendations of our business intelligence product for customers as part of our SmartServices offering.

## *Strategic alliances*

In recent months we have renewed our focus on strategic partnerships and alliances, extending our market reach and product suite capabilities.

New alliances with leaders such as ServiceMax, a competitive, 100 per cent. native field service platform built entirely on Force.com, provides improved penetration of the Force.com customer ecosystem.

The Company is also building stronger partnerships with system integrators to leverage their abilities both in terms of client referrals and implementation support.

## *Growth Strategy*

ServicePower has entered 2014 with a clear strategy for growth, based around four key areas of focus. These are:

### *1) Growth of ServiceScheduling and mobility licence sales through cross-selling, direct sales and channel relationships*

ServiceScheduling is the foundation of the ServicePower platform. We are acknowledged by customers and analysts as one of the best in the world at scheduling with our multi-layer, cost versus rules based optimisation, having invested 20 years of development into the software. Our ability to deliver a truly enterprise level solution, as evidenced by our long standing global tier 1 customer base, is a strong foundation upon which to grow. We believe opportunities for licence growth exist across both our core and additional industry verticals, in many geographies. Demand is growing for our ServiceScheduling and Mobility products from existing clients, new clients and through channel partners that see the fit for their business and/or product lines. Brand awareness is building around the technological benefits of the dual optimisation and cost-based optimisation versus the standard rules based optimisation of many of the competitors. The mobility product likewise is unique in its field service application layer, ability to sync across multiple devices, and the flexibility of its implementation model.

### *2) Growth of ServiceOperations through adding new clients, launching new products with existing clients and growing transactional revenue*

ServiceOperations is experiencing very healthy and steady growth in the marketplace. Being an independent provider of a truly multitenant SaaS platform is valued and the Company is winning business from competitors, especially with the dispatch functionality for the management of work to be performed by contractors. Our full service outsourcing business is providing attractive options for customers seeking a professionally managed network for either supplementary or fully outsourced service network recruitment and management. ServiceDispatch is a unique offering without a direct competitor that offers like for like functionality and supporting consulting and outsourcing services. ServiceClaims is also experiencing renewed momentum with transaction volumes expected to double in 2014.

### *3) Technology integration and development*

The Company's focus is on technology, solving today's field service challenges, and investing in the future of both the multi-channel labour model and parts. Efforts are underway to continue the integration of the new products with the new functionality being released, and transitioning the core products to a unified platform, a common technology stack, and transitioning more infrastructure to the cloud.

### *4) International expansion and reach into new verticals*

We have entered the new year with a good pipeline of opportunities in continental Europe, the Middle East, Asia and Latin America, which we are entering through existing clients and via partners. In order to support these opportunities, additional language capabilities were added to the Scheduling platform in 2013 starting with German travel logic and the complete application translation to the German language to ensure a localized user experience. Additional languages are in the process of being added.

Further software releases will support multiple languages within the same deployment, including on premise or hosted instances, a key requirement for the Company's multinational client base. ServiceMobility has been enhanced to support complete localization, including language, and other critical data such as dates, times and user location information, for the Czech Republic. This extension, as well as several additional planned geographical deployment expansions, enhances ServicePower's ability to support its international clients, as well as improve its penetration outside the North American and UK markets. Mobility will also be extended to field based teams in Puerto Rico.

We are also seeing additional opportunities in new verticals, such as social housing, facilities management, retail and the manufacturing industries, which have similar drivers to our core white and brown goods markets.

## *Board Changes*

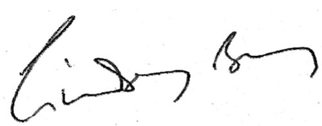
In January 2013, Marne Martin was appointed to the Board as Chief Financial Officer, and in September 2013 was named Chief Executive Officer

In September 2013, Mark Duffin's resignation from the Board was accepted. He had been put on garden leave in July 2013.

Per the announcement also dated today, Hugh Fitzwilliam- Lay will be taking over as Chairman. The Company thanks Lindsay Bury for his many years of distinguished service and is pleased that he is remaining on the Board of Directors.

## *Outlook*

With demonstrated sales success, and continued investment in strategic innovation and development of our global field management platform, ServicePower is positioned for a strong performance in 2014 and beyond. Our growing, prestigious client base, including some of the best known brands in the world, is proof of our commitment to providing the best, most complete, and technologically advanced field management tool in the world. Trading in 2014 has begun positively, and we are confident of a successful outcome to the year.



**Lindsay Bury, Chairman** **Marne Martin, CEO**

26 March 2014

# Strategic Report

## *Principal activities, trading review and future developments*

The principal activity of the Group is the sale, hosting and implementation of field service management software, outsourcing and management of dispatch, claims and warranty processing, and the sale of GPS and mobility products.

**Operations:** ServicePower's focus is on providing technology solutions, services, and industry expertise globally to allow service businesses to operate with maximum efficiency. The Group's solutions and services enable our customers to address the three key service delivery challenges: i) offer a higher quality of service, ii) reduce the cost of service delivery, and iii) grow revenue and profitability. The Group's head office is based in McLean, VA, with offices in Stockport, United Kingdom and Santa Ana, CA in the USA. The Group has three subsidiaries, ServicePower Business Solutions Limited in the UK, ServicePower Inc and Service Network LLC in the US. The financial position and performance of the Group is set out on pages 30 to 34.

**Markets:** The market for the Group's technology solutions and services is global, with most of its existing sales to companies throughout North America and the UK. Customers interested in the Group's solutions and services are those that employ in-house service engineers, or utilise a network of independent service contractors to respond to a request for service. These companies vary in size from large corporations with their own service engineers to small independent organisations with less than 5 technicians. The market for ServicePower enterprise optimisation software, ServiceScheduling, is those organisations which employ the greatest numbers. ServiceOperations is targeted at companies that manage service delivery through independent service companies. As part of the Group's total service product offering, our clients can, and sometimes do, outsource part or all of their service delivery operations. This service is delivered throughout North America, the United Kingdom and parts of Europe. In the future, the Group anticipates broadening its geographical reach.

**Sales and marketing:** 60 per cent. (2012: 60 per cent.) of Group turnover (£8.3 million) has been generated in North America (2012: £6.7 million). The Group continues to capitalise on the 250 man years of development already invested in its products, and the investment in 2013 to bring a number of new products into the fold through internal developing and acquisition of source code. Clients began upgrading to the latest version 9 of Scheduling beginning in Q4 2013. In 2013, 54 per cent. of revenue was generated from ServiceScheduling and 46 per cent. from ServiceOperations, (2012: 62 per cent. and 38 per cent., respectively) the change in percentage from the prior year being due to the change in product mix in revenue in the year. Further development includes the development of a unified platform, the maturation of ServiceBroker and migration of clients to more hosted and cloud-based solutions.

**Research and development:** To maintain the Group's leading edge software-based solutions, £1.0 million (2012: £1.0 million) in research and development has been incurred in the year; of which £0.6 million was capitalised in 2013 (2012: £nil). The Group has research and development centres in North America and the United Kingdom that employed an average of 12 staff (2012: 11) through which the Group develops its own intellectual property. In addition, to meet the demand for further customer enhancements, the Group has both acquired intellectual property such as the Mobility product and is bringing its Quality Assurance activities back internally rather than it being outsourced to an offshore company. Development cost capitalised in 2013 relates to final development of the acquired Mobility software as well as integrating the product into the existing suite of products, and development of Scheduling and Broker. All costs in 2012 related to research activity.

**Contract values:** Customers can either i) buy a one-time perpetual licence for ServiceScheduling with an annual fee for support and maintenance and new releases or ii) pay for the use of the licence and maintenance on a hosted or SaaS basis. This type of contract is variable in size and can range in value and term, depending upon the nature of the contract. Revenue from ServiceOperations is earned from a transaction cost approach.

## *Key performance indicators (KPIs)*

ServicePower operates in a complex and specialised field using a business model of a software sales company; the primary objective is to sell software licenses or hosted solutions using its software. In ServiceOperations, the goal is to maximise the number of transactions through ServiceOperations. The KPIs of the Group have been identified as follows.

**Revenue and deferred and accrued income:** In the year, invoiced sales for the Group were £14.3 million (2012: £11.8 million). £14.0 million was recognised as revenue (2012: £11.1 million) and held in the balance sheet was deferred income of £2.6 million (2012: £2.6 million) and accrued income of £0.2 million (2012: £0.4 million). This provides an indication of the value of support and maintenance contracts that has been invoiced and paid, but not yet completed, and the value of transactional jobs completed but yet to be invoiced.

A breakdown of revenue from the ServiceScheduling segment is as follows:

| | **2013** | **2012** |
|---|---|---|
| | **£ million** | **£ million** |
| Licences/subscription fees | 1.6 | 1.7 |
| Implementation/support | 6.0 | 5.3 |
| **Total** | **7.6** | **7.0** |

A breakdown of revenue from the ServiceOperations segment is as follows:

| | **2013** | **2012** |
|---|---|---|
| | **£ million** | **£ million** |
| Licences | 0.6 | 0.3 |
| Implementation/support | 0.1 | 0.2 |
| Hosting/SaaS | 1.5 | 1.2 |
| Operations US | 2.0 | 0.8 |
| Operations UK | 2.2 | 1.6 |
| **Total** | **6.4** | **4.1** |

**Monthly recurring revenue:** ServicePower has many ServiceScheduling maintenance contracts that are renewable annually and provide regular monthly revenue. Recurring revenue also comes from ServiceOperations clients, provided they continue to renew and previous transaction volumes can be relied upon to continue into the future. The renewal rate of the Group's customers remains stable and high.

**Gross margins and profit before tax:** These are other key performance financial indicators, the outcome of which is dependent upon sales volume and the mix of the business. The gross profit was £6.6 million in 2013 (2012: £4.5 million). The Group had a profit before tax of £0.2 million in 2013 (2012: restated loss before tax of £1.6 million).

**Operating cash flow:** ServicePower usually charges a percentage of the ServiceScheduling licence fee upon contract signature and the support and maintenance fees are invoiced annually in advance. This assists the Group with working capital requirements given that a significant proportion of costs are fixed employee-related costs. Trade debtors at the end of the financial year were £2.7 million (2012: £2.3 million). Debtor days for the Group represented 68 days of invoiced sales compared to 26 days at the end of 2012. The trade and other creditors and accruals at the end of the financial year were £1.1 million (2012: £1.9 million) representing 55 creditor days and 53 days in 2012. Cash outflow from operations for the year was £1.4 million (2012: outflow £0.8 million).

**Cash at bank:** The Board pays particular attention to the cash at bank and cash movements and regularly reviews cash forecasts to ensure the financial commitments of the Group are met. ServicePower closed the financial year with cash at bank, including short term deposits, of £2.8 million (2012: £4.5 million). Cash increased to £3.4 million by 17 January 2014. These cash balances reflect the repayment of one quarter of the outstanding convertible loan balance in August 2013.

**Employee recruitment and retention:** The Group increased its average headcount in the year by 27 to 98 employees (2012: 71), primarily as a result of the acquisition of the mobility group and software from The Stratix Corporation. ServicePower operates in a knowledge-based industry and requires a highly skilled workforce, particularly within the development teams. Consequently to maintain skill levels, flexibility and an ability to respond to market and client demands promptly, ServicePower has developed a partnership with an offshore development company, although the decision has been made to transition quality assurance activities back to the Company.

## *Commercial risks and uncertainties*

The key commercial risks and uncertainties facing the Group are as follows:

**Recruitment, retention and training of employees:** ServicePower operates in a knowledge-based industry and recognises the importance of the recruitment and retention of its highly skilled workforce.

**Reference customers:** The Group sells on the basis of adding value to the customer. A significant amount of the sales success is dependent upon the continued goodwill of existing customers to host reference visits by potential customers. This involves presentations by senior staff to demonstrate the value of the offering, the non-financial benefits and a demonstration of the software operating in real time.

**Customer procurement timescales:** The Group sells to global organisations which may have lengthy procurement processes, occasionally stretching over a considerable number of months. The procurement may go through several budgeting cycles, require board approval, face competition from other non IT-related projects and key decision makers may move on. For these reasons, it is difficult to forecast securing individual contracts, and it is almost impossible to predict the precise timing of the signing of contracts.

