Smart Metering Systems plc
Interim report 2013

smart approach
smart systems

smart metering
systems plc

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

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

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

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

Overview

01 Our highlights

02 Chairman's and Chief Executive Officer's statement

Financial statements

04 Consolidated statement of comprehensive income

05 Consolidated statement of financial position

06 Consolidated statement of changes in shareholders' equity

07 Consolidated cash flow statement

08 Notes to the accounts

Our highlights

FINANCIAL HIGHLIGHTS

- Revenue increased by 42% to £13.2m (H1 2012: £9.3m)
- Recurring meter rental increased by 43% to £6.0m (H1 2012: £4.2m) representing 46% of total revenue
- Gross profit increased by 40% to £8.1m (H1 2012: £5.8m)
- Adjusted EBITDA* increased by 37% to £5.5m (H1 2012: £4.0m)
- Basic earnings per share increased to 3.27p (H1 2012: 2.60p)
- Interim dividend increased by 40% to 0.7p per ordinary share
- Available cash and unused debt facility of £25.5m

* Excluding exceptional items and fair value adjustments

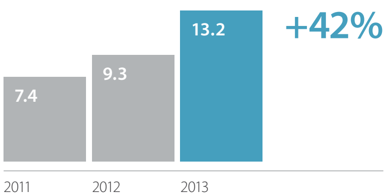
OPERATIONAL HIGHLIGHTS

- Total meter portfolio increased by 18% to 401,000 from end of December 2012 (December 2012: 341,000)
- Increase of 78% in capital investment in meter assets to £10.5m (H1 2012: £5.9m)
- Increase in annualised recurring meter rental at 30 June 2013 of 43% to £13.0m (H1 2012: £9.1m)
- Contract extensions or additions with a number of major customers
- Energy brokers served increased to eleven from five at December 2012
- ADM™ installations increased to over 7,000 units to date
  - Advanced trials commenced in the Water and LPG markets in the UK
  - International trials commenced but at early stage
- Increase of 41% in asset installation revenue to £7.2m (H1 2012: £5.1m) of which Gas Connection business increased turnover by 37% to £4.1m (H1 2012: £3.0m)

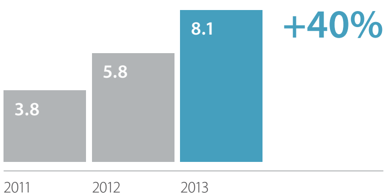
POST BALANCE SHEET EVENTS

- DONG Energy contract renewal and extension to include new gas connections, gas meters and data management services using the ADM™ solution. This is a preferred supplier contract covering the entire portfolio of meter points to which DONG Energy are the registered gas supplier
- New contract with Opus Energy for gas meters and data management services including the ADM™ solution

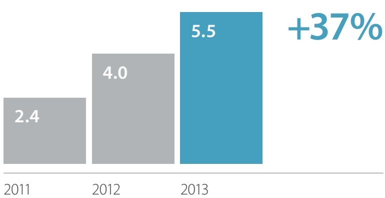
Revenue £m



Gross profit £m



EBITDA* £m



Chairman's and Chief Executive Officer's statement

Kevin Lyon
Chairman and Non-executive Director

Alan Foy
Chief Executive Officer

We are pleased to announce continued growth in the first half of 2013, across all our business, in both the number of customers we serve and also the number of meters in our portfolio.

OUR BUSINESS

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

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

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

— establish ADM™ as the industry standard smart metering solution for Industrial and Commercial (I & C) clients; and

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

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

OPERATIONAL REVIEW

During the first half of 2013 the meter portfolio has broken the 400,000 level with an increase of 60,000 in the first six months mainly as a result of a number of major contract wins in 2012.

The increase in our meter portfolio is reflected in the build-up of our annualised recurring revenue, providing an increasing percentage of our total revenue. These recurring revenues are as a result of the long-term nature of our contracts which provide an index linked revenue stream.

INDUSTRIAL AND COMMERCIAL METERS

In addition to recent new contract wins with DONG Energy and Opus Energy, we have had extensions from major customers on existing contracts.

