Smart Metering Systems plc
(“SMS” or “the Company”)

Interim Results for the six months ended 30 June 2018

Smart Metering Systems plc (AIM: SMS.L) is pleased to announce its interim results, which show continued growth in the six months to 30 June 2018.

Financial highlights

- Revenue increased by 27% to £46.7m (H1 2017: £36.8m)
- EBITDA increased by 29% to £23.4m (H1 2017: £18.1m)
- PBT increased by 9% to £10.1m (H1 2017: £9.3m)
- Total annualised recurring revenue[2] increased by 43% to £69.3m (H1 2017: £48.4m)
- Pre-exceptional EBITDA[1,3] increased by 26% to £23.6m (restated H1 2017: £18.7m)
- Pre-exceptional EBITDA[1,3] margin at 51% (restated H1 2017: 51%)
- Underlying PBT[1,3,4] increased by 5% to £11.4m (restated H1 2017: £10.9m)
- Underlying earnings per share[1,5] decreased by 15% to 8.40p (restated H1 2017: 9.92p)
- Interim dividend of 2.00p per ordinary share, an increase of 15%

1 In 2017 the Board took the decision to change the presentation of the underlying performance measures to include other operating income. The Board believes this income is an integral feature of the replacement of meters, particularly prevalent during the current smart domestic rollout, and will occur with greater regularity on an ongoing basis. All prior year underlying results have been restated in accordance with this new approach.
2 Annualised recurring revenue refers to the revenue being generated at a point in time. Revenue refers to revenue generated by meter rental and data contracts.
3 Pre-exceptional EBITDA and underlying PBT figures are presented under our revised approach to include other operating income.
4 Underlying PBT is before exceptional items and intangible amortisation.
5 Underlying earnings per share is profit after taxation but before exceptional items and intangible amortisation, divided by the weighted average number of ordinary shares in issue.

	30 June 2018 units	31 December 2017 units	Percentage increase December 2017	30 June 2017 units	Percentage increase June 2017
Total gas and electricity metering and data assets	**2,523,000**	2,031,000	24%	1,678,000	50%
Gas meter portfolio*	**1,568,000**	1,273,000	23%	1,064,000	47%
Gas data portfolio	**129,000**	126,000	2%	118,000	9%
Electricity meter portfolio	**465,000**	309,000	50%	166,000	180%
Electricity data portfolio	**361,000**	323,000	12%	330,000	9%

* Includes assets under management for 3rd parties.

Alan Foy, Chief Executive Officer, commented:

“The first half of 2018 has seen us continue to grow the business at record levels, in addition to which we are delighted to have recently signed a significant smart meter contract on an exclusive basis with a large independent energy supplier. At the heart of this success is the strength and track record of our full end to end capability to both install, and subsequently own and maintain, our portfolio of assets in the domestic smart metering and I&C markets.

I am delighted with the progress over the last 6 months and we will continue to invest in our business to capitalise on the domestic smart metering rollout programme.”

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Notes to editors

About Smart Metering Systems Plc

Established in 1995, Smart Metering Systems plc, headquartered in Glasgow, installs, owns and operates gas and electricity meters on behalf of major energy companies. The Company's full end to end energy management services and consultancy business support large blue-chip companies in the UK, through a network of offices in Cardiff, Cambridge, Bolton, Doncaster, Rugby, and Newmarket.

The Company's services also include infrastructure design, installation, consultancy and project management services for new gas, electricity, water and telecoms connections for licenced energy and telecoms suppliers, end consumers and the UK's licenced electricity Distribution Network Owners (DNO's).

The Company was admitted to the AIM market in July 2011 and is now part of the FTSE AIM 50 index. For more information on SMS please visit the Company's website: www.sms-plc.com.

Chairman’s statement

I am delighted to report another period of strong trading activity, demonstrating our accelerated growth trajectory driven by the UK domestic smart meter rollout.

Review of 2018 so far

The first half of this year has seen strong growth driven by the successful and continued delivery of the foundation stage of the UK domestic smart meter rollout. This is reflected in our growing meter and data portfolio.