**Unpredictable cash flow:** To date, a significant portion of cash receipts have come from the sale of large software licences. The signing of contracts by large corporate customers is very difficult to predict due to long procurement cycles. Consequently, the Group has sought to reduce the impact of such sales by focusing the revenue streams towards a transactional and SaaS approach and developing other means of managing the cash outflows, including identifying cost saving measures.

**Exchange rates fluctuations:** The Group has significant operations in North America and as such is exposed to movements in the US Dollar/Sterling exchange rate. This risk has historically been alleviated somewhat by the stability of the currencies and matching revenues and costs in the two currencies.

**Technological advancement:** The Group operates in markets where technical development of the products can be fast-paced. This is particularly relevant as regards the use of new cloud technology, and consequently the Group will continue to develop its products so they can interface with the latest technology and, if suitable, acquire selective companies that would facilitate this further.

**Competition:** The Group keeps up to date on the business activities of all existing major competitors in its markets as well as identifying new entrants who may potentially gain a foothold in the market. The Group ensures its pricing structure is competitive when faced with competition for new business and has an account management programme in place to ensure existing business is protected from competitors.

## *Capital structure*

Details of the authorised and issued share capital, together with the details of the movements in the Company's issued share capital during the year are shown in note 17. The Company has two classes of shares. The ordinary shares carry no right to fixed income and each share carries the right to vote at general meetings of the Company. The deferred shares carry no rights to dividends or voting rights.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or voting rights.

Details of employee share schemes are set out in note 20.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of directors, the Company is governed by its Articles of Association, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of directors are described in the Main Board Terms of reference, copies of which are available on request, and the Corporate Governance Statement on page 15.

Under its Articles of Association, the Company has authority to issue ordinary shares.

There is an agreement should the Company be taken over by a purchase of its shares that all existing employee share options would vest immediately. This is not considered to be significant in terms of likely impact on the business of the Group as a whole. Furthermore, the directors are not aware of any agreements between the Company and its directors or employees that provide compensation for loss of office or employment that occurs because of a takeover bid other than the normal severance provisions included by contract with a given employee in the case of termination..

**Marne Martin, CEO**

26 March 2014

# Report of the directors

for the year ended 31 December 2013

The directors present their report on the affairs of the Group and the audited financial statements, for the year ended 31 December 2013. The Corporate Governance Statement, the Report of the Audit Committee and the Report of the Remuneration Committee on pages 15 to 22 are included in this report.

## *Results and dividends*

The consolidated income statement is set out on page 30 and shows the financial performance for the year.

The directors cannot recommend the payment of a dividend on the ordinary shares (2012: same).

## *Directors and their interests*

The directors who served during the year, and to the date of this report, except where stated on page 1, are:

**Lindsay Bury, Non-Executive Chairman (Resigned as Chairman effective 26 March 2014)**
Lindsay Bury has been with the Group since January 2000. Throughout his extensive business career he has been a founding director of ACT, now part of Misys, Chairman of Bango plc, a company listed on AIM, a director of Electric & General Investment Co Plc and a number of private software companies.

**Hugh Fitzwilliam-Lay, Non-Executive Director (Appointed as Chairman effective 26 March 2014)**
Hugh joined the Group in September 2007. He was co-founder of Citipost Inc., a logistics company that was sold to Royal Mail in 2000 and is currently Managing Partner of BFL&P, an early stage venture capital investor that has stakes in 15 companies. He also has an interest in Venrex 1 LLP, a small venture capital company.

**Rick Mace, Non-Executive Director**
Rick joined ServicePower in October 2012. He has extensive experience business experience within the technology industry at international level and with both publicly-listed and private companies. He currently holds directorships with Hakisa Corp., Island Club Resort, Kentrox Court, Tekelec Corp., and Wireless Telecom Group, Inc.

**Marne Martin, Chief Executive Officer; Former Chief Financial Officer**
Marne joined the Group in January 2013. She has experience in a wide range of domestic and international industries, and notably her last position was as CFO and a director for Norcon plc, a UK AIM-listed telecommunication and defence consulting company. She was formerly a director of Formigo Ltd (Tep Wireless) and Digicel Holdings Limited. Marne assumed full responsibility for the finance function after the departure of Sally Gillings in February 2013 until December 2013, at which point a management level appointment was made with Tajinder Sandhu becoming Finance Director. Marne was appointed acting Chief Executive Officer on 23 July 2013 and was appointed Chief Executive Officer on 11 September 2013.

**Mark Duffin, Former Chief Executive Officer**
Mark Duffin joined the Group in November 2007. He is a qualified engineer with an MBA. Previously Mark was a director of Rentokil Initial plc and Appian Technology plc. Mark begun garden leave in July 2013 and resigned from the Board in September 2013.

**Sally Gillings, Former Finance Director**
Sally was responsible for all the finance functions of the Group prior to her resignation from the Board in February 2013 and departure from the Company. Before joining the Board she held the position of Group Financial Controller with ServicePower for 8 years. A CIMA qualified accountant, she held senior financial officer positions for both private and publicly-held companies over the past 20 years.

As from 1 January 2013, directors' and officers' liability insurance was in force.

The directors who held office at 31 December 2013 had the following interests, including those of connected parties, in the ordinary share capital of the Company:

| | | | Ordinary shares of 1p each | |
|---|---|---|---|---|
| | 31 December 2013 | | 31 December 2012 | |
| | **Options** | **Shares** | **Options** | **Shares** |
| L N Bury *Chairman* | — | 9,262,599 | — | 8,262,599 |
| M Martin | 6,300,000 | — | — | — |
| H Fitzwilliam-Lay | — | 6,299,504 | — | 6,299,504 |

M Martin, R E Mace and H Fitzwilliam-Lay were elected at the 2013 AGM for a three year term. L N Bury was also elected at the 2013 AGM but having served as a non-executive director for longer than nine years, he will retire at the 2014 AGM and, being eligible, offers himself for re-election. It is also the intention of the Board to offer Tajinder Sandhu, the Group Finance Director, for election at the 2014 AGM.

## Creditors' payment policy and practice

It is the Group's policy to agree commercial terms of business with suppliers prior to the supply of goods and services. In the absence of any dispute, the Group pays, wherever possible, in accordance with these agreed terms. The number of days' purchases of the Group represented by trade creditors at 31 December 2013 was 55 days and at 31 December 2012 was 53 days.

## Charitable and political donations

Charitable donations made in the year were £182 (2012: £302). Political donations were £nil in both years.

## Employees

The number of employees and their remuneration is set out in note 6.

The Group complies with all applicable labour laws in the respective jurisdictions.

## Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

## Employee consultation

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests. The employee share scheme has been running successfully since its inception in 2000. It is open to certain employees and provides a tax-favourable way for them to own shares in the Company.

## Going concern

A significant portion of cash receipts comes from the sale of large software licences. The signing of contracts by large corporate customers can be difficult to predict due to long procurement cycles and therefore there is uncertainty in forecasting the timing and quantum of cash receipts from these customers.

At 31 December 2013 the Group had net assets of £3.2 million including £2.8 million of cash and cash equivalents (31 December 2012: restated net assets of £2.8 million including £4.5 million of cash and cash equivalents).

In determining whether the Group's accounts can be prepared on the going concern basis, the directors considered the Group's business activities together with factors likely to affect its future development, performance and its financial position including cash flows, liquidity position and the principal risks and uncertainties relating to its business activities.

Based on cash flow forecasts which take into account the directors' best estimate of current sales orders and opportunities, expenditure forecasts as well as the Group's current cash balance, the directors consider it appropriate to prepare the Group's financial statements on the going concern basis.

## Auditor

In the case of each of the persons who are Directors of the Group at the date when this report is approved:

- as far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Group's auditor is unaware; and
- each of the Directors has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any audit information (as defined) and to establish that the Group's auditor is aware of that information.

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

Deloitte LLP have expressed their willingness to continue in office and a resolution to re-appoint them as auditor will be proposed at the forthcoming Annual General Meeting.

**On behalf of the Board**

**Hugh Fitzwilliam-Lay**
*Director*

26 March 2014

# Corporate governance statement

## *Corporate governance*

**Lindsay N. Bury (Chairman of the Board)**

Dear Shareholder

The Company is committed to the principles of corporate governance, and although not required to do so by the AIM Rules, the directors have decided to provide certain corporate governance disclosures.

There is commitment to maintain the standards of corporate governance throughout the Group. The Board confirms that for the year ended 31 December 2013 the Group has complied with the provisions set out in the UK Corporate Governance Code, with the exception of the matters referred to below:

- Provision A.4.1 of the UK Corporate Governance Code states that the Board should appoint one of the independent non-executive directors to be the senior independent director. Under the Code, the Chairman is not considered independent. The Chairman of the Company has been appointed to this role as he is considered to be the most appropriately experienced director to undertake this role; however the Board accepts that this is not in compliance with provision A.4.1. The position will be reviewed from time to time and where contact through normal channels does not satisfy investors' concerns, then alternative contact via the non-executive directors will be arranged as appropriate.

- Provision B.6.1 requires a statement to be made of the Board's formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. No such formal review of Board performance takes place, as the Board considers an informal rolling programme of review to be more appropriate given the Group's current scale.

The Company complies with the UK Corporate Governance Code so far as it is practicable and appropriate for a public company of its size. The Company also follows the recommendations on corporate governance of the Quoted Companies Alliance (QCA).

The Board is accountable to the Company's shareholders for good governance and the statement set out below describes how the principles identified in the UK Corporate Governance Code have been applied.

## *Directors*

At 31 December 2013, the Board comprised a Chairman, one executive Director, namely the Chief Executive, and two independent non-executive Directors, all of whom bring a wide range of skills and experience to the Board. The roles of Chairman and Chief Executive are separated and clearly defined. The Chairman is primarily responsible for the working of the Board and the Chief Executive for the running of the business and implementation of Board strategy and policy. The Chief Executive is assisted in managing the business on a day-to-day basis by an executive management Board whose span of control covers the outsourcing and hosting and the scheduling businesses; it meets at least monthly and comprises the respective operations directors, the Finance Director, the head of sales/channels & alliances, the head of marketing, and the head of human resources. Notwithstanding the requirements of the Code, each of the non-executive directors is considered by the Board to be independent despite their interests in the share capital detailed on page 54 because they are considered to be independent from management and free from any relationship which could materially interfere with the exercise of their judgement.

The non-executive directors make a regular contribution to the functioning of the Board, thereby helping to ensure that no one individual or group dominates the Board's decision-making process. In particular the non-executive directors constructively challenge and help develop proposals on strategy.

The Board's focus is on strategy formulation, policy and control. A corporate governance framework has been adopted by the Board, which identifies its roles and responsibilities and how these are discharged.

Biographies of the Board members appear on page 12 of this report.

There were 10 Board meetings in 2013. The attendance of directors is set out below:

| | |
|---|---|
| L N Bury | 10 |
| H Fitzwilliam-Lay | 10 |
| R E Mace | 10 |
| M Martin | 10 |
| M Duffin | 5 |
| S A Gillings | 1 |

One of the responsibilities of the Chairman is to ensure that Board members receive sufficient and timely information regarding corporate and business issues to enable them to discharge their duties. The adequacy of this information is periodically reviewed.

All Directors have access to the advice and services of the Company Secretary and the Board has established a procedure whereby Directors, wishing to do so in the furtherance of their duties, may take independent professional advice at the expense of ServicePower.

The Company Secretary is also charged with ensuring that any new Board members are equipped to fulfil their duties and responsibilities. The induction and personal development of both executive and non-executive Directors is subject to ongoing review to ensure ServicePower operates in accordance with the provisions of the UK Corporate Governance Code.