SMS continues to target the energy broker market, which provides a useful additional revenue stream. The number of brokers has increased from five to eleven since the year end and contracts cover both the provision of meters and the ADM™ device. In addition SMS has also experienced a greater demand for new meters through its I & C gas connections activities.

The value of I & C meters is typically much greater than that of domestic meters and therefore the revenue per meter is approximately 10–15 times higher on average.

ADM™

The ADM™ device is SMS's advanced metering solution which allows for remote meter reading on a half-hourly basis and has been designed in line with our own customer requirements.

SMS has now installed over 7,000 ADM™ devices. Feedback continues to be extremely positive. The ability of remote reading alongside SMS's full service capability in the I & C market provides a major opportunity for the Company in extending the service we offer and the ability to seek out further markets for our overall service.

The Department of Energy & Climate Change (DECC) has recently announced a delay in the start of the UK domestic smart metering programme. The Company believes, however, that the small I & C market will be largely unaffected by this delay as suppliers are already rolling out advanced solutions for commercial reasons to allow their customers to benefit from being able to manage their energy bills at the earliest practicable date rather than waiting until they are mandated to install smart meters. Based on the ADM's competitive price and ease of installation and the ongoing increase in the Company's meter portfolio, SMS expects to benefit from this delay and also to be well placed when it actually occurs.

DOMESTIC METERS

SMS, as previously announced, has been contracted by SSE to provide Meter Operations Services in all regions outside of Scotland and the South-East of England up to April 2014. SMS is on track to complete the original 180,000 meter programme.

SMS will continue to support its existing and potential new customers in the domestic market for gas meter services, leaving the business well placed to support our customers in the domestic smart programme now expected to commence in the autumn 2015.

OTHER MARKETS

SMS's focus is principally on the UK gas market where it continues to see good long-term growth potential. However, the Company continues to identify and test other potential markets for its products and services.

In the UK water sector, the Company has moved to advanced trials with a number of potential customers. Internationally, with the benefit of funding from Scottish Enterprise, SMS has started trials for the ADM™ device in South Africa and Asia with pre-marketing ongoing in the USA.

FINANCIAL REVIEW

RESULTS FOR THE YEAR

During the first half of 2013, the Company increased revenue by 42% to £13.2m principally as a result of increasing meters under ownership and management. Annualised recurring meter rental revenue, in line with the Company's strategy, increased to £13.0m compared to £10.8m at the end of 2012.

Asset installation revenue increased to £7.2m (H1 2012: £5.1m) of which the Gas Connection business increased turnover by 37% to £4.1m (H1 2012: £3.0m).

Administration expenses, at £3.9m (excluding exceptional costs), were up compared to the first half 2012, mainly due to investment in staff numbers which have increased to over 100, up 30 since the year end. This increase is in line with the growth of the Company. Depreciation and amortisation increased by 65% to £1.3m due to the increased meter base held by the Company.

Finance costs increased from £318k to £545k due to higher outstanding debt in the period as a result of the increase in meter investment.

Gross profit increased from £5.8m (H1 2012) to £8.1m and adjusted EBITDA from £4.0m (H1 2012) to £5.5m.

CASH AND BORROWINGS

As at 30 June 2013, the Company had net debt of £19.5m (December 2012: £13.9m). This comprised debt of £26.0m (December 2012: £20.4m) and cash balances of £6.5m. Unused facilities were £19.0m.

SMS has a £45.0m facility with Barclays Bank PLC (lead bank), Clydesdale Bank PLC and Lloyds Bank PLC to fund the purchase of meter assets. Interest is paid quarterly at 2.9% plus three-month rolling LIBOR on the outstanding balance with drawn funds repaid equally over ten years. 1.45% is paid on undrawn funds. SMS has entered into a hedging arrangement to swap three-month rolling LIBOR, currently at c.0.51%, to a fixed 0.90–0.92% over four years for c.70% of the facility.

Capital investment in meter assets was £10.5m compared to £5.9m in the first half of 2012.

TREASURY POLICIES

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

Interest rate swaps covered an amount of £19.8m as at 30 June 2013 (December 2012: £13.2m).