With now over 2.5 million metering and data assets under management, our existing client base of energy suppliers continues to provide customer portfolios to us as part of "business-as-usual" activity, up 24% from 2 million at the end of 2017. This increase includes an additional 267,000 smart domestic meters, taking our overall smart meter portfolio to 690,000 domestic meters. This justifies the strategic decisions the Company made in 2017 regarding the funding of this major undertaking and its previous acquisitions. Indeed, we have clearly demonstrated that we have the proven operational and financial capacity and platform to execute and deliver this rollout.

Recent publicity surrounding the UK domestic smart meter rollout has resulted in BEIS and OFGEM emphasising their commitment to the 2020 deadline after the likelihood of the programme completion timescales was challenged. Our increasing portfolio reflects the wider continued progress of the government-mandated programme, which requires UK energy suppliers to fit c.53 million new smart meters by the end of 2020.

Our proven capability, meanwhile, ensures we are well positioned to support our customers with these obligations up to 2020 and beyond, partnering with energy suppliers to deliver their end-to-end requirements in a capacity-constrained market. This model continues to demonstrate year-on-year growth, increasing revenue by 27% and our annualised recurring and index-linked revenue by 43%. This growth is being managed with an undiminished attention to health and safety and customer service, which is testament to our established and proven management team.

Going forward, our strategy is to carefully manage the forthcoming transition to the SMETS2 rollout, in which meters will directly and immediately connect to the Data Communications Company (DCC), and to continue to increase our metering installation run rates from the 2.5 million assets currently under management.

Our strategic priorities, in 2018, continue to be:

1. Install and own utility metering infrastructure and secure rental and data revenues from our contracted energy suppliers in the industrial and commercial (I&C) market.
2. Build on our strategic positioning and investment in capacity to take advantage of the domestic smart market opportunity in the UK, carefully managing the technology, logistics and engineering challenges associated with the SMETS2 delivery. This is founded on our proven end-to-end delivery capability, increasing capacity, and track record of customer service and operational delivery.
3. Innovate our services to build big data, energy management, financing and installation capabilities that enable our customers to reduce their carbon emissions and facilitate our investment in infrastructure asset classes which provide long-term recurring revenue.

Health and safety

Health and safety is the Group’s key priority; we are committed to the wellbeing of every person involved with our business, with zero harm realised across our organisation. We take seriously our Board-level leadership responsibilities, striving for continuous improvement and putting in place throughout the business a "no blame" culture to ensure no incident goes unreported, thereby ensuring we make available appropriate resourcing to monitor and support the assurance function. We are, however, not complacent and continue to invest and rigorously challenge, evaluate and assess the risks within our business to ensure that we are doing everything possible to ensure the health and safety of all our stakeholders.

People

We have continued to grow the SMS family and we now employ over 940 staff across the UK. As we continue to grow we are working hard to ensure that we foster a culture which enables all our staff to uphold the highest levels of integrity and to maintain a positive empowering environment in which we encourage all colleagues to look forward, to take responsibility, and to make a difference to our organisation and to our customers every day. We have continued to invest in the business infrastructure to support this staff growth, and we are building on the experienced and proven management team, which, is now focused on successfully delivering the transition to SMETS2, innovation in our future services and our growth plans.

During the six months to 30 June 2018, we have appointed Kelly Olsen as a Non-executive Director, bringing a wealth of experience to the Board as an information technology specialist. Kelly is chairing a newly created Information and Technology Committee of the Board, which is further improving the governance and strategic guidance of the Company’s technology programmes. Technology, information security and IT systems are critical to the delivery of the smart meter rollout, the transition to

SMETS2, the delivery of a first-class customer experience, and the development of our services beyond smart meters to truly deliver the future of smart energy and a low-carbon energy system. This importance of technology is reflected in our appointment of Kelly and our continued and substantial investment in this area to support our existing and future service offering.

Dividend

SMS is pleased to announce a proposed interim cash dividend to shareholders of 2.00p per ordinary share for the half year ended 30 June 2018, a 15% increase. The interim dividend will be paid on 23 November 2018 to those shareholders on the register (record date) on 26 October 2018 with an ex-dividend date of 25 October 2018.