Non-executive Directors are appointed for a three year term, after which their appointment may be extended upon mutual agreement. It is envisaged that the maximum term for a non-executive Director under this regime is unlikely to exceed nine years. However, as noted on page 12, L N Bury has served for greater than nine years and therefore offers himself for annual re-election. In accordance with the Company's Articles of Association, one-third of the Board are required to retire by rotation each year, or if their number is not three or an integral multiple of three, the number nearest to but not exceeding one-third, shall retire from office. However, over a three year period all Directors must have retired from the Board and faced re-election. Additionally, each director must retire at the third annual general meeting following his appointment or reappointment in a general meeting.

The senior independent non-executive director is L N Bury, and concerns relating to the executive management of the Company or the performance of the other non-executive directors can be raised with him. Whilst no formal review of performance takes place, if a member of the Board were not performing, and as the Board compromises four members it would be immediately apparent, then remedial action would be the responsibility of Mr Bury in his capacity as Chairman.

The Audit Committee is considered to have recent and relevant financial experience and all members have financial experience, details of which are referred to in their biographies on page 12.

## Committees of the Board

The Board maintains three standing committees; all of which operate within written terms of reference. They are the Audit Committee, the Remuneration Committee and the Nominations Committee. Their minutes are circulated for review and consideration by the full complement of Directors, supplemented by oral reports from the committee chairman, or other members.

The Nominations Committee met on 19 November 2013 and was attended by L N Bury, H Fitzwilliam-Lay; R Mace.

The Audit Committee met on 20 March 2013 and was attended by H Fitzwilliam-Lay and L N Bury; M Martin and M Duffin and representatives of the external auditor attended by invitation. The Audit Committee met on 25 March 2014 and was attended by R Mace, H Fitzwilliam-Lay, and L N Bury; M Martin and T Sandhu and representatives of the external auditor attended by invitation.

The members of the committees are as follows:

Audit Committee: R Mace (Chairman of the Audit Committee), L N Bury, H Fitzwilliam-Lay

Remuneration Committee: L N Bury (Chairman of the Remuneration Committee), H Fitzwilliam-Lay, R E Mace

Nominations Committee: L N Bury (Chairman of the Nominations Committee), R E Mace, H Fitzwilliam-Lay

The reports of the Audit Committee and the Remuneration Committee follow on pages 19 to 25.

## Internal control

The Board of Directors has overall responsibility for the system of internal control, covering all controls including financial, operational and compliance controls and risk management and for reviewing its effectiveness throughout ServicePower. Such a control system can only provide reasonable and not absolute assurance against material misstatement or loss, and is designed not to eliminate risk, but to enable ServicePower to achieve its corporate objectives within a managed risk profile. The Board is responsible for determining strategies and policies for risk and control, whilst management is responsible for designing, operating and monitoring risk management and control processes to implement Board policies effectively.

The Board confirms that an ongoing process for identifying, evaluating and managing ServicePower's significant risks has operated throughout the year and up to the date of approval of the Annual Report and Accounts. This process has been subject to regular annual review by the Board and is in accordance with the revised guidance on internal control published in October 2005 (The Turnbull Guidance). During the year, steps have been taken to embed internal control and risk management further into the operations of the business and to deal with areas of improvement which come to the Board's and management's attention. The key elements of the process are as follows:

- Strategic risks are considered by both the Board and the Executive Committees in the context of an agreed strategic framework, which is revised during the year through one or more meetings devoted specifically to the long term strategic direction of ServicePower. Annually, ServicePower produces a three year plan to reflect and respond to the strategic challenges facing ServicePower, which is approved by the Board. Detailed financial and operating plans are developed for the year ahead and monthly reports are provided to the Board covering actual performance against plan, analysis of significant variances and scrutiny of key performance indicators.

- The Executive Committee manages the business on a day to day basis and the Divisional Directors are responsible for embedding risk management and control in accordance with the corporate governance framework.

The Board undertakes a formal annual assessment of the overall risk management in order to form a view on the effectiveness of the system of internal controls. The Board has concluded that the size of the Company and the volume of transactions currently does not warrant an Internal Audit department. This is subject to annual review.

There has been no change in ServicePower's internal control over financial reporting during the 2013 fiscal year that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## *Relations with shareholders*

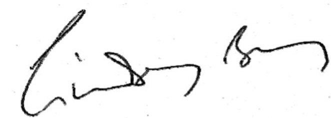
ServicePower values its dialogue with both institutional and private investors. Effective two-way communication with fund managers, institutional investors and analysts is actively pursued and this encompasses issues such as performance, policy and strategy. The Company also posts financial information on its website www.servicepower.com.

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

The Notice of the Annual General Meeting is circulated more than 20 working days before the Meeting and ServicePower will continue its practice of proposing only unbundled individual resolutions.

It has been my great pleasure to be Chairman. As of 25 March 2014, while I am remaining on the Board, I am resigning from Chairman and Hugh Fitzwilliam-Lay has been elected Chairman of the Board.

**On behalf of the Board**



**L N Bury**
*Chairman*

26 March 2014

# Report of the Audit Committee

## *Audit Committee Report*

Membership of the Audit Committee is restricted to independent Non-Executive Directors. They have a wide variety of skills and experience including investment banking, commercial and senior management. The Chief Executive Officer and the Finance Director, who are invited to the Audit Committee meetings, also provide business and accounting expertise. The Audit Committee met once in 2013, with full attendance by its members.

The Audit Committee's primary tasks are to review the scope of external audit, to receive reports from Deloitte LLP and to review the preliminary results, half yearly report and annual financial statements before they are presented to the Board, focusing in particular on accounting policies and compliance and areas of management judgement and estimates, and the appointment and removal of the external auditor. The Committee's scope was extended during 2005 to include risk oversight. The Audit Committee more generally acts as a forum for discussion of internal control issues and contributes to the Board's review of the effectiveness of the Company's internal control and risk management systems and processes. The terms of reference for the Audit Committee are available for inspection. The Audit Committee also regularly reviews the requirement for an internal audit function. It is the view of the Audit Committee that an internal audit function is not required at this time due to the Group's size. ServicePower's relationship with the external auditor is monitored by the Audit Committee and a framework for ensuring auditor independence has been adopted which defines unacceptable non-audit assignments, and pre-approval of acceptable non-audit assignments.

The Audit Committee is appointed by the Board from the non-executive directors of the Group. The Audit Committee's terms of reference include all matters indicated by the UK Corporate Governance Code. The terms of reference are considered annually by the Audit Committee and are then referred to the Board for approval.

The Audit Committee is responsible for:

- monitoring the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance and reviewing significant financial reporting judgements contained therein;
- reviewing the Group's internal financial controls and, unless expressly addressed by the Board itself, the Group's internal control and risk management systems;
- making recommendations to the Board, for a resolution to be put to the shareholders for their approval in general meeting, in relation to the appointment of the external auditor and the approval of the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and
- developing and implementing a policy on the engagement of the external auditor to supply non-audit services, taking into account relevant guidance regarding the provision of non-audit services by the external audit firm.

The Audit Committee is required to report its findings to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and make recommendations as to the steps to be taken.

The Board expects the Audit Committee members to have an understanding of:

- the principles of, contents of, and developments in financial reporting, including applicable accounting standards;
- key aspects of the Group's operations including corporate policies, Group financing, products and systems of internal control;

- matters that influence or distort the presentation of accounts and key figures;
- the principles of, and developments in, company law, sector-specific laws and other relevant corporate legislation;
- the role of external auditing and risk management;
- the regulatory framework for the Group's businesses; and
- environmental and social responsibility best practices.

The Group has arrangements in place for the Chief Executive Officer and Finance Director to receive, in confidence, complaints on accounting, risk issues, internal controls, auditing issues and related matters for reporting to the Audit Committee as appropriate for the size of the Company.

## *Overview of the actions taken by the Audit Committee to discharge its duties*

Since the beginning of 2013 the Audit Committee has:

- reviewed the financial statements for 2012 and 2013 and the half yearly report issued in September 2013. As part of this review the Committee received a report from the external auditor on its audit of the annual report;
- considered the output from the Group-wide process used to identify, evaluate and mitigate risks;
- reviewed the effectiveness of the Group's internal controls and disclosures made in the annual report and accounts on this matter;
- reviewed and agreed the approach of the audit work to be undertaken by the external auditor;
- received a report from external auditor on management action taken in response to internal control recommendations identified by the auditor in the course of their statutory audit in 2013;
- agreed the fees to be paid to the external auditor for their audit of the 2013 accounts;
- reviewed its own effectiveness; and
- undertaken an evaluation of the performance of the external auditor, monitoring their independence, objectivity and compliance with ethical and regulatory requirements to the Audit Committee, and day to day responsibility to the Group finance function.

## *External auditor*

The Audit Committee is responsible for the development, implementation and monitoring of the Group's policy on external audit. The policy assigns oversight responsibility for monitoring the independence, objectivity and compliance with ethical and regulatory requirements to the Audit Committee, and day to day responsibility to the Finance Director.

The Group's policy on external audit sets out the categories of non-audit service which the external auditor will and will not be allowed to provide to the Group, subject to de minimis levels and Audit Committee Chairman approval in emergency situations.

To fulfil its responsibility regarding the independence of the external auditor, the Audit Committee reviewed:

- the changes in key external audit staff in the external auditor's plan for the current year;
- the arrangements for day-to-day management of the audit relationship; and
- the overall extent of non-audit services provided by the external auditor, in addition to their case by case approval of the provision of non-audit services by the external auditor.

To assess the effectiveness of the external auditor, the Audit Committee reviewed:

- the external auditor's fulfilment of the agreed audit plan and variations from the plan;
- the robustness and perceptiveness of the auditor in their handling of the key accounting and audit judgements; and
- the content of the external auditor's Report to the Audit Committee.

As part of this year's decision to recommend the re-appointment of the auditor, the Audit Committee has taken into account the tenure of the auditor and the need to consider whether there should be a full tender process. There are no contractual obligations that act to restrict the Audit Committee's choice of external auditor.

As a consequence of its satisfaction with the results of its activities outlined above, the Audit Committee has recommended to the Board that the external auditor be re-appointed.

## Overview

As a result of its work during the year, the Audit Committee has concluded that it has acted in accordance with its terms of reference and has ensured the independence and objectivity of the external auditor.

The Chairman of the Audit Committee will be available at the Annual General Meeting to answer any questions about the work of the Committee.

## Approval

This report was approved by the Audit Committee and signed on its behalf by:

**R Mace**
*Chairman of the Audit Committee*

26 March 2014

# Report of the Remuneration Committee

## *The Remuneration Committee Report*

### *Introduction*

Although not required to do so by the AIM rules, the directors have decided to provide certain directors' remuneration disclosures. A resolution to approve this report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

### *Remuneration committee*

The Company has established a Remuneration Committee, which is constituted in accordance with the recommendations of the UK Corporate Governance Code. The members of the Committee during 2013 were L N Bury, Chairman, H Fitzwilliam-Lay, and R E Mace. All are considered by the Board to be independent non-executive directors. In addition, M Duffin and S A Gillings, and subsequently M E Martin, were also invited as relevant to attend the meeting of the Committee when their involvement is deemed beneficial to assist in consideration of the matters raised. The Committee met in March and November 2013, with all members and additional invitees attending.

None of the Committee has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. The Committee makes recommendations to the Board. No director plays a part in any discussion about his or her own remuneration.

## *Remuneration policy*

The Remuneration Committee endeavours to offer competitive remuneration packages that are designed to attract, motivate and retain executive directors and senior management of the highest calibre.

The main elements of the remuneration package for executive directors and senior management are:

- basic salary and benefits:
- annual bonus payments;
- share option incentives; and
- pension arrangements.

### *Basic salary*

An executive director's basic salary is determined by the Committee prior to the beginning of each year and when an individual changes position or responsibility. In deciding appropriate levels, objective reference is taken to those in a comparative Group of companies in the lower quartile of TechMARK companies, for executives of similar stature, responsibility and skill. Basic salaries were reviewed in November 2013 and any merit increases were given at that time.

In addition to basic salary, the executive directors receive certain benefits-in-kind, namely life cover and private medical insurance.

### *Annual bonus payments*

The Committee establishes the objectives that must be met for each financial year if a cash bonus is to be paid, representing the incentive element of the overall remuneration package of the executive directors. For the year ending 31 December 2013, no bonuses were awarded for the achievement of objectives in relation to the current year. Bonus payments made in the year in respect of objectives achieved in previous years, and with agreement of the Remuneration Committee in the current year, are disclosed on page 25.