The interest rate swap results in a fixed interest rate of 0.90–0.92%. The termination date for the derivatives is 15 September 2016.

PEOPLE

Staff numbers have increased during 2013 to over 100.

The most important part of our business is ensuring that we provide the highest quality of service to our customers, a value that continues to underpin the business. The results to date this year reflect the continued dedication of our staff in this endeavour and we would like to thank them for their continued support.

During the six months ended 30 June 2013, Steve Timoney retired from the Board and the Company is actively seeking to recruit an additional Non-executive Director.

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 a proposed interim cash dividend of 0.7p for the half year ended 30 June 2013 to shareholders. The interim dividend will be paid on 22 November 2013 to those shareholders on the register (record date) on 18 October 2013 with an ex-dividend date of 16 October 2013.

OUTLOOK

With growth across all sectors in the first half of 2013, underpinned by an increasing long-term recurring meter rental revenue, SMS looks forward with confidence.

Consolidated statement of comprehensive income

For the period ended 30 June 2013

	Six months ended 30 June 2013 Unaudited £'000	Six months ended 30 June 2012 Unaudited £'000	Year ended 31 December 2012 Audited £'000
Revenue	**13,188**	9,272	21,029
Cost of sales	**(5,115)**	(3,517)	(7,759)
Gross profit	**8,073**	5,755	13,270
Administrative expenses	**(4,230)**	(2,922)	(7,337)
Profit from operations	**3,843**	2,833	5,933
Attributable to:			
Operating profit before exceptional items	**4,156**	3,184	7,176
Exceptional items and fair value adjustments	**(313)**	(351)	(1,243)
Finance costs	**(545)**	(318)	(739)
Finance income	**24**	23	33
Profit before taxation	**3,322**	2,538	5,227
Taxation	**(594)**	(370)	(914)
Profit for the year			
Attributable to equity holders	**2,728**	2,168	4,313
Other comprehensive income	**—**	—	—
Total comprehensive income	**2,728**	2,168	4,313
Earnings per share – basic (pence)	**3.27**	2.60	5.18
Earnings per share – diluted (pence)	**3.12**	2.53	5.00

Consolidated statement of financial position

As at 30 June 2013

	30 June 2013 Unaudited £'000	30 June 2012 Unaudited £'000	31 December 2012 Audited £'000
Assets			
Non-current assets			
Intangible assets	**1,920**	1,890	1,916
Property, plant and equipment	**45,721**	26,602	36,104
	47,641	28,492	38,020
Current assets			
Inventories	**692**	227	373
Trade and other receivables	**3,585**	2,428	3,091
Cash and cash equivalents	**6,507**	4,233	6,455
Other current financial assets	**36**	7	—
	10,820	6,895	9,919
Total assets	**58,461**	35,387	47,939
Liabilities			
Current liabilities			
Trade and other payables	**10,095**	7,747	8,201
Bank loans and overdrafts	**2,834**	1,348	2,150
Obligations under hire purchase agreements	**4**	4	3
Other current financial liabilities	**—**	361	170
	12,933	9,460	10,524
Non-current liabilities			
Bank loans	**23,215**	9,152	18,299
Obligations under hire purchase agreements	**7**	11	10
Deferred tax liabilities	**3,098**	2,023	2,510
	26,320	11,186	20,819
Total liabilities	**39,253**	20,646	31,343
Net assets	**19,208**	14,741	16,596
Equity			
Share capital	**839**	833	833
Share premium	**8,970**	8,653	8,653
Other reserves	**1**	1	1
Retained earnings	**9,398**	5,254	7,109
Total equity attributable to equity holders of the parent company	**19,208**	14,741	16,596

Consolidated statement of changes in shareholders' equity

For the period ended 30 June 2013

	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 2012	833	8,653	1	5,254	14,741
Profit for period	—	—	—	2,145	2,145
Transactions with owners in their capacity as owners:					
Dividends	—	—	—	(417)	(417)
Share options	—	—	—	127	127
Balance as at 31 December 2012	833	8,653	1	7,109	16,596
Profit for period	—	—	—	2,728	2,728
Transactions with owners in their capacity as owners:					
Shares issued	6	317	—	—	323
Dividends	—	—	—	(958)	(958)
Share options	—	—	—	519	519
Balance as at 30 June 2013	**839**	**8,970**	**1**	**9,398**	**19,208**