Outlook

The first half of 2018 has seen us accelerate our annualised recurring revenues and our trading performance, and significantly increase capital investment in metering assets accordingly. Whilst we expect the transition to SMETS2 to bring some operational challenges through the second half of 2018, we are confident in our ability to manage this business change, and to maintain our growth across the asset portfolio. As a result, we remain confident in our ability to continue to grow the business for the remainder of 2018 and beyond.

Chief Executive Officer's statement

The first half of 2018 has been an outstanding one for SMS, a period during which we have continued to establish our position at the heart of the low-carbon smart energy revolution that is pivotal to realising a greener, more sustainable world.

The rollout of smart meters has continued to build pace, with SMS increasing its portfolio by over 267,000 smart meters in the first six months of the year, resulting in the overall ownership of more than 690,000 smart meters nationwide. To put this in perspective, at the end of Q2 2018 there were around 12.5 million smart domestic meters installed in the UK with SMS installing c.11% of the current industry-wide run rate of c.1.25 million meters per quarter.

Alongside the continued successful growth of our I&C and data business, this means that SMS now manages a portfolio of over 2.5 million meter and data assets, generating annualised recurring rentals of c.£69.3m to 30 June 2018. This represents an increase of 43% (£20.9m) from the same period in 2017, and an increase of 22% (£12.4m) since the start of the year, with this recurring revenue being based on long-term index–linked rental contracts. This continued growth demonstrates the success of our strategy and deployment of the financial capacity we put in place in November 2017 via a £150m equity placement. We also extended our £280m revolving credit facility, giving us continued balance sheet flexibility for the delivery of our smart asset base.

As we progress into the second half of 2018 and beyond we continue in earnest our planning for and the transition to the delivery of SMETS2 meters, which connect directly to the national DCC network. This transition will bring short-term technology, logistics and operational challenges and we are focused on managing capacity, meter stock and installation run rates carefully in this period. However, we have put in place the IT systems, capacity, national engineering infrastructure and an experienced management team which continues to successfully manage this industry-wide challenge.

By the end of August 2018 our smart meter portfolio had grown further to 748,000 smart meters, from a total increased portfolio of 2.8 million meter and data assets, which provide annualised recurring revenue of £71.4m by 31 August 2018.

Smart meter rollout

The benefits of smart metering remain clear. The introduction of digital technologies, the need to decarbonise our energy usage, and growing energy demand (particularly given the electrification of transport and heat over coming years) have led to a fundamental requirement to not only change how energy is supplied/generated, but also how and when we demand and use it.

The smart meter is at the heart of this energy revolution, not just by providing more accurate bills and enabling consumers to monitor their energy usage, but for the first time enabling two-way communication between consumers and the energy network. This communication facilitates "real-time" automated responses to changing demand, improved matching of energy supply to consumption, and demand-side response schemes that allow consumers to control when they use, store or export their energy. We are already seeing energy suppliers introduce time-of-use tariffs which will be key to enabling the full realisation of these benefits.

SMS is at the very centre of this fast-expanding landscape. Indeed, with the energy system evolving to a more decentralised and dynamic model, domestic smart metering is the clear and immediate strategic focus for the business as we continue to build our order book, put in place SMETS2 contracts, and manage the transition to the mass SMETS2 rollout with the DCC.

In the short term, BEIS and OFGEM continue to reinforce the 2020 smart rollout deadline and the incentives on energy suppliers to meet their mandated requirements. Recently we have seen OFGEM issue fines to energy suppliers for failing to meet their smart meter install targets. SMS has the capacity and infrastructure to support suppliers in the delivery of these obligations up to and beyond 2020.

In the longer term, the delivery of this smart energy revolution will require energy infrastructure and data driven services – using technology, knowledge and engineering capacity – to provide control over the generation, use and storage of energy. SMS is uniquely positioned to help achieve this, with our customers seeing us as a crucial component in delivering their needs and requirements.