## Share options

The Company believes that share ownership by executive directors and senior management helps strengthen the link between their personal interests and those of the shareholders. It therefore has share option schemes under which options are granted.

On 31 December 2008 a new plan was set up under which the Chief Executive and other senior managers were granted share options. The share options vest 2 years after the date of grant provided certain performance targets are met or immediately on a change of corporate control. Grants were made on 31 December 2008 at an exercise price between 2.75p and 5p.

M Duffin's 10,000,000 options were cancelled in the year. S A Gillings' 3,000,000 options were forfeited. M Martin was granted 6,300,000 options, and senior management 3,000,000.

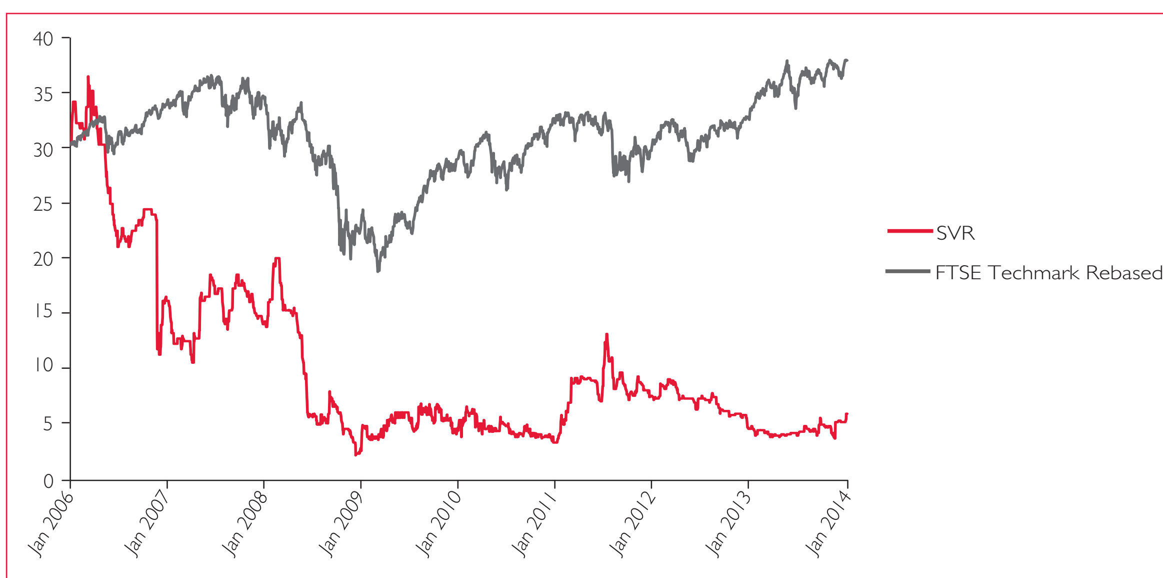
The Group recognised expenses of £82,830 and £137,000 related to equity-settled share-based payment transactions in 2013 and 2012 respectively for the directors.

## Pension arrangements

The Company operates a money purchase personal pension scheme. The Company has agreed to make contributions to the personal pension plans of 2 directors. Contributions on behalf of M Duffin were 15 per cent. of his basic salary (2012: 15 per cent.) and on behalf of S A Gillings 5 per cent. of her basic salary (2012: 5 per cent.) until the end of their employment with the Company.

## Performance graph

The following graph shows the Company's performance, measured by total shareholder return, compared with the FTSE TechMARK All Share Index. It is considered the most likely benchmark by which the majority of shareholders would want to assess their investment in a company of ServicePower Technologies plc's size and is the one used to judge performance of the original share option scheme.



### *Service contracts*

It is the Company's policy that the executive directors should have contracts with an indefinite term providing for a maximum of one year's notice. In accordance with the Company's articles, the Board can only remove a director from office if this is unanimously approved by other Board members. Alternatively, a director can be removed by shareholder resolution.

M E Martin has specific terms of engagement under a service contract dated 18 December 2012. The notice period from the Company is 12 months and from the director, 6 months. There is no entitlement to compensation for loss of office.

M Duffin had specific terms of engagement under a service contract dated 4 December 2007 and as amended on 8 December 2008. The notice period from the Company is 12 months and from the director, 6 months. There is no entitlement to compensation for loss of office. He resigned as a director on 10 September 2013.

S A Gillings had specific terms of engagement under a contract of employment as amended on 1 October 2009 on appointment as Finance Director. The notice period from the Company is 6 months and from the director, 3 months. There is no entitlement to compensation for loss of office. She resigned as a director on 28 February 2013.

### *Non-executive directors*

All non-executive directors have specific terms of engagement under letters of appointment dated 23 March 2000 for L N Bury, 18 September 2007 for H Fitzwilliam-Lay and 17 October 2012 for R E Mace. Their remuneration is determined by the Board within the limits set by the Articles of Association and based on independent surveys of fees paid to non-executive directors of similar companies. Non-executive directors cannot participate in any of the Company's share option schemes. There is no entitlement to any period of notice for the non-executive directors or any compensation payable for loss of office.

### *Directors' share options (audited information)*

The share options of the directors are set out below. No share options of the directors were exercised in either 2013 or 2012. Some share options lapsed in 2013. The market price of the shares at 31 December 2013 was 5.88p and the range during the financial year was between 4.38p and 5.88p.

### *New plan share option scheme (audited information)*

In 2008 a new plan was set up under which M Duffin and S A Gillings were granted options. The share options vest 2 years after the date of grant provided certain performance targets are met or immediately on a change of corporate control. Grants were made on 31 December 2008 at an exercise price of 5p and a further grant made to S A Gillings in 2011 of 1,357,895 options at an exercise price of 8.5p. M Duffin's options were cancelled in the year. S A Gillings' options were forfeited. M Martin was granted 6,300,000 options, and senior management 3,000,000, both grants at an exercise price of 5.25p.

| | 1 January 2013 Number | Cancelled/ Forfeited in the year Number | Granted in the year Number | 31 December 2013 Number | Date from which exercisable | Expiry date | Exercise price pence |
|---|---|---|---|---|---|---|---|
| M Duffin – Unapproved | 10,000,000 | 10,000,000 | — | — | Dec 2010 | Dec 2018 | 5p |
| S A Gillings – Unapproved | 3,000,000 | 3,000,000 | — | — | Dec 2010 | Mar 2021 | 4.3p-8.5p |
| Marne Martin – Unapproved | — | — | 6,300,000 | 6,300,000 | Dec 2013 | Dec 2023 | 5.25p |
| Senior management – Unapproved | — | — | 3,000,000 | 3,000,000 | Dec 2013 | Dec 2023 | 5.25p |

## *Directors' emoluments (audited information)*

The emoluments of the individual directors were as follows:

| | Basic salary and car allowance 2013 £'000 | Benefits in kind 2013 £'000 | Fees 2013 £'000 | Bonus earned 2013 £'000 | Total emoluments 2013 £'000 | 2012 £'000 |
|---|---|---|---|---|---|---|
| L N Bury | — | — | 19 | — | 19 | 38 |
| H Fitzwilliam-Lay | — | — | 18 | — | 18 | 17 |
| R Burger | — | — | — | — | — | 18 |
| R E Mace | — | — | 19 | — | 19 | 4 |
| M Duffin | 238 | 7 | — | — | 245 | 229 |
| M Martin | 173 | 4 | — | — | 177 | — |
| S A Gillings | 16 | 1 | — | 37 | 54 | 90 |
| | **427** | **12** | **56** | **37** | **532** | **396** |

A retention bonus of £37,000 was paid in 2013 to S A Gillings.

Pension contributions were paid on behalf of M Duffin of £39,768 (2012: £33,418) and on behalf of S A Gillings of £1,127 (2012: £4,465). On behalf of M Martin of £6,227 of 401K contributions were made (2012: £nil)

## *Approval*

This report was approved by the Remuneration Committee and signed on its behalf by:

**L N Bury**
*Chairman of the Remuneration Committee*

26 March 2014

# Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of 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 company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;

- the strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and

- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

**On behalf of the Board**

**Hugh Fitzwilliam-Lay**
*Director*

26 March 2014

# Independent Auditor's Report

## *To The Members of ServicePower Technologies Plc*

We have audited the group financial statements of ServicePower Technologies plc for the year ended 31 December 2013, which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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, the directors are responsible for the preparation of the group 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 group 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 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 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 group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matter prescribed by the Companies Act 2006

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

## Matters on which we are required to report by exception

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

- 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.

## Other matters

We have reported separately on the parent company financial statements of ServicePower Technologies plc for the year ended 31 December 2013.

**William Smith MA FCA (Senior Statutory Auditor)**

**for and on behalf of Deloitte LLP**
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom

26 March 2014

# Consolidated income statement

for the year ended 31 December 2013

| | Note | 2013 £'000 | 2012 £'000 Restated |
|---|---|---|---|
| **Revenue** – ServiceScheduling | | **7,569** | 6,960 |
| – ServiceOperations | | **6,433** | 4,182 |
| **Total revenue** | 3 | **14,002** | 11,142 |
| Cost of sales | | **(7,380)** | (6,633) |
| **Gross profit** | | **6,622** | 4,509 |
| **Administrative expenses** – other expenses | | **(7,067)** | (5,478) |
| – foreign exchange gain/(loss) | | **274** | (519) |
| – gain on bargain purchase | 11 | **381** | — |
| **Total administrative expenses** | | **(6,412)** | (5,997) |
| **Operating profit/(loss)** | | **210** | (1,488) |
| Investment revenue | 7 | **2** | 2 |
| Finance costs | 8 | **(167)** | (158) |
| **Profit/(loss) before taxation** | 5 | **45** | (1,644) |
| R&D tax credit | 9 | **155** | — |
| **Profit/(loss) after taxation for the year** | | **200** | (1,644) |
| **Earnings/(loss) per share** | | | |
| Basic | 10 | **0.1p** | (0.87)p |
| Diluted | 10 | **0.1p** | (0.87)p |

All amounts relate to continuing activities.

A prior period restatement to the convertible loan note has been made, affecting the comparative disclosure for finance costs, see note 2.

# Consolidated statement of comprehensive income

for the year ended 31 December 2013

| | 2013<br>£'000 | 2012<br>£'000<br>Restated |
|---|---|---|
| Exchange differences on translation of foreign operations | **(260)** | 260 |
| **Other comprehensive income for the year** | **(260)** | 260 |
| **Profit/(loss) for the year** | **200** | (1,644) |
| **Total comprehensive expense for the year** | **(60)** | (1,384) |

There are no items within the above that will be reclassified subsequently to profit or loss (2012: same).

The total comprehensive expense for the year is attributable to the equity holders of the Company.

A prior period restatement to the convertible loan note has been made, affecting the comparative disclosure for finance costs, see note 2.