Consolidated cash flow statement

For the period ended 30 June 2013

	30 June 2013 Unaudited £'000	30 June 2012 Unaudited £'000	31 December 2012 Audited £'000
Cash flow from operating activities			
Profit before taxation	**3,322**	2,538	5,227
Finance costs	**545**	318	739
Finance income	**(24)**	(23)	(33)
Fair value movements on derivatives	**(206)**	33	(151)
Depreciation	**1,194**	678	1,599
Amortisation	**118**	118	238
Share-based payment expense	**519**	117	244
Increase in inventories	**(319)**	(144)	(290)
Increase in trade and other receivables	**(494)**	(822)	(1,485)
Increase in trade and other payables	**1,890**	1,148	1,835
Cash generated from operations	**6,545**	3,961	7,923
Taxation	**(2)**	—	(290)
Net cash generated from operations	**6,543**	3,961	7,633
Investing activities			
Payments to acquire property, plant and equipment	**(10,811)**	(5,953)	(16,380)
Disposal of fixed asset investment	**—**	—	4
Payment to acquire intangible assets	**(122)**	(123)	(269)
Finance income	**24**	23	33
Net cash used in investing activities	**(10,909)**	(6,053)	(16,612)
Financing activities			
New borrowings	**6,839**	—	10,947
Capital repaid	**(1,239)**	(673)	(1,671)
Net outflow from other long-term creditors	**(2)**	(1)	(3)
Finance costs	**(545)**	(318)	(739)
Net proceeds from share issue	**323**	—	—
Dividends paid	**(958)**	—	(417)
Net cash generated from/(used in) financing activities	**4,418**	(992)	8,117
Net increase/(decrease) in cash and cash equivalents	**52**	(3,084)	(862)
Cash and cash equivalents at the beginning of the period	**6,455**	7,317	7,317
Cash and cash equivalents at the end of the period	**6,507**	4,233	6,455

Notes to the accounts

For the period ended 30 June 2013

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 2013. 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 2012.

The financial information for the six months ended 30 June 2013 is also unaudited.

The Group's statutory accounts for the year ended 31 December 2012 have been delivered to the Registrar of Companies. The report of the auditor 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 twelve months from the date of these financial statements. Our forecasts show continued capital investment which is funded from retained profits and external finance. At 30 June 2013, the Group had cash of £6.5m, available facilities of £19.0m and continued to be cash generative through trading operations.

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of the financial information for the six months ended 30 June 2013 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 2013.

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 and commercial gas meters throughout the UK.

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

The following tables present information regarding the Group's reportable segments for the six months ended 30 June 2013, six months ended 30 June 2012 and the year ended 31 December 2012.

Overview

Financial statements

2 SEGMENTAL REPORTING CONTINUED

30 June 2013	**Asset management £'000**	**Asset installation £'000**	**Unallocated £'000**	**Total operations £'000**
Segment revenue	**6,023**	**7,165**	**—**	**13,188**
Operating costs	**(1,134)**	**(3,981)**	**—**	**(5,115)**
Segment profit – Group gross profit	**4,889**	**3,184**	**—**	**8,073**
Items not reported by segment				
Other operating costs	**—**	**—**	**(2,605)**	**(2,605)**
Depreciation	**(1,122)**	**—**	**(72)**	**(1,194)**
Amortisation	**(118)**	**—**	**—**	**(118)**
Exceptional items	**—**	**—**	**(313)**	**(313)**
Group operating profit after amortisation and exceptional items	**3,649**	**3,184**	**(2,990)**	**3,843**
Net finance costs	**(521)**	**—**	**—**	**(521)**
Profit before tax	**3,128**	**3,184**	**(2,990)**	**3,322**
Tax expense				**(594)**
Profit for year				**2,728**

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	2,140	2,555	(2,157)	2,538
Tax expense				(370)
Profit for year				2,168