Finally, SMS is not only leading the industry in the context of delivering the smart meter rollout, as evidenced above, but also in its efforts to communicate the benefits of smart metering and related technologies. As we know, smart meters are pivotal in the UK's decarbonisation and the realisation of a future smart energy system that is estimated to save the country up to £40bn between now and 2050. In face of the aforementioned criticism of the rollout amongst the mass media, SMS has retained a consistent, positive and strictly fact-based message concerning the benefits of smart meters. This is a message regularly communicated to the public through the Insights section of our website, as well as through our various well-followed social media channels. Recent examples of this include a response to the recent British Infrastructure Group's (BIG) critical report on the rollout, as well as a paper on the growing use of time-of-use tariffs by consumers. Such clarity in our messaging has made us a leading voice on smart energy issues, and we aim to consolidate this position going forward.

Operational delivery

"Safety is the Priority" is our number-one core value. In practice, this means we are committed to being a safe, secure and reliable organisation and acting at all times to protect everyone around us: colleagues, customers and the general public. Our internal training centres are key to this, and we consider ourselves an industry leader in ensuring that safe and quality working practices are adopted by our entire engineering workforce.

We avoid complacency at all costs and continue to drive the highest standards in safety throughout the organisation even as we continue to grow our engineering installation capacity. As we transition to SMETS2, our internal training capability will be particularly critical in the face of new challenges, meter variants and technological requirements. Nevertheless, we have the proven ability to upskill our engineering base accordingly.

We are also well advanced in the end-to-end testing and development of our SMETS2 systems, working closely with our energy supplier customers to lead the industry in full integration with the DCC data network. We are also pleased to have been appointed directly by the DCC to provide test laboratory facilities. Testing at the lab is being conducted to ensure that all the original SMETS1 smart meters installed to date will maintain full functionality when adopted and enrolled into the DCC data network. This will ensure that these first-generation meters remain "smart" if a consumer decides to switch energy supplier in the future.

As manufacturing capacity for SMETS2 meters begins to come online, we are closely managing this risk by working with multiple partners to ensure we have appropriate diversity and resilience in our supply chain. We continue, therefore, to focus on our proven approach to capacity management, ensuring controlled growth in our systems, financial, and engineering capacity. Our internal direct control over training, compliance, engineering installation services and the end-to-end IT infrastructure continues to prove critical to our current success, our transition to SMETS2, and the development of services beyond smart metering. We have the demonstrable ability to increase our capacity to meet our clients' needs, which will prove vital as we move towards the mass rollout phase.

Consequently, we have proven ourselves to be one of the largest independent domestic smart metering installation workforces in the UK and positioned ourselves to be the partner of choice, offering services to large and small energy suppliers alike as they move into the mass rollout phase of their mandated smart meter rollout programmes.

Energy Management services

Our Energy Management division continues to play a critical part in the knowledge-based evolution of our services, and is essential to delivering the data-driven, long-term smart energy revolution enabled by smart meters. The division provides energy-cost, energy-consumption and carbon reduction services primarily to corporate I&C customers. We believe long-term domestic services such as energy storage, energy efficiency investments, demand-side management and electric vehicle (EV) charging point installations will prove economic in the I&C sector first and we are extending our service range accordingly.

We are pleased to have begun the active rollout and turnkey delivery of such energy efficiency measures – including LED retrofit projects – to large corporate energy users, with these services underpinned by our industry-leading energy monitoring and analytics software platform. This unique proposition and capability provides ongoing market opportunities for growth and ancillary benefits through provision of complementary metering and data services which deliver recurring index-linked revenue.

Business summary

We continue to deliver on our growth plan predicated on the financial, engineering and IT infrastructure platform strategically put in place in recent years. Whilst we are carefully managing the transition to the mass SMETS2 rollout, we remain confident in the business outlook for the remainder of 2018 and the real opportunities to drive growth which we are delivering from the smart rollout through to 2020 and beyond.