# Consolidated statement of changes in equity

for the year ended 31 December 2013

| | Equity attributable to equity holders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Share capital £'000** | **Share premium account £'000** | **Share scheme reserve £'000** | **Exchange translation reserve £'000** | **Equity reserve £'000** | **Merger reserve £'000** | **Retained earnings £'000** | **Total £'000** |
| Balance at 1 January 2012 | 9,926 | 18,626 | 749 | (1,602) | 13 | (3,008) | (21,518) | 3,186 |
| Effect of restatement | — | — | — | — | 521 | — | 342 | 863 |
| Balance at 1 January 2012 (as restated) | 9,926 | 18,626 | 749 | (1,602) | 534 | (3,008) | (21,176) | 4,049 |
| Loss for the year | — | — | — | — | — | — | (1,644) | (1,644) |
| Other comprehensive income for the year | — | — | — | 260 | — | — | — | 260 |
| Total comprehensive income/ (expense) for the year | — | — | — | 260 | — | — | (1,644) | (1,384) |
| Credit to equity for equity-settled share-based payments | — | — | 137 | — | — | — | — | 137 |
| Balance at 31 December 2012 (restated) | 9,926 | 18,626 | 886 | (1,342) | 534 | (3,008) | (22,820) | 2,802 |
| Profit for the year | — | — | — | — | — | — | 200 | 200 |
| Other comprehensive loss for the year | — | — | — | (260) | — | — | — | (260) |
| Total comprehensive loss for the year | — | — | — | (260) | — | — | 200 | (60) |
| Convertible loan redemption | — | — | — | — | (133) | — | — | (133) |
| Shares issued in year | 106 | 368 | — | — | — | — | — | 474 |
| Credit to equity for equity-settled share-based payments | — | — | 89 | — | — | — | — | 89 |
| Balance at 31 December 2013 | 10,032 | 18,994 | 975 | (1,602) | 401 | (3,008) | (22,620) | 3,172 |

# Consolidated balance sheet

at 31 December 2013

| | Note | 2013 £'000 | 2012 £'000 Restated | 2011 £'000 Restated |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Intangible assets | 11 | **1,602** | 398 | 249 |
| Property, plant and equipment | 12 | **129** | 54 | 145 |
| | | **1,731** | 452 | 394 |
| **Current assets** | | | | |
| Inventories | 15 | **—** | 23 | 42 |
| Trade and other receivables | 14 | **3,399** | 3,278 | 3,352 |
| Cash and cash equivalents | | **2,672** | 4,524 | 5,473 |
| | | **6,071** | 7,825 | 8,867 |
| **Total assets** | | **7,802** | 8,277 | 9,261 |
| **Current liabilities** | | | | |
| Trade payables | 16 | **(1,106)** | (1,870) | (1,939) |
| Deferred revenue | 16 | **(2,587)** | (2,572) | (2,315) |
| Other creditors | 16 | **(35)** | (23) | (24) |
| Convertible loan note | 16 | **(902)** | (1,010) | (852) |
| Corporation tax payable | 16 | **—** | — | (82) |
| | | **(4,630)** | (5,475) | (5,212) |
| **Net assets** | | **3,172** | 2,802 | 4,049 |
| **Equity** | | | | |
| Share capital | 17 | **10,032** | 9,926 | 9,926 |
| Share premium account | | **18,994** | 18,626 | 18,626 |
| Share scheme reserve | | **975** | 886 | 749 |
| Exchange translation reserve | | **(1,602)** | (1,342) | (1,602) |
| Equity reserve | | **401** | 534 | 534 |
| Merger reserve | | **(3,008)** | (3,008) | (3,008) |
| Retained earnings deficit | | **(22,620)** | (22,820) | (21,176) |
| **Total equity attributable to the owners of the Company** | | **3,172** | 2,802 | 4,049 |

The 2012 and 2011 balance sheets have been restated in respect of the convertible loan note (see note 2 and 16).

The financial statements of ServicePower Technologies plc, registration number 3941006, were approved by the Board of Directors and authorised for issue on 26th March 2014. They were signed on its behalf by:

**M Martin**
*Director*

26 March 2014

# Consolidated cash flow statement

for the year ended 31 December 2013

| | Note | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| **Net cash outflow from operating activities** | 18 | **(1,360)** | (785) |
| **Investing activities** | | | |
| Interest received | | **2** | 2 |
| Purchases of property, plant and equipment | | **(103)** | (36) |
| Proceeds from sale of intangible asset | | **3** | — |
| Expenditure on intangible assets | | **—** | (233) |
| **Net cash used in investing activities** | | **(98)** | (267) |
| **Financing activities** | | | |
| Redemption of a quarter of the loan note | | **(366)** | — |
| **Net cash used in financing activities** | | **(366)** | — |
| **Net decrease in cash and cash equivalents** | | **(1,824)** | (1,052) |
| **Cash and cash equivalents at beginning of year** | | **4,524** | 5,473 |
| Effect of exchange rate changes | | **(28)** | 103 |
| **Cash and cash equivalents at end of year** | | **2,672** | 4,524 |

# Notes to the consolidated financial statements
for the year ended 31 December 2013

## 1 General information
ServicePower Technologies plc is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the Group's operations and its principal activities are set out in the directors' report and the strategic report.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 2.

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union.

The Group has adopted Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee of the IASB. Individual standards and interpretations have to be adopted by the European Commission and the process leads to a delay between the issue and adoption of new standards and in some cases amendment by the European Commission. IFRSs are subject to ongoing amendment by the IASB and subsequent endorsement by the European Commission and are therefore subject to change.

At the date of authorisation of these financial statements, the following Standards and Interpretations that are relevant to the Group, which have not been applied in these financial statements were in issue but not yet effective:

| | |
|---|---|
| IFRS 9 | *Financial instruments* |
| IFRS 10 | *Consolidated financial statements* |
| IFRS 11 | *Joint arrangements* |
| IFRS 12 | *Disclosure of interests in other entities* |
| IAS 27 | *Separate financial statements* |
| Amendment to IAS 32 | *Offsetting Financial Assets* |

The directors anticipate that these new standards and interpretations will have no material impact on the financial statements of the Group, nor any impact on disclosures.

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

| | |
|---|---|
| Amendment to IAS 1 | *Presentation of financial statements* |
| IFRS 13 | *Fair value measurement* |

The adoption of these Amendments has not had a material impact on the Group's financial statements.

### Basis of accounting
The annual financial statements are prepared in accordance with IFRS as adopted by the European Union.

## 2 Significant accounting policies

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

### Going concern

The financial statements have been prepared on the going concern basis. Further information is disclosed in the Directors' report on page 12.

### Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (revised) *Business Combinations* are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non Current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Acquisition related costs are recognised in profit and loss as incurred.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Costs of acquisition are recognised as an expense.

### Revenue recognition

Revenue represents sales to customers at invoiced amounts less VAT and other sales-related taxes. It is recognised when and to the extent that the Group has earned the right to consideration for services provided.

Software licence sales are recognised upon receipt of evidence of final acceptance by the customer.

Software support is invoiced annually and taken to revenue over the period in which the services are supplied.

Implementation and other consultancy work is invoiced and recognised as income as the work is performed.

Revenue relating to ServiceOperations contracts and the supply of services is recognised as income as the work is performed.

Where the Company enters into contracts scheduling a combination of one or more of the above activities, revenue is recognised for each component separately in accordance with the relevant policy above. Revenue is allocated to each separate element of the contract in proportion to the relevant fair values of each element.

### *Leasing*

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease, except where another more systematic basis is more representative of the time pattern in which the economic benefits from the lease asset are consumed.

### *Foreign currencies*

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the presentation currency for the consolidated financial statements.

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

### *Taxation*

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement 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 calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts 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 generally 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. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### *Property, plant and equipment*

Short leasehold interests and fixtures, fittings and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight line method, on the following bases:

| | | |
|---|---|---|
| Short leasehold interests | — | over length of lease |
| Fixtures, fittings and equipment | — | 16.6 per cent. to 33.3 per cent. per annum |

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

### *Internally-generated intangible assets–research and development expenditure*

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if all of the following conditions have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately. At 31 December 2013 amortisation had not commenced.

### *Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at their fair value at the acquisition date less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets 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 to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

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 not been adjusted.

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

Subsequent to initial recognition, acquired intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. The assigned useful economic life on intangible assets acquired in 2013 is 6 years.

### *Inventories*

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

### *Financial instruments*

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

*Loans and receivables*

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

*Impairment of financial assets*
Financial assets, other than those at fair value through profit and loss (FVTPL), are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future of cash flows of the investment have been impacted.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

*Derecognition of financial assets*
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership, or continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

*Financial liabilities and equity*
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

*Equity instruments*
An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

*Compound instruments*
The component parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, in the case of the convertible loan notes that may be converted into a fixed number of equity shares, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

*Trade receivables*
Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

*Cash and cash equivalents*
Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

*Trade payables*
Trade payables are not interest-bearing and are stated at their nominal value.

## Retirement benefit costs

The Company contributes to a number of private money purchase pension schemes as well as stakeholder pension schemes. The contributions are charged to the income statement in the period in which they become payable.

## Share-based payments

The Group has applied the requirements of IFRS 2 *Share-based Payment*.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

## Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date.

## Key sources of estimation uncertainty

*Recoverability of intangible assets*
During the year, management reconsidered the carrying value of its intangible assets which are included in the balance sheet relating to software development at £1.6 million (2012: £0.4 million). The projects continue to progress in a satisfactory manner, and customer reaction has reconfirmed management's previous estimates of anticipated revenues from the projects.

For the assets which are currently being amortised, the estimation of revenues is based on the useful economic life of the assets, which is based on applicable customer contracts and product cycle.

## *Critical accounting judgements*

*Restatement of convertible loan note*

The company issued convertible loan notes in 2008, which can be converted into a fixed number of shares at the option of the loan note holder. The convertible loan notes are a compound instrument (as defined by IAS 32), including a financial liability to deliver cash and a written call option to convert the loan into a fixed number of shares. In accordance with IAS 32, on inception, the fair value of the liability and the residual equity component was recognised separately in the financial statements (IAS 32.28).

In the current year a partial redemption of the loan notes has occurred, with one of the four individual note holders redeeming their loan notes. The settlement value of the loan note paid by the company was not closely related to the fair value of the liability held on the balance sheet. Under the accounting treatment originally adopted by management this created a gain recorded in the income statement. As a consequence management reviewed the original accounting in late 2013 and identified that the interest rate applied in the original fair value assessment of cash flows was too high.

Management has reperformed the fair value assessment at inception of the convertible debt, which gives rise to a difference in the interest charged to the income statement in each financial year since the inception of the convertible loan notes. This also impacts the carrying value of the liability held on the balance sheet at each financial year end, given that the interest rolls up into the principal amount of the loan bi-annually.

This assessment has required management to restate the comparative figures in the financial statements for the current year, by adopting the revised accounting for the year ended 31 December 2012.

The following impact is disclosed in the financial statements relating to the restatement of 2012 comparative figures:

- equity reserve increased by £0.5 million (2011: same), recognising that the fair value of the equity element of the compound instrument is greater than initially identified;
- loan note liability decreased by £1.0 million (2011: £0.9m), based on the initial fair value of the equity and liability being amended, as well as recalculation of the annual interest charge rolling up into the loan each year; and
- retained earnings increased by £0.5 million (2011: £0.4m), recognising that the interest charges rolling up into the loan and charged to the income statement were overstated in prior years.

Due to the requirements of IAS 1 the financial statements are required to include a third balance sheet, being the brought forward position at 1 January 2012, and are also required to explain the restatements applied to previously reported financial statements as explained above.

*Development cost capitalisation*

Under the requirements of IAS 38, when certain criteria have been met, development costs for software products should be capitalised. In assessing those criteria, which include certain assessments of technical and commercial feasibility, the exercise of judgement is required. The directors have assessed the relevant criteria under IAS 38 and development costs have been recognised in the year of £0.6 million.

*Revenue recognition*

Where the company enters into contracts involving a combination of one or more of the revenue-generating activities, revenue is recognised for each component separately in accordance with the relevant revenue recognition policy. Revenue is allocated to each separate element in proportion to the relative fair values of each element.

## 3 Revenue

An analysis of the Group's revenue is as follows:

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| **Continuing operations** | | |
| Sales of goods and services | **14,002** | 11,142 |
| Investment income | **2** | 2 |
| | **14,004** | 11,144 |

## 4 Business segments

Segment information reported externally is analysed on the basis of the Group's business streams, namely ServiceScheduling software licences, which provide scheduling solutions, and ServiceOperations, which provides claims and despatch processing in the consumer electronics market.