Notes to the accounts continued

For the period ended 30 June 2013

2 SEGMENTAL REPORTING CONTINUED

31 December 2012	Asset management £'000	Asset installation £'000	Unallocated £'000	Total operations £'000
Segment revenue	9,254	11,775	—	21,029
Operating costs	(2,194)	(5,565)	—	(7,759)
Segment profit – Group gross profit	7,060	6,210	—	13,270
Items not reported by segment				
Other operating costs	—	—	(4,266)	(4,266)
Depreciation	(1,534)	—	(56)	(1,590)
Amortisation	(238)	—	—	(238)
Exceptional items	—	—	(1,243)	(1,243)
Group operating profit after amortisation and exceptional items	5,288	6,210	(5,565)	5,933
Net finance costs	(706)	—	—	(706)
Profit before tax	4,582	6,210	(5,565)	5,227
Tax expense				(914)
Profit for year				4,313

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 2013 Unaudited £'000	Six months ended 30 June 2012 Unaudited £'000	Year ended 31 December 2012 Audited £'000
Asset management	**3,499**	2,530	5,511
Asset installation	**2,993**	1,899	4,228
	6,492	4,429	9,739

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 2013	Asset management £'000	Asset installation £'000	Total operations £'000
Assets reported by segment			
Intangible assets	1,920	—	1,920
Plant and machinery	45,373	—	45,373
Inventories	692	—	692
	47,985	—	47,985
Assets not reported by segment			10,476
Total assets			58,461
Liabilities reported by segment			
Bank loans	26,049	—	26,049
Obligations under hire purchase agreements	11	—	11
	26,060	—	26,060
Liabilities not reported by segment			13,193
Total liabilities			39,253

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			
Bank loans	10,500	—	10,500
Obligations under hire purchase agreements	15	—	15
	10,515	—	10,515
Liabilities not reported by segment			10,131
Total liabilities			20,646

Notes to the accounts continued

For the period ended 30 June 2013

2 SEGMENTAL REPORTING CONTINUED

31 December 2012	Asset management £'000	Asset installation £'000	Total operations £'000
Assets reported by segment			
Intangible assets	1,916	—	1,916
Plant and machinery	35,791	—	35,791
Inventories	373	—	373
	38,080	—	38,080
Assets not reported by segment			9,859
Total assets			47,939
Liabilities reported by segment			
Bank loans	20,449	—	20,449
Obligations under hire purchase agreements	13	—	13
	20,462	—	20,462
Liabilities not reported by segment			10,881
Total liabilities			31,343

3 EARNINGS PER SHARE

	Six months to 30 June 2013 £'000	Six months to 30 June 2012 £'000	Year to 31 December 2012 £'000
Profit for period used for calculation of basic EPS	**2,728**	2,168	4,313
Amortisation of intangible assets	**118**	118	238
Exceptional costs	**313**	351	1,243
Tax effect of adjustments	**(101)**	(113)	(355)
Earnings for the purpose of adjusted EPS	**3,058**	2,524	5,439
Number of shares			
Weighted average number of shares for the purpose of calculating basic EPS	**83,348,666**	83,339,747	83,339,747
Effect of potentially dilutive ordinary shares:			
– share options	**3,947,294**	2,341,953	2,957,911
Weighted average number of ordinary shares for the purpose of diluted EPS	**87,295,960**	85,681,700	86,297,658
Earnings per share:			
– basic (pence)	**3.27**	2.60	5.18
– diluted (pence)	**3.12**	2.53	5.00
Adjusted earnings per share:			
– basic (pence)	**3.67**	3.03	6.53
– diluted (pence)	**3.50**	2.95	6.30

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

4 DIVIDEND

	Six months to 30 June 2013 £'000	Six months to 30 June 2012 £'000	Year to 31 December 2012 £'000
Dividend on equity shares	**958**	—	417

After 30 June the Directors have approved an interim dividend of 0.7p per share for 2013, which has not been accrued as a liability as at 30 June 2013 in accordance with IAS 8. The dividend will be paid on 22 November 2013 with an ex-dividend date of 16 October 2013 and a record date of 18 October 2013.

5 The half yearly financial report was approved by the Board of Directors on 3 September 2013.

6 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