smart metering systems plc

smart approach smart systems

● 283,275 assets in our portfolio as of 30 June 2012

Smart Metering Systems plc
Interim report 2012

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

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

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

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

In this report

Highlights

Financial highlights

- Revenue increased by 25% to £9.3m (H1 2011: £7.4m)
- Recurring meter rental increased by 39% to £4.2m (H1 2011: £3.0m)
- Gross profit increased by 53% to £5.8m (H1 2011: £3.8m)
- EBITDA* increased by 66% to £4.0m (H1 2011: £2.4m)
- PBT* increased by 88% to £2.9m (H1 2011: £1.5m)
- Basic earnings per share increased by 46% to 2.60p (H1 2011: 1.78p)
- Maiden dividend of 0.5p per ordinary share

*Excluding exceptional items and fair value adjustments

Operational highlights

- Total meter portfolio increased by 25% to 283,275 (H1 2011: 227,517)
- Increase of 51% in capital investment in meter assets to £5.9m (H1 2011: £3.9m), bringing the total to £26.4m
- Increase in annualised recurring revenue of 38% to £9.1m (H1 2011: £6.6m)

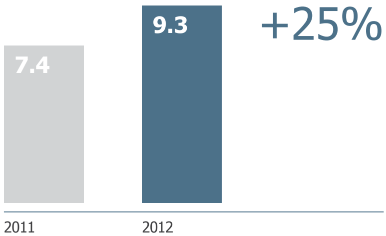
Significant new contracts announced

- Gas suppliers
  - Scottish and Southern Energy (SSE): c180,000 domestic meters
  - Total Gas and Power (TGP): Initial quantity of 15,000 I & C meters and ADM™ devices
  - Contract Natural Gas (CNG): Initial quantity of 1,475 I & C meters and ADM™ devices with exclusive arrangement to the balance of their portfolio estimated at over 20,000 I & C meters
- Energy Brokers; providers of brokerage services to small, medium and large group consumers
  - BIU, Solis, Energi, Imserve and ISS for ADM™ devices and gas meters
- Trials commenced in the Water and LPG markets in the UK for the ADM™ device

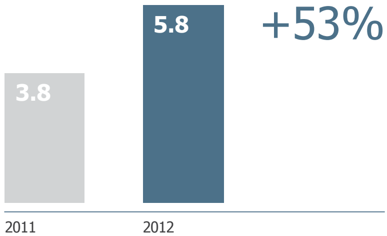
Post balance Sheet Events

- New banking club arrangement announced on 2 August 2012 for £45m with Barclays Bank PLC (lead bank), Clydesdale Bank PLC and Lloyds Bank PLC, replacing all existing facilities
- Received Full European Patent Approval for the ADM™ device effective 15 August 2012
- Total portfolio increased to 296,000 at 31 Aug 2012 with a corresponding annualised recurring rental increase to £9.65m
- New contract with DONG Energy Sales Limited (formerly Shell Gas Direct) announced on 30 August. This contract includes the provision of ADM™.

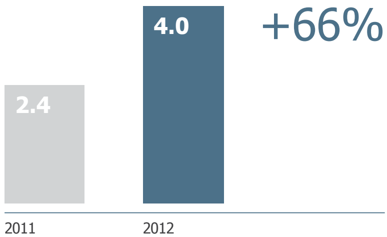
Revenue £m



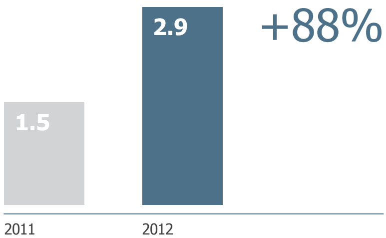
Gross profit £m



EBITDA* £m



PBT* £m



Chairman's and Chief Executive Officer's statement

Kevin Lyon
Chairman and Non-executive Director

Alan Foy
Chief Executive Officer

We are delighted to announce strong trading in the first six months of 2012. During the period, the Company's performance benefited from the full impact of meters that were installed last year and as a result, growth in profitability outstripped portfolio growth in the first half of the current year.

Operational review

As stated at the time of our 2011 annual results, our core focus is on gas meters in the UK where we aim to:

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

During the period we have made substantial progress in all three areas, leading to a 25% increase in our gas meter portfolio, an increase in annualised recurring revenue of 38% to £9.1m and the first sales of our ADM™ device.

Industrial and commercial meters

During the period we were delighted to announce two major new contracts for the provision of gas meters within the I & C market with Contract Natural Gas (CNG) and Total Gas & Power Limited (TGP). The run rates for both contracts are currently being established but current estimates are for a combined programme in excess of 16,475 meters (TGP and CNG initial quantity combined) over a three year period.