Segment information about these businesses is presented below:

| **2013** | **Service Scheduling 2013 £'000** | **Service Operations 2013 £'000** | **Group Total 2013 £'000** |
|---|---|---|---|
| Revenue from external sales | 7,569 | 6,433 | 14,002 |
| Segment profit | 4,106 | 1,299 | 5,405 |
| Central administration costs – other | | | (5,850) |
| Gain on bargain purchase | | | 381 |
| Foreign exchange gain | | | 274 |
| Total central administration costs | | | (5,195) |
| Investment income | | | 2 |
| Finance costs | | | (167) |
| Profit before tax | | | 45 |
| Taxation | | | 155 |
| Profit after tax | | | 200 |

| **2012** | **Service Scheduling 2012 £'000** | **Service Operations 2012 £'000** | **Group Total 2012 Restated £'000** |
|---|---|---|---|
| Revenue from external sales | 6,960 | 4,182 | 11,142 |
| Segment profit | 2,861 | 346 | 3,207 |
| Central administration costs – other | | | (4,176) |
| Foreign exchange loss | | | (519) |
| Total central administration costs | | | (4,695) |
| Investment income | | | 2 |
| Finance costs | | | (158) |
| Loss before tax | | | (1,644) |
| Taxation | | | — |
| Loss after tax | | | (1,644) |

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2. Segment profit represent the profit earned by each segment without allocation of central administration costs, including directors' salaries, investment revenue and finance costs and income tax expense. This is the measure reported to the Group's Chief Executive for the purpose of resource allocation and assessment of segment performance.

## *Segment assets*

| | 2013<br>£'000 | 2012<br>£'000 |
|---|---|---|
| **ServiceScheduling** | **2,311** | 2,447 |
| **ServiceOperations** | **1,230** | 1,302 |
| **Total segment assets** | **3,541** | 3,749 |
| **Unallocated assets** | **4,261** | 4,528 |
| **Total consolidated assets** | **7,802** | 8,277 |

For the purposes of monitoring segment performance and allocating resources between segments the Group's Chief Executive monitors the tangible, intangible and financial assets attributable to each segment. All assets are allocated to reportable segments with the exception of cash and cash equivalents and trade and other receivables of the parent company.

## *Other segment information*

| | Depreciation and amortisation | | Additions to non-current assets | |
|---|---|---|---|---|
| | 2013<br>£'000 | 2012<br>£'000 | 2013<br>£'000 | 2012<br>£'000 |
| **ServiceScheduling** | **52** | 41 | **1,197** | 250 |
| **ServiceOperations** | **201** | 158 | **91** | 19 |
| **Group total** | **253** | 199 | **1,288** | 269 |

The Group's revenues from its major products and services were as follows:

| | 2013<br>£'000 | 2012<br>£'000 |
|---|---|---|
| **ServiceScheduling** | **7,569** | 6,960 |
| **ServiceOperations** | **6,433** | 4,182 |
| **Group total** | **14,002** | 11,142 |

### *Geographical information*

The Group's operations are located in the United States of America, the United Kingdom and the rest of Europe. The Group's revenue from external customers and information about its segment assets by geographical location are detailed below irrespective of the origin of the services:

| | Revenue from external customers | | Non-current assets | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| United States of America | **8,348** | 6,720 | **1,219** | 219 |
| United Kingdom | **5,554** | 4,355 | **512** | 233 |
| Rest of Europe | **100** | 67 | **—** | — |
| | **14,002** | 11,142 | **1,731** | 452 |

### *Information about major customers*

In 2013, included in revenues arising from ServiceScheduling were revenues of approximately £1.6 million from one customer, which represented 11 per cent. of Group revenue. In 2012, this customer contributed revenues of £1.6 million, which was 14 per cent. of Group revenue.

Included in revenues arising from ServiceOperations are revenues of approximately of £1.0 million (2012: £0.9 million), which arose from sales to a customer whose turnover represents 7 per cent. of Group revenue

## *5 Profit/(loss) before taxation*

Profit/(loss) before taxation has been arrived at after charging/(crediting):

| | **2013** | **2012** |
|---|---|---|
| | **£'000** | **£'000** |
| Foreign exchange (gain)/loss | **(274)** | 519 |
| Research and development costs | **463** | 980 |
| Depreciation of property, plant and equipment | **46** | 124 |
| Amortisation of intangible assets | **207** | 75 |
| Staff costs (see note 6) | **5,720** | 4,538 |
| Impairment loss recognised on trade receivables | **23** | 65 |
| Loss on disposal of property, plant and equipment | **—** | 2 |
| Profit on disposal of intangible asset | **(3)** | — |
| Operating lease rentals – other | **254** | 140 |
| Cost of inventories recognised as an expense | **23** | 204 |
| Auditor's remuneration for audit services (see below) | **71** | 71 |

Amounts payable to Deloitte LLP and their associates by the Group in respect of non-audit services were £70,000 (2012: £10,000).

A more detailed analysis of auditor's remuneration is provided below.

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | £'000 | % | £'000 | % |
| **Fees payable to the Company's auditor for the audit of the Company's annual accounts** | **10** | **14** | 10 | 14 |
| **Fees payable to the Company's auditor and its associates for other services to the Group** | | | | |
| The audit of the Company's subsidiaries pursuant to legislation | **61** | **86** | 61 | 86 |
| Total audit fees | **71** | **100** | 71 | 100 |
| Other services: | | | | |
| Taxation advisory services | **60** | **86** | — | — |
| Taxation compliance services | **10** | **14** | 10 | 100 |
| Total non-audit fees | **70** | **100** | 10 | 100 |

A description of the work of the Audit Committee is set out in the Audit Committee report on page 19 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor.

## 6 Staff costs

The average monthly number of employees (including executive directors) was:

| | 2013 Number | 2012 Number |
|---|---|---|
| Sales and marketing | **13** | 10 |
| Development | **23** | 11 |
| Support and implementation | **23** | 18 |
| Operation and administration | **39** | 32 |
| | **98** | 71 |

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Their aggregate remuneration comprised: | | |
| Wages and salaries | **4,942** | 3,877 |
| Social security costs | **482** | 358 |
| Other pension costs | **207** | 166 |
| Share-based payments | **89** | 137 |
| | **5,720** | 4,538 |

Directors' emoluments are disclosed on page 25.

## 7 Investment revenue

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Interest on bank deposits | **2** | 2 |

## 8 Finance costs

| | 2013 £'000 | 2012 £'000 Restated |
|---|---|---|
| Interest on convertible loan note | **167** | 158 |

## 9 Taxation

Corporation tax is calculated at 23.25 per cent. (2012: 24.5 per cent.) of the estimated assessable loss for the year.

The charge for the year can be reconciled to the profit per the income statement as follows:

| | 2013 £'000 | 2013 % | 2012 £'000 Restated | 2012 % |
|---|---|---|---|---|
| Profit/(loss) before tax | **45** | | (1,644) | |
| Tax at the UK corporation tax rate of 23.25% (2012: 24.5%) | **10** | **22** | (403) | (24) |
| Tax effect of (income)/expenses that are not deductible in determining taxable profit | **(25)** | **(56)** | 57 | 3 |
| Capital allowances in excess of depreciation | **(11)** | **(24)** | (4) | — |
| Tax effect of short term timing differences | **(69)** | **(153)** | 31 | 2 |
| R&D tax credit | **(76)** | **(169)** | — | — |
| Difference in overseas tax rate | **223** | **496** | 42 | 2 |
| US state taxes payable | **2** | **4** | — | — |
| Utilisation of tax losses | **(127)** | **(282)** | (70) | (4) |
| Current year losses carry forward | **—** | **—** | 347 | 21 |
| Adjustment in respect of prior years | **(82)** | **(182)** | — | — |
| Tax (credit)/expense and effective rate for the year | **(155)** | **(344)** | — | — |

Subject to agreement with the HMRC, the Group has taxable losses of approximately £16.7 million (2012: £17.2 million), which are available for offset against future trading profits.

No deferred tax asset has been recognised on the basis of the uncertainty of the timing of new licence contracts, particularly given the long procurement processes for new licence agreements. In the opinion of the directors there is not sufficient evidence that the asset would be recoverable in the foreseeable future.

## 10 Earnings/(loss) per share

The calculation of the basic and diluted earnings/(loss) per share is based on the following data:

| | 2013 | 2012 |
|---|---|---|
| **Earnings/(loss)** | **£'000** | **£'000** |
| Earnings/(loss) for the purposes of basic and diluted earnings per share, being net profit attributable to equity holders of the parent | **200** | (1,644) |

| | 2013 | 2012 |
|---|---|---|
| **Number of shares** | **Number** | **Number** |
| Weighted average number of ordinary shares for the purposes of basic and diluted earnings/(loss) per share | **199,768,290** | 189,526,299 |

| | 2013 | 2012 |
|---|---|---|
| **Earnings/(loss) per share** | **pence** | **pence** |
| Basic earnings/(loss) per share | **0.1** | (0.87) |
| Diluted earnings/(loss) per share | **0.1** | (0.87) |

The convertible loan note and the share warrant issued in 2012 (which expired in 2013) have an anti-dilutive effect and therefore diluted earnings/(loss) per share are capped at basic earnings/(loss) per share.

## 11 Intangible assets

| | Software development £'000 | Customer contracts £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2012 | 3,323 | — | 3,323 |
| Additions | 233 | — | 233 |
| Exchange adjustment | (141) | — | (141) |
| At 1 January 2013 | 3,415 | — | 3,415 |
| Additions | 571 | — | 571 |
| Acquired through business combination (see below) | — | 839 | 839 |
| Disposals | (94) | — | (94) |
| Exchange adjustment | (63) | — | (63) |
| At 31 December 2013 | 3,829 | 839 | 4,668 |
| **Amortisation** | | | |
| At 1 January 2012 | 3,074 | — | 3,074 |
| Charge for the year | 75 | — | 75 |
| Exchange adjustment | (132) | — | (132) |
| At 1 January 2013 | 3,017 | — | 3,017 |
| Charge for the year | 73 | 134 | 207 |
| Disposals | (94) | — | (94) |
| Exchange adjustment | (64) | — | (64) |
| At 31 December 2013 | 2,932 | 134 | 3,066 |
| **Carrying amount** | | | |
| At 31 December 2013 | 897 | 705 | 1,602 |
| At 31 December 2012 | 398 | — | 398 |
| At 31 December 2011 | 249 | — | 249 |

Intangible assets are amortised over their estimated useful lives. The amortisation charge is included within administration expenses in the income statement.

For software development costs the useful life is based on applicable product cycles.

Customer contracts are amortised over the expected length of the contracts.

Additions to software development in the year represent development costs capitalised.

## *Business combination*

On 23 January 2013 the group acquired a division of Stratix Corporation, which included the intellectual property rights/source code of the mobility software, thirteen employees, selected assets, and certain clients for ServiceMobility. This transaction has been accounted for using the acquisition method of accounting, which requires that the identifiable assets and liabilities acquired be recognised on the balance sheet at their fair value as at the date of acquisition. The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

| | **Book value and fair value £'000** |
|---|---|
| Property, plant and equipment | 15 |
| Identifiable intangible assets | 839 |
| Total identifiable assets | 854 |
| Gain on bargain purchase | 381 |
| Total consideration | 473 |
| Satisfied by: | |
| Equity instruments (10,504,025 ordinary shares of parent company) | 473 |

The identifiable intangible assets related to the acquired customer contracts.

The fair value of the 10,504,025 ordinary shares issued as the consideration paid for the division of Stratix Corporation £0.5 million was determined on the basis of the share price as at the date of acquisition. Acquisition-related costs (included within administrative expenses) amount to £0.3 million.

The acquired division of Stratix Corporation contributed £1.1 million revenue and £0.5 million to the Group's profit for the period between the date of acquisition and the balance sheet date. There was no material difference if the acquisition had been included from the start of the accounting period.