Chief Financial Officer's review

Results for the period

The period ended 30 June 2018 saw our growth profile continue, with revenue increasing by 27% to £46.7m (H1 2017: £36.8m), our EBITDA on a statutory basis increasing by 29% to £23.4m (H1 2017: £18.1m) and our profit before tax increasing by 9% to £10.1m (H1 2017: £9.3m). As we build momentum in the domestic smart meter rollout, we have continued to invest in our business with our meter asset and data portfolio increasing to 2.5 million meters (H1 2017: 1.68 million). We implemented our medium-term financing strategy in November 2017, raising £150m of equity and extending our £280m revolving credit facility with our existing syndicate of five banks to deliver the flexible capital necessary to fund the growth in meter assets, and take full advantage of the current smart meter rollout opportunity. The first six months of 2018 have seen us deploy record levels of capital in our portfolio with a 60% increase in investment in the period to £78.3m (H1 2017: £48.9m), the vast majority of which is in assets which are immediately revenue generating.

Annualised recurring revenue

Annualised recurring revenue as at 30 June 2018 grew by 43% to £69.3m (H1 2017: £48.4m). Our gas meter recurring revenue increased by 21% to £40.9m and gas data recurring revenue increased by 10% to £3.1m, while, our electricity meter recurring revenue increased by 182% to £17.2m and electricity data recurring revenue increased by 41% to £8.1m. The significant rise in percentage terms in electricity meter rental is predominantly driven by the domestic smart meter rollout, demonstrating the successful implementation of SMS's strategy of growing its asset base and driving recurring revenue.

Financial performance

Asset Management revenue grew 43% to £31.6m (H1 2017: £22.1m) largely due to the continued transition into the Domestic Smart market with our portfolio increasing by 267,000 to a total of 690,000 domestic smart meters. Energy Management revenue has increased by 84% to £3.0m (H1 2017: £1.6m) due primarily to commencing a nationwide energy efficient lighting project. Asset Installation revenue has decreased 7% to £12.1m (H1 2017: £13.1m) due to legacy installation-only contract work from the acquisition of Trojan Utilities Limited ending, and a decreasing portfolio of domestic traditional meters requiring transactional works. The continuation of legacy installation-only type works is being phased out as part of a wider strategic decision to allocate our internal engineering resource to fit our own portfolio of smart meters.

Overall, Group profit margins have decreased by 3% to 48% (H1 2017: 51%), the underlying cash margin in the Asset Management division, excluding depreciation, has increased from 87.5% to 89%. Across the other two divisions, the Asset Installation division has seen a margin reduction of 10% to 26%, largely driven by the decline of more profitable domestic transactional work and one-off productivity losses due to the extreme bad weather seen in March. The margin reduction in Energy Management has arisen following the successful tender and commencement of a large-scale energy efficient lighting contract, which will span several reporting periods. Whilst driving significant growth in overall revenue it delivers a lower gross margin. The reduction in margin is expected to carry through to the end of the year and beyond as this becomes a greater proportion of the overall turnover of the division.

To support the ongoing significant growth of the business we have continued to invest in our people across all areas from our engineering workforce and the related operational support infrastructure to our central functions. Our ability to deploy our own engineering workforce in the installation of meters is unique to SMS amongst our key meter asset provider competitors and is a core competitive advantage in our strategy of growing our asset base. Development of our people is critical to the growth of the business and this investment in our employees and their skill sets will continue.

As a result of our continued meter deployment, we have seen a net increase of £0.4m in our borrowing costs in the period to £2.2m as we further utilise our revolving credit facility to fund this investment, albeit this is partially offset by deleveraging the business utilising the equity placement proceeds.

Pre-exceptional EBITDA has increased by 26% to £23.6m (restated H1 2017: £18.7m) and underlying profit before tax has increased by 5% to £11.4m (restated H1 2017: £10.9m). Exceptional costs have been incurred in both the current and prior year. Exceptional costs predominantly relate to the costs associated with reorganisation within the installation business as we transferred the operational oversight and control of the domestic smart function within our subsidiaries to deliver the cost synergies within those businesses.

Our inventory has grown from our year–end position of £16.6m to £18.9m at 30 June 2018 (H1 2017: £12.9m). This continued level of investment in inventory is necessary to ensure we have a sufficient holding in our supply chain for our installation workforce and to manage an efficient meter rollout in delivering our growth plan. We are carefully managing our inventory as the market transitions to a mass SMETS2 rollout.