In addition, SMS has also contracted with five energy brokers who provide brokerage and energy management services to small, medium and large group consumers for the provision of the ADM™ device and gas meters.

Once installed these meters will be on SMS's long-term index linked contracts.

The importance of this market to SMS is underlined by the fact that, given the greater revenue that is generated from the provision of I & C meters, the equivalent number of domestic meters for these contracts would be in the order of 250,000.

UK Gas Connections continues to be cash generative and secure gas meter ownership for the Group, it has performed in line with management expectations.

ADM™

The I & C market provides SMS with a significant opportunity because of the combination of the full service capability of its meter asset management division and the now proven automated meter reading solution provided by the ADM™ device. This has been demonstrated by the fact that the TGP and CNG contracts include installing the device as part of the meter replacement programme. This is providing SMS with an important market leading advantage and an additional source of income.

The large I & C market (estimated at greater than 300,000 meters) has to move to an advanced metering solution, of which around 60,000 of the very large category have to be completed or contracted to be completed by 2014.

The small I & C market (estimated by SMS at over 1.2m meters) has until 2014 to either opt for an advanced metering solution such as the ADM™ device or alternatively they can be included in the government's proposed domestic roll out of smart meters.

SMS believes that both market segments will find the ADM™ device an attractive solution, based on its competitive price and ease of installation.

In addition to the two new gas supplier clients and five new energy broker clients signed up to the ADM™ device and gas meters during the period, trials continue with a number of other potential customers. Since the period end, we have also recently announced a new contract with DONG Energy Sales Limited (formerly Shell Gas Direct) for the provision of meter services and sales of the ADM™ device. The Company also continues to progress the potential use of the ADM™ device in other sectors such as the UK's water and LPG industries where trials have commenced.

Domestic meters

In May, SMS was contracted by SSE to provide Meter Operations Services in all regions outside of Scotland and the South East of England for two years. The service provision includes the installation, commissioning, testing, repair, maintenance and removal and/or replacement of metering equipment under similar contractual provisions already in place for SMS's current meter portfolio. The current estimate is that this will add a further c180,000 units to the SMS meter portfolio over the lifetime of the contract. This new agreement replaced an agreement SSE have had with the market leader in the domestic asset management business and marks a deepening of SMS's relationship with SSE.

Financial review

In the first half of 2012, the Company increased revenue by 25% to £9.3m over the same period last year. This was as a result of increasing meters under ownership and management and the time lag effect of full revenue recognition in H1 2012 of meters installed in 2011. In addition, as a result of our index linked contracts, revenues were boosted by the contracted annual RPI increase. Recurring revenue, in line with the Company's strategy, increased from 40% of the total in the first half of 2011 to 45% in the same period in 2012, which compares favourably to 41% for the entirety of 2011.

Administration expenses, at £2.6m (excluding exceptional costs) were up 35% compared to the first half of 2011, substantially due to investment in staff numbers which have increased from 47 to 68 in line with the growth of the Company and its listed status, and increased depreciation due to the increased meter base held by the Company.

Finance costs decreased marginally from £326k to £318k due to lower outstanding debt in the period, with the majority of our investment in meter assets being funded from IPO proceeds.

Profit before tax increased from £1.5m to £2.5m and profit after tax from £1.2m to £2.2m. Net debt decreased to £6.3m (H1 2011: £10.1m) and net debt/ EBITDA* ratio 0.78.

As at 30 June 2012, the Company had debt of £10.5m compared to £11.4m in the first half of 2011, cash balances of £4.2m (2011: £1.3m), unused facilities of £7.5m and gearing of 43% (H1 2011: 398%).

On 2 August 2012, SMS announced a new banking club arrangement with three major UK banks. The £45 million facility with Barclays Bank PLC (lead bank), Clydesdale Bank PLC and Lloyds Bank PLC replaced the existing arrangement with Clydesdale Bank PLC. SMS intends to use the new facility to fund the purchase of meter assets during a phased installation over the course of the next 24 months in line with the recent substantial contract wins. Interest is paid quarterly at 2.9% over 3 month rolling LIBOR on the outstanding balance with drawn funds repaid equally over 10 years. 1.45% is paid on undrawn funds. SMS has entered into a hedge arrangement to swap 3 month rolling LIBOR, currently at c.0.7%, to a fixed 0.90–0.92% over 4 years for c.70% of the facility.

Capital investment in meters was £5.9m in the first half compared to £3.9m in H1 2011.