## 12 Property, plant and equipment

| | Short leasehold interests £'000 | Fixtures, fittings and equipment £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2012 | 69 | 1,375 | 1,444 |
| Additions | — | 36 | 36 |
| Disposals | — | (17) | (17) |
| Exchange adjustment | (3) | (40) | (43) |
| At 1 January 2013 | 66 | 1,354 | 1,420 |
| Additions | 20 | 100 | 120 |
| Disposals | (66) | — | (66) |
| Exchange adjustment | 3 | (18) | (15) |
| At 31 December 2013 | 23 | 1,436 | 1,459 |
| **Accumulated depreciation and impairment** | | | |
| At 1 January 2012 | 69 | 1,230 | 1,299 |
| Charge for the year | — | 124 | 124 |
| Disposals | — | (17) | (17) |
| Exchange adjustment | (3) | (37) | (40) |
| At 1 January 2013 | 66 | 1,300 | 1,366 |
| Charge for the year | — | 46 | 46 |
| Disposals | (66) | — | (66) |
| Exchange adjustment | 3 | (19) | (16) |
| At 31 December 2013 | 3 | 1,327 | 1,330 |
| **Net book value** | | | |
| At 31 December 2013 | 20 | 109 | 129 |
| At 31 December 2012 | — | 54 | 54 |
| At 31 December 2011 | — | 145 | 145 |

## 13 Subsidiaries

The following were subsidiary undertakings at the end of the current year and have all been included in the consolidated financial statements:

| Name | Place of incorporation (or registration) and operation | Proportion of ownership interest % | Proportion of voting power held |
|---|---|---|---|
| ServicePower Business Solutions Limited | England | 100 | 100 |
| ServicePower Incorporated | USA | 100 | 100 |
| ServiceNetwork LLC | USA | 100 | 100 |

ServicePower Business Solutions Limited is a wholly-owned subsidiary of ServicePower Technologies plc.

ServicePower Incorporated is a wholly-owned subsidiary of ServicePower Business Solutions Limited.

ServiceNetwork LLC is a wholly-owned subsidiary of ServicePower Incorporated.

The principal activity of all subsidiaries listed above is the sale, hosting and implementation of field service management software, outsourcing and management of dispatch, claims and warranty processing, and the sale of GPS and mobility products.

## *14 Other financial assets*

**Trade and other receivables**

| | **2013 £'000** | **2012 £'000** |
|---|---|---|
| Trade receivables | **2,734** | 2,373 |
| Allowance for doubtful debts | **(80)** | (57) |
| Trade receivables (net) | **2,654** | 2,316 |
| Other receivables – prepayments and accrued income | **745** | 962 |
| | **3,399** | 3,278 |

The average credit period taken on sales of goods is 68 days (2012: 66 days). No interest is charged on overdue receivables. The Group has provided fully for receivables it considers to be not recoverable based on historical default experience.

Before accepting any new customer the Group assesses the customer's credit status and reviews on a regular basis thereafter their ability to pay to terms.

Of the trade receivables balance at the end of the year, £246,063 (2012: £368,046) is due from one of the Group's largest customers. There are 4 other customers who represent more than 25 per cent of the total balance of trade receivables.

Included in the Group's trade receivable balance are debtors with a carrying amount of £1,175,170 (2012: £906,000) which are past due but not impaired at the reporting date. In the year the Group has provided £79,784 against debtors with receivable amounts outstanding over 90 days and utilised a prior year provision of £65,000. The Group regards all other amounts as recoverable as there has not been a significant change in credit quality. The Group does not hold any collateral over any of these balances. On average past due receivables are 28 days overdue (2012: 27 days).

Ageing of past due but not impaired receivables

| | **2013 £'000** | **2012 £'000** |
|---|---|---|
| 30-60 days | **665** | 409 |
| 60-90 days | **98** | 396 |
| Over 90 days | **412** | 101 |
| Total | **1,175** | 906 |

Movement in the allowance for doubtful debts

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Balance at 1 January | **57** | 182 |
| Impairment losses | **88** | 65 |
| Utilisation of provision previously recognised | **(65)** | (190) |
| Balance at 31 December | **80** | 57 |

The allowance for doubtful receivables relates to balances which are all past due by greater than 90 days. In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date.

The directors consider that the carrying amount of trade and other receivables is approximately equal to fair value.

Bank balances and cash comprise cash held by the Group, short-term bank deposits with an original maturity of three months or less and letters of credit issued to third parties as guarantees of £61,067 (2012: £87,255). The carrying amount of these assets approximates their fair value.

### *Credit risk*

The Group's principal financial assets are bank balances, cash and trade and other receivables.

## *15 Inventories*

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Equipment for resale | **—** | 23 |

## *16 Other financial liabilities*

**Trade and other payables**

| | 2013 £'000 | 2012 £'000 Restated | 2011 £'000 Restated |
|---|---|---|---|
| Trade creditors and accruals | **1,106** | 1,870 | 1,939 |
| Deferred revenue | **2,587** | 2,572 | 2,315 |
| Other creditors | **35** | 23 | 24 |
| Convertible loan note | **902** | 1,010 | 852 |
| Corporation tax payable | **—** | — | 82 |
| | **4,630** | 5,475 | 5,212 |

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 55 days (2012: 53 days).

The directors consider that the carrying amount of trade payables approximates to their fair value.

In 2008 the convertible loan notes were issued giving the investors the right to convert the loan note at the lower of 5 pence a share or the price paid for the new shares issued in the fundraising. The loan note would incur interest at 8 per cent., which would compound every six months and roll up into the value of the note. The accounting treatment for the convertible loan notes is prescribed in IAS 39. The Company did not elect to use the fair value option for this instrument on initial recognition.

On the date of issue, the fair value of the liability component has been estimated based on a market interest rate for a similar non-convertible instrument and included in creditors. The equity component, recognised in 2008, was originally estimated to be £13,000 by deducting the amount of the liability component from the fair value of the whole instrument and included in the equity reserve. A review was undertaken by management into the assumptions and accounting for the convertible loan per IAS 39 in prior periods. After this review, the value of the convertible loan was adjusted down with a net adjustment of £863,000 being made in the closing loan balance of 2011 and a further adjustment of £152,000 downward to the closing loan balance in 2012. All increases have been adjusted through reserves for the prior periods.

In 2013 accrued interest using the effective interest rate was £167,000 (2012: restated £158,000) and was expensed in the income statement.

## 17 Share capital

The Company and Group's capital structure is as follows:

| | 2013<br>£'000 | 2012<br>£'000 |
|---|---|---|
| *Authorised* | | |
| 446,621,299 Ordinary shares of 1p each | **4,466** | 4,466 |
| 803,378,700 Deferred shares of 1p each | **8,034** | 8,034 |
| 1,000,000 Preference shares of 1p each | **10** | 10 |
| | **12,510** | 12,510 |

| | 2013<br>£'000 | 2012<br>£'000 |
|---|---|---|
| *Allotted, called- up and fully paid* | | |
| 199,768,290 Ordinary shares of 1p each | **1,998** | 1,892 |
| 803,378,691 Deferred shares of 1p each | **8,034** | 8,034 |
| | **10,032** | 9,926 |

## 18 Notes to the cash flow statement

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Profit/(loss) from operations | **210** | (1,488) |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **46** | 124 |
| Amortisation of intangible assets | **207** | 75 |
| Loss on disposal of property, plant and equipment | **—** | 2 |
| Profit on disposal of intangible asset | **(3)** | — |
| Bad debt expense | **23** | 80 |
| Share-based payments expense | **83** | 137 |
| Foreign exchange gain | **(274)** | — |
| Gain on bargain purchase | **(381)** | — |
| Operating cash flows before movements in working capital | **(89)** | (1,070) |
| Decrease in inventories | **23** | 17 |
| Increase in receivables | **(121)** | (84) |
| (Decrease)/increase in payables | **(1,173)** | 352 |
| Cash used in operations | **(1,360)** | (785) |
| **Net cash outflow from operating activities** | **(1,360)** | (785) |

## 19 Commitments under operating leases

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Minimum lease payments under operating leases recognised in income for the year | **254** | 142 |

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Within one year | **278** | 38 |
| In the second to fifth years inclusive | **49** | — |
| | **327** | 38 |

Operating lease payments represent rentals payable by the Group for certain of its office properties, computer equipment and telephone systems. Leases are negotiated for terms of 1 to 5 years and rentals are fixed for terms of 1 to 5 years.

## 20 Share-based payments

**Equity-settled share option schemes under the 2000 Share option schemes**

The Company has a share option scheme for certain levels of employees of the Group. Approved options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant.

Under the ServicePower Technologies plc (Approved) 2000 Share Option Scheme, the option will vest provided the share price has risen by more than 10 per cent. per annum and they are exercisable not earlier than 3 or later than 10 years after the option was granted. Options are forfeited if the employee leaves the Group.

Under the ServicePower Technologies plc (Unapproved) 2000 Share Option Scheme, the option will vest provided the overall percentage increase in the market value of the Company being greater than the percentage increase of the 75 per cent. of the other companies which are part of the TechMARK index. They are exercisable not earlier than 1 or later than 10 years after the option was granted. Options are forfeited if the employee leaves the Group.

At 31 December 2013, the following share options were outstanding in respect of the ordinary shares:

| | Year of grant | Number of shares | Ranges of dates exercisable | Exercise price per share |
|---|---|---|---|---|
| Approved share option scheme | 2004 | 34,884 | January 2007 – November 2014 | 30.5p-50.0p |
| Unapproved share option scheme | 2004 | 58,876 | March 2005 – July 2016 | 26.5p-44.5p |
| Approved share option scheme | 2005 | 6,875 | January 2008 – April 2015 | 28.5p-34.0p |
| Unapproved share option scheme | 2006 | 5,375 | January 2008 – May 2015 | 22.5p-34p |
| Unapproved share option scheme | 2011 | 150,000 | September 2011 – September 2018 | 8.5p |

Movements in share options are summarised as follows:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Number of share options | Weighted average exercise price (pence) | Number of share options | Weighted average exercise price (pence) |
| Outstanding at beginning of year | **401,283** | **17.3** | 537,504 | 15.7 |
| Granted during the year | **—** | **—** | — | — |
| Forfeited during the year | **(50,000)** | **8.5** | (3,488) | 44.5 |
| Lapsed during the year | **(145,273)** | **10.7** | (132,733) | 10.0 |
| Outstanding at the end of the year | **206,010** | **19.9** | 401,283 | 17.3 |
| Exercisable at the end of the year | **206,010** | **19.9** | 401,283 | 17.3 |

### *Equity-settled share option schemes under the 2000 Share option schemes*

The options outstanding at 31 December 2013 had a weighted average exercise price of 19.9 pence, and a weighted average remaining contractual life of 3.3 years (2012: 4.2 years).

No options were granted in the year on the 2000 Share option schemes (2012: nil)

Inputs into the Black Scholes simulation valuation model are as follows:

| | | 2013 | 2012 |
|---|---|---|---|
| Weighted average share price | Pence | 19.0 | 19.0 |
| Weighted average exercise price | Pence | 19.9 | 17.3 |
| Expected volatility | % | 50 | 50 |
| Expected life | Years | 3.17 | 3.17 |
| Risk-free rate | % | 4.48 | 4.48 |

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 4 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

### *New options granted after 1 January 2008*

At an EGM held on 11 December 2008 the Group adopted a new share option plan which is available to directors and certain levels of employees in the Group. The new plan does not replace the existing schemes but those granted share options under the new plan surrendered all outstanding share options held under the existing schemes. The new discretionary share option scheme is set up to take advantage of the tax-favoured EMI options to UK employees and tax-favoured ISOs to US employees.

The options will vest not earlier than 2 years after the option was granted provided certain performance targets are met, or immediately upon a change of corporate control without the need to satisfy the performance targets.

Initial grants were made on 31 December 2008 at 5p to UK employees and to comply with US law, to US employees at the market price at the date of grant. All subsequent grants to both UK and US employees will be at the market price at the date of grant. All share options are forfeited if the employee leaves the Group. The number of share options granted to Mark Duffin at 31 December 2010 was 10,000,000, all of which have been cancelled in the year.

At 31 December 2013, the following share options were outstanding in respect of the ordinary shares:

**Equity-settled share option scheme under the 2008 scheme**

| | Year of grant | Exercise number of shares | Dates exercisable | Price per share |
|---|---|---|---|---|
| New plan share options | 2008 | 1,200,000 | 1 January 2011 | 5.0p |
| New plan share options | 2008 | 100,000 | 1 January 2011 | 2.75p |
| New plan share options | 2010 | 492,105 | 30 March 2012 | 4.3p |
| New plan share options | 2011 | 1,357,985 | 30 March 2013 | 8.5p |
| New plan share options | 2013 | 9,300,000 | 10 December 2013 – 1 January 2014 | 5.25p |

Movements in share options are summarised as follows:

| | 2013 Number of share options | 2013 Weighted average exercise price (pence) | 2012 Number of share options | 2012 Weighted average exercise price (pence) |
|---|---|---|---|---|
| Outstanding at beginning of year | **16,150,000** | **5.5p** | 19,300,000 | 5.9p |
| Granted during the year | **9,300,000** | **5.25p** | — | — |
| Cancelled during the year | **(10,000,000)** | **5.0p** | — | — |
| Forfeited during the year | **(3,000,000)** | **6.48p** | (3,150,000) | 6.6p |
| Outstanding at the end of the year | **12,450,000** | **5.5p** | 16,150,000 | 5.5p |
| Exercisable at the end of the year | **12,274,724** | **5.5p** | 13,434,210 | 4.9p |

M E Martin was granted 6.3 million of the 9.3 million options in the year, with 3.0 million granted to senior management. S A Gillings' vested options expired on 31 August 2013. Mark Duffin's 10 million vested options were cancelled in the year.

The options outstanding at 31 December 2013 had a weighted average exercise price of 5.5 pence, and a weighted average remaining contractual life of 8.8 years (2012: 6.5 years).

The inputs into the Black Scholes valuation model are as follows:

| | | 2013 | 2012 |
|---|---|---|---|
| Weighted average share price | Pence | **3.8** | 3.8 |
| Weighted average exercise price | Pence | **5.5** | 5.5 |
| Expected volatility | % | **60** | 60 |
| Expected life of option | Years | **4** | 4 |
| Risk-free rate | % | **2.5** | 2.5 |

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 4 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

### *Equity-settled share option scheme under the 2008 scheme*

The Group recognised total expenses of £82,831 and £137,196 related to equity-settled share-based payment transactions in 2013 and 2012 respectively.

### *Share warrant*

On 5 September 2012, the Company issued share warrants in lieu of rent on the US Head Office. The Company moved offices in 2013 following the insolvency of the lessor. The pro-rata share of the warrant expired un-exercised and the remaining portion of the warrant for the latter part of the first year and second year was cancelled. The share warrant was previously accounted for as a liability, as it had a cash exercise right. The liability has been extinguished on expiration of the warrant.

## 21 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

### Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Group, is set out in Report of the Remuneration Committee on pages 22 to 25.

## 22 Financial instruments

### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to the stakeholders through the optimisation of cash and equity balances. The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

| | 2013<br>£'000 | 2012<br>£'000<br>Restated | 2011<br>£'000<br>Restated |
|---|---|---|---|
| Cash and cash equivalents | **2,672** | 4,524 | 5,473 |
| Convertible loan note | **902** | 1,010 | 852 |
| Equity | **3,172** | 2,802 | 4,049 |

Equity includes all capital and reserves of the Group attributable to equity holders of the parent. The Group is not subject to externally-imposed capital requirements.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2.

| | | Carrying value | |
|---|---|---|---|
| | 2013<br>£'000 | 2012<br>£'000<br>Restated | 2011<br>£'000<br>Restated |
| **Financial assets** | | | |
| Cash and cash equivalents | **2,672** | 4,524 | 5,473 |
| Trade debtors | **2,654** | 2,316 | 1,783 |
| | **5,326** | 6,840 | 7,256 |
| **Financial liabilities** | | | |
| Liabilities less deferred revenue | **2,043** | 2,903 | 2,897 |

### *Financial risk management objectives*

The Group finance function provides services to the business, co-ordinates access to domestic and international financial markets and monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk and price risk), credit risk and liquidity risk. The Group does not enter into or trade in financial instruments, including derivative financial instruments, for speculative purposes.

### *Credit risk management*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted the policy of dealing only with creditworthy counterparties and obtaining sufficient collateral where appropriate as a means of mitigating the risk of financial loss from defaults. The Group uses publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings and credit limits are continuously monitored and reviewed.

Trade receivables consist of a large number of customers, spread across a number of industries in the United Kingdom, United States and Europe. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

Information on significant outstanding debtor balances is included in note 14. The Group does not have any other significant credit risk exposure to a single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are connected entities.

### *Foreign currency risk management*

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. At present the Group does not have foreign exchange contracts to manage the risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at 31 December 2013 are as follows:

| | **Liabilities** | | **Assets** | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| US Dollar | **2,473** | 4,681 | **5,900** | 4,712 |

The Group is exposed to movements in the value of the currency of the United States of America (US dollar).

The following table details the Group's sensitivity to a potential 10 per cent. increase and decrease in the sterling against the US dollar. 10 per cent. is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10 per cent. change in foreign currency rates. A positive number below indicates an increase in profit where the sterling strengthens 10 per cent. against the US dollar. For a 10 per cent. weakening of the sterling against the US dollar, there would be a comparable impact on the profit, and the balance would be negative.

### *Financial currency risk management*

| | US dollar currency impact | |
|---|---|---|
| | **2013** | **2012** |
| | **£'000** | **£'000** |
| Profit or loss and net assets | **(11)** | 3 |

### *Liquidity risk management*

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's liabilities. The Group manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows. The Group has no undrawn facilities at 31 December 2013.

### *Liquidity risk*

The Group's financial liabilities are £2,044,000 (2012: restated £3,918,000). On contractual maturity all liabilities fall due within 30 days and they have been calculated based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

# Independent auditor's report

to the members of Servicepower Technologies Plc

## *To the shareholders of ServicePower Technologies Plc*

We have audited the parent company financial statements of ServicePower Technologies plc for the year ended 31 December 2013, which comprise the Company Balance Sheet, and the related notes 1 to 9. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

## *Respective responsibilities of directors and auditor*

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the parent company 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 parent company 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 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 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 Company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2013;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matter prescribed by the Companies Act 2006

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

## Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

## Other matters

We have reported separately on the group financial statements of ServicePower Technologies plc for the year ended 31 December 2013.

**William Smith MA FCA (Senior Statutory Auditor)**
for and on behalf of Deloitte LLP
*Chartered Accountants and Statutory Auditor*
Manchester, United Kingdom

26 March 2014

# Company balance sheet

at 31 December 2013

| | Note | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investment in subsidiaries | 3 | **6,379** | 5,821 |
| **Current assets** | | | |
| Debtors | 4 | **7,098** | 7,757 |
| **Creditors: amounts falling due within one year** | | | |
| Other creditors | 5 | **(23)** | (26) |
| Convertible loan note | 5 | **(902)** | (1,010) |
| **Net current assets** | | **6,173** | 6,721 |
| **Total assets less current liabilities** | | **12,552** | 12,542 |
| **Net assets** | | **12,552** | 12,542 |
| **Shareholders' funds** | | | |
| Share capital | 6 | **10,032** | 9,926 |
| Share premium account | 7 | **18,994** | 18,626 |
| Equity reserve | 7 | **401** | 534 |
| Share scheme reserve | 7 | **975** | 891 |
| Retained earnings | 7 | **(17,850)** | (17,435) |
| **Shareholders' funds** | 8 | **12,552** | 12,542 |

The 2012 balance sheet has been restated in respect of the convertible loan note (see note 5)

The financial statements of ServicePower Technologies Plc, registration number 3941006, were approved by the Board and authorised for issue on 26 March 2014.

They were signed on its behalf by:

**M Martin**
*Director*

26 March 2014

# Notes to the company financial statements

for the year ended 31 December 2013

## 1 Significant accounting policies

### Basis of preparation

**Going concern**

The financial statements have been prepared on the going concern basis. Further information has been disclosed in the Report of Directors on page 12.

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law.

The principal accounting policies are summarised below. They have been applied consistently throughout the year and the preceding year.

**Financial instruments**

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

*Compound instruments*

The component parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, in the case of the convertible loan notes that may be converted into a fixed number of equity shares, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

Issue costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

**Investments**

Fixed asset investments in subsidiaries are shown at cost less provision for impairment.

**Share options**

The accounting policy for share options in issue over the Company's share capital is set out in the Significant Accounting Policies note on page 41 to the consolidated financial statements.

## 2 Loss for the year

As permitted by section 408 of the Companies Act 2006 the company has elected not to present its own profit and loss account for the year. ServicePower Technologies plc reported a loss for the financial year ended 31 December 2013 of £413,589 (2012 restated: £303,000).

The auditor's remuneration for audit and other services is disclosed in note 5 to the consolidated financial statements.

## 3 Fixed asset investments

**Investment in subsidiaries**

| | £'000 |
|---|---|
| Cost and net book value as at 1 January 2013 | 5,821 |
| Capital contribution in the year | 84 |
| Additions – additional shares issued by subsidiary | 474 |
| Cost and net book value as at 31 December 2013 | 6,379 |

| Name | Country of incorporation or registration | Proportion of voting rights and ordinary share capital held | Nature of business |
|---|---|---|---|
| ServicePower Business Solutions Limited | England | 100% | Development and sale of licences to use scheduling software |

## 4 Debtors

**Amounts falling due within one year**

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Amounts owed by group undertakings | **7,089** | 7,753 |
| Trade and other receivables | **9** | 4 |
| | **7,098** | 7,757 |

## 5 Creditors

**Amounts falling due within one year**

| | 2013 £'000 | 2012 £'000 Restated |
|---|---|---|
| Other creditors | **23** | 26 |
| Convertible loan note | **902** | 1,010 |
| | **925** | 1,036 |

In 2008 the convertible loan notes were issued giving the investors the right to convert the loan note at the lower of 5 pence a share or the price paid for the new shares issued in the fundraising. The loan note would incur interest at 8 per cent., which would compound every six months and roll up into the value of the note.

The accounting treatment for the convertible loan notes is prescribed in FRS 25. The Company did not elect to use the fair value option for this instrument on initial recognition.

On the date of issue, the fair value of the liability component has been estimated based on a market interest rate for a similar non-convertible instrument and included in creditors. The equity component, recognised in 2008, was originally estimated to be £13,000 by deducting the amount of the liability component from the fair value of the whole instrument and included in the equity reserve. A review was undertaken by management into the assumptions and accounting for the convertible loan per IAS 39/FRS25 in prior periods. After this review, the value of the convertible loan was adjusted down with a net adjustment of £863,000 being made in the closing loan balance of 2011 and a further adjustment of £152,000 downward to the closing loan balance in 2012. All increases have been adjusted through reserves for the prior periods.

In 2013 accrued interest using the effective interest rate was £167,000 (2012: restated £158,000) and was expensed in the income statement.

## 6 Share capital

Existing capital structure is as disclosed in note 17 of the group financial statements.

## 7 Reserves

| | Share premium account £'000 | Equity reserve £'000 | Share scheme reserve £'000 | Profit and loss account £'000 | Total £'000 |
|---|---|---|---|---|---|
| **At 1 January 2013 – as reported** | 18,626 | 13 | 891 | (17,930) | 1,600 |
| Effect of restatement | — | 521 | — | 494 | 1,015 |
| At 1 January 2013 – restated | 18,626 | 534 | 891 | (17,436) | 2,615 |
| Loss for the year | — | — | — | (414) | (414) |
| Redemption of convertible loan | — | (133) | — | — | (133) |
| Shares issued in the year | 368 | — | — | — | 368 |
| Credit to equity for equity-settled share-based payments | — | — | 84 | — | 84 |
| **At 31 December 2013** | 18,994 | 401 | 975 | (17,850) | 2,520 |

## *8 Reconciliation of movements in shareholders' funds*

| | 2013<br>£'000 | 2012<br>£'000<br>Restated |
|---|---|---|
| Loss for the year | **(414)** | (294) |
| Credit to reserves for share-based payments | **84** | 137 |
| Shares issued in the year | **473** | — |
| Redemption of convertible loan | **(133)** | — |
| Net reduction in shareholders' funds | **10** | (157) |
| Opening shareholders' funds | **12,542** | 12,699 |
| Closing shareholders' funds | **12,552** | 12,542 |

## *9 Related party transactions*

The company has taken advantage of the exemption allowed by FRS 8 Related party transactions, not to disclose any transactions with wholly-owned subsidiaries that are included in the consolidated financial statements of ServicePower Technologies plc.

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