Dividend

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

SMS is therefore delighted to announce its maiden cash dividend to shareholders. An interim dividend of 0.5 pence per ordinary share will be paid on 22 November 2012 to those shareholders on the register (record date) on 19 October 2012 with an ex-dividend date of 17 October 2012.

In line with our dividend policy it is the intention of the Board to also pay a final dividend for the current year which will be announced at the time of the preliminary results in April 2013.

Outlook

SMS has continued to make significant progress against its core objectives, with recent contract wins (SSE, Total and CNG) prospectively adding the equivalent of 430,000 domestic meters. Further new clients, positive progress in the trialling of the Group's smart meter technology and new banking arrangements have underpinned the growth of the business. The Board continues to look to the future with optimism.

(*Excluding exceptional items and fair value adjustments).

Consolidated statement of comprehensive income

for the period ended 30 June 2012

	Six months ended 30 June 2012 Unaudited £'000	Six months ended 30 June 2011 Unaudited £'000	Year ended 31 December 2011 Audited £'000
Revenue	**9,272**	7,391	15,964
Cost of sales	**(3,517)**	(3,625)	(7,109)
Gross profit	**5,755**	3,766	8,855
Administrative expenses	**(2,922)**	(1,906)	(5,050)
Profit from operations	**2,833**	1,860	3,805
Attributable to:			
Operating profit before exceptional items	**3,184**	1,860	4,482
Exceptional items and fair value adjustments	**(351)**	—	(677)
Finance costs	**(318)**	(326)	(535)
Finance income	**23**	—	41
Profit before taxation	**2,538**	1,534	3,311
Taxation	**(370)**	(344)	(1,121)
Profit for the year			
Attributable to equity holders	**2,168**	1,190	2,190
Other comprehensive income	**—**	—	—
Total comprehensive income	**2,168**	1,190	2,190
Earnings per share – basic (pence)	**2.60**	1.78	2.93
Earnings per share – diluted (pence)	**2.53**	1.78	2.90

Consolidated statement of financial position

as at 30 June 2012

	30 June 2012 Unaudited £'000	30 June 2011 Unaudited £'000	31 December 2011 Audited £'000
Assets			
Non-current assets			
Intangible assets	**1,890**	1,948	1,885
Property, plant and equipment	**26,602**	16,463	21,327
	28,492	18,411	23,212
Current assets			
Inventories	**227**	9	83
Trade and other receivables	**2,428**	2,679	1,606
Cash and cash equivalents	**4,233**	1,269	7,317
Other current financial assets	**7**	56	18
	6,895	4,013	9,024
Total assets	**35,387**	22,424	32,236
Liabilities			
Current liabilities			
Trade and other payables	**7,747**	7,146	6,379
Bank loans and overdrafts	**1,348**	1,174	1,328
Obligations under hire purchase agreements	**4**	—	3
Other current financial liabilities	**361**	205	339
	9,460	8,525	8,049
Non-current liabilities			
Bank loans	**9,152**	10,199	9,845
Obligations under hire purchase agreements	**11**	—	13
Deferred tax liabilities	**2,023**	1,163	1,873
	11,186	11,362	11,731
Total liabilities	**20,646**	19,887	19,780
Net assets	**14,741**	2,537	12,456
Equity			
Share capital	**833**	666	833
Share premium	**8,653**	—	8,653
Other reserves	**1**	1	1
Retained earnings	**5,254**	1,870	2,969
Total equity attributable to equity holders of the parent company	**14,741**	2,537	12,456

Consolidated statement of changes in shareholders' equity

for the period ended 30 June 2012

	Share capital £'000	Share premium £'000	Other reserve £'000	Retained earnings £'000	Total £'000
Attributable to owners of the parent company:					
As at 1 July 2011	666	—	1	1,870	2,537
Profit for period	—	—	—	1,000	1,000
Transactions with owners in their capacity as owners:					
Shares issued	167	9,833	—	—	10,000
Share issue costs	—	(1,180)	—	—	(1,180)
Share options	—	—	—	99	99
Balance as at 31 December 2011	833	8,653	1	2,969	12,456
Profit for period	—	—	—	2,168	2,168
Transactions with owners in their capacity as owners:					
Share options	—	—	—	117	117
Balance as at 30 June 2012	**833**	**8,653**	**1**	**5,254**	**14,741**

Consolidated cash flow statement

for the period ended 30 June 2012

	30 June 2012 Unaudited £'000	30 June 2011 Unaudited £'000	31 December 2011 Audited £'000
Cash flow from operating activities			
Profit before taxation	**2,538**	1,534	3,311
Finance costs	**318**	326	535
Finance income	**(23)**	—	(41)
Fair value movements on derivatives	**33**	—	249
Depreciation	**678**	416	956
Amortisation	**118**	118	234
Share-based payment expense	**117**	—	99
Increase in inventories	**(144)**	(9)	(83)
(Increase)/decrease in trade & other receivables	**(822)**	(1,515)	(438)
Increase in trade & other payables	**1,148**	1,150	128
Cash used in operations	**3,961**	2,020	4,950
Taxation	**—**	—	—
Net cash used in operations	**3,961**	2,020	4,950
Investing activities			
Payments to acquire property, plant and equipment	**(5,953)**	(3,938)	(9,332)
Disposal of fixed asset investment	**—**	—	180
Payment to acquire intangible assets	**(123)**	(334)	(388)
Finance income	**23**	—	41
Net cash used in investing activities	**(6,053)**	(4,272)	(9,499)
Financing activities			
Net proceeds from new borrowings less capital repaid	**(673)**	2,128	1,937
Net outflow from other long-term creditors	**(1)**	(3)	—
Finance costs	**(318)**	(248)	(535)
Net proceeds from share issue	**—**	—	8,820
Dividends paid	**—**	(180)	(180)
Net cash generated from financing activities	**(992)**	1,697	10,042
Net (decrease)/increase in cash and cash equivalents	**(3,084)**	(555)	5,493
Cash and cash equivalents at the beginning of the period	**7,317**	1,824	1,824
Cash and cash equivalents at the end of the period	**4,233**	1,269	7,317

Notes to the accounts
for the period ended 30 June 2012

1 Basis of preparation and accounting policies
Basis of preparation
The Group's half yearly financial report consolidates the results of the Company and its subsidiary undertakings made up to 30 June 2012. The Company is a limited liability company incorporated and domiciled in Scotland and whose shares are quoted on AIM, a market operated by The London Stock Exchange.

The financial information contained in this half-yearly financial report does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. It does not therefore include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2011.

The financial information for the 6 months ended 30 June 2012 is also unaudited.

The Group's statutory accounts for the year ended 31 December 2011 have been delivered to the Registrar of Companies. The report of the auditors on these accounts was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

The financial statements have been prepared on a going concern basis which the Directors believe is appropriate for the following reason:

The Directors have prepared cash flow forecasts which show the Group expects to meet its liabilities as they fall due for a period in excess of 12 months from the date of these financial statements. Our forecasts show continued capital investment which is funded from retained profits and external finance. On 2 August 2012 the Group announced a new £45m banking facility, providing investment capital for the next two years.

Significant accounting policies
The accounting policies used in the preparation of the financial information for the six months ended 30 June 2012 are in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS) as adopted by the European Union and are consistent with those which will be adopted in the annual statutory financial statements for the year ended 31 December 2012.

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

The management of assets comprises regulated management of gas meters and ADM™ units within the UK.
The installation of meters comprises the installation of domestic and industrial & commercial gas meters throughout the UK.

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

The following tables present information regarding the Group's reportable segments for the six months ended 30 June 2012, six months ended 30 June 2011 and the year ended 31 December 2011.

2 Segmental reporting continued

30 June 2012	**Asset management £'000**	**Asset installation £'000**	**Unallocated £'000**	**Total operations £'000**
Segment revenue	**4,189**	**5,083**	**—**	**9,272**
Operating costs	**(989)**	**(2,528)**	**—**	**(3,517)**
Segment profit – Group gross profit	**3,200**	**2,555**	**—**	**5,755**
Items not reported by segment				
Other operating costs	**—**	**—**	**(1,775)**	**(1,775)**
Depreciation	**(647)**	**—**	**(31)**	**(678)**
Amortisation	**(118)**	**—**	**—**	**(118)**
Exceptional items	**—**	**—**	**(351)**	**(351)**
Group operating profit after amortisation and exceptional items	**2,435**	**2,555**	**(2,157)**	**2,833**
Net finance costs	**—**	**—**	**(295)**	**(295)**
Profit before tax	**2,435**	**2,555**	**(2,452)**	**2,538**
Tax expense				**(370)**
Profit for period				**2,168**

30 June 2011	Asset management £'000	Asset installation £'000	Unallocated £'000	Total operations £'000
Segment revenue	3,018	4,373	—	7,391
Operating costs	(1,011)	(2,614)	—	(3,625)
Segment profit – Group gross profit	2,007	1,759	—	3,766
Items not reported by segment				
Other operating costs	—	—	(1,372)	(1,372)
Depreciation	(397)	—	(19)	(416)
Amortisation	(118)	—	—	(118)
Group operating profit after amortisation and exceptional items	1,492	1,759	(1,391)	1,860
Net finance costs	—	—	(326)	(326)
Profit before tax	1,492	1,759	(1,717)	1,534
Tax expense				(344)
Profit for period				1,190

Notes to the accounts continued

for the period ended 30 June 2012

2 Segmental reporting continued

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

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

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

	Six months ended 30 June 2012 Unaudited £'000	Six months ended 30 June 2011 Unaudited £'000	Year ended 31 December 2011 Audited £'000
Asset management	**2,530**	2,034	4,380
Asset installation	**1,899**	1,053	2,860
	4,429	3,087	7,240

2 Segmental reporting continued

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

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

30 June 2012	**Asset management £'000**	**Asset installation £'000**	**Total operations £'000**
Assets reported by segment			
Intangible assets	**1,890**	**—**	**1,890**
Plant and machinery	**26,401**	**—**	**26,401**
Inventories	**227**	**—**	**227**
	28,518	**—**	**28,518**
Assets not reported by segment			**6,869**
Total assets			**35,387**
Liabilities reported by segment			
Obligations under hire purchase agreements	**15**	**—**	**15**
	15	**—**	**15**
Liabilities not reported by segment			**20,631**
Total liabilities			**20,646**

30 June 2011	Asset management £'000	Asset installation £'000	Total operations £'000
Assets reported by segment			
Intangible assets	1,948	—	1,948
Plant and machinery	16,463	—	16,463
Inventories	9	—	9
	18,420	—	18,420
Assets not reported by segment			4,004
Total assets			22,424
Liabilities reported by segment			
Obligations under hire purchase agreements	—	—	—
	—	—	—
Liabilities not reported by segment			19,887
Total liabilities			19,887

Notes to the accounts continued

for the six months ended 30 June 2012

2 Segmental reporting continued

31 December 2012	Asset management £'000	Asset installation £'000	Total operations £'000
Assets reported by segment			
Intangible assets	1,885	—	1,885
Plant and machinery	21,125	—	21,125
Inventories	83	—	83
	23,093	—	23,093
Assets not reported by segment			9,143
Total assets			32,236
Liabilities reported by segment			
Obligations under hire purchase agreements	16	—	16
	16	—	16
Liabilities not reported by segment			19,764
Total liabilities			19,780

3 Earnings per share

	Six months to 30 June 2012 £'000	Six months to 30 June 2011 £'000	Year to 31 December 2011 £'000
Profit for period used for calculation of basic EPS	**2,168**	1,190	2,190
Amortisation of intangible assets	**118**	118	235
Exceptional costs	**351**	—	677
Tax effect of adjustments	**(113)**	—	(92)
Earnings for the purpose of adjusted EPS	**2,524**	1,308	3,010
Number of shares			
Weighted average number of shares for the purpose of calculating basic EPS	**83,339,747**	66,673,080	74,709,610
Effect of potentially dilutive ordinary shares:			
– share options	**2,341,953**	—	728,577
Weighted average number of ordinary shares for the purpose of diluted EPS	**85,681,700**	66,673,080	75,438,187
Earnings per share:			
– basic (pence)	**2.60**	1.78	2.93
– diluted (pence)	**2.53**	1.78	2.90
Adjusted earnings per share:			
– basic (pence)	**3.03**	1.96	4.03
– diluted (pence)	**2.95**	1.96	3.99

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

4 Events after the reporting period

On 2 August 2012 the Group announced a new banking club arrangement.

The new £45m revolver facility is available for 24 months, repayable over 10 years, with a 5 year break. It replaces the previous facility of £19.5m.

5 Dividend

	Six months to 30 June 2012 £'000	Six months to 30 June 2011 £'000	Year to 31 December 2011 £'000
Dividend on equity shares	**—**	—	180

After 30 June the Directors have approved an interim dividend of 0.5 pence per share for the year ending 31 December 2012, which has not been accrued as a liability as at 30 June 2012 in accordance with IAS 8. The dividend will be paid on 22 November 2012 with an ex-dividend date of 17 October 2012 and a record date of 19 October 2012.

6 The half yearly financial report was approved by the Board of Directors on 4 September 2012.

7 A copy of this half yearly financial report is available from the Company's Registered Office or by visiting our website at www.sms-plc.com.

Smart Metering Systems plc
2nd floor
48 St. Vincent Street
Glasgow G2 5TS

www.sms-plc.com