Financial resources

As at 30 June 2018, the Company had net debt of £103.3m (FY 2017: £36.5m; H1 2017: £122.0m) with a net debt to annualised EBITDA ratio of 2.2 times. The Company's available cash and unutilised debt facility stood at £176.6m at 30 June 2018. We believe that our capital structure allows us the flexibility to deliver on our strategy of increasing our asset portfolio through investment and driving index-linked recurring revenue as a result. We maintain the potential to increase our credit facilities to fund up to 4.0m domestic smart meters.

Outlook

The results are pleasing for the half-year period, showing record investment in revenue-generating assets, and an increased profitability. Due to this increased investment in our meter portfolio in H1 2018, we will see an increased depreciation charge and interest cost in the full year to 31 December 2018.

The successful equity raise of £150m in November 2017 provided immediate capacity to establish a smart meter portfolio of at least 2.5 million meters in the rollout period, in addition to the existing metering and data assets which will drive an increase in index-linked recurring revenue. The transition from the foundation smart meter rollout phase to the mainstream rollout phase will now commence in Q4 2018 and Q1 2019 as announced by the Department of Business, Energy and Industrial Strategy (BEIS), and this will potentially affect the timing of near-term deployment of meters. As a business that always seeks to plan ahead and invest in growth, we will continue our tactical investment in H2 2018 in operational capacity to ensure we retain all momentum as a business during the rollout and maximise the opportunity to obtain additional market share of the meter portfolio in the UK.

	Six months ended 30 June 2018 Unaudited £m	Six months ended 30 June 2017 Unaudited £m	Percentage increase
Revenue	**46.7**	36.8	27%
Annualised recurring revenue[1]	**69.3**	48.4	43%
Statutory profit from operations	**12.3**	11.1	
Amortisation of intangibles	**1.1**	1.0	
Depreciation	**10.0**	6.0	
Statutory EBITDA	**23.4**	18.1	29%
Exceptional items	**0.2**	0.6	
Pre-exceptional EBITDA	**23.6**	18.7	26%
Net interest	**(2.2)**	(1.8)	
Depreciation	**(10.0)**	(6.0)	
Underlying profit before taxation	**11.4**	10.9	5%
Exceptional items	**(0.2)**	(0.6)	
Amortisation of intangibles	**(1.1)**	(1.0)	
Statutory profit before taxation	**10.1**	9.3	9%

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

Markets

We continue to roll out smart and advanced metering solutions to I&C customers, with significant focus now also moving to the "micro-business" segment. Such activity continues to provide significant opportunity for recurring data and energy management services. Indicative of this is the Company's recently launched market forecast tool that demonstrates the projected increase in energy costs for business users over the next ten years, necessitating further focus on the visibility and reduction of energy consumption that these particular services provide. The extension of half-hourly settlement across the electricity industry, starting with smaller I&C meter points, similarly offers significant market opportunity for provision of our accredited industry services, whilst also supporting energy suppliers and customers in using the data enabled by such smart solutions.

Domestic smart metering remains a clear focus for SMS. This year, consumer interest in energy usage and costs has continued to rise and this is particularly reflected in increases in the volume of supplier switching across the market. In the six months to June 2018, 2.1 million retail gas consumers switched energy supplier along with 2.6 million retail electricity consumers, with a resultant net continuation in the trend for consumers moving to small and medium energy suppliers. This is a trend that has indeed accelerated in recent years as the competitive energy supply market has developed. As a result, the Domestic market share is today split at c.22% held by small and medium suppliers (an increase from 17% at the start of 2017) and c.78% by larger suppliers. We continue to work with all suppliers as they target the government's 2020 completion date.

Whilst the market has seen a slight slowdown in the installation of smart meters from the last quarter of 2017 (to 1.25 million in Q2 2018), this is significantly attributable to the poor weather at the start of the year as well as energy suppliers preparing for the transition to SMETS2 meters. The end cut-off date for the installation of foundation-stage SMETS1 has been delayed from 13 July 2018 to 5 December 2018 (subject to consultation), with further transitions allowed for certain energy suppliers and market segments (prepay). It is also important to note (as we highlighted in responses to the BIG report) that, despite negative publicity around SMETS1 meters' continued operation following supplier churn, smart meters can in fact be shown to increase the customer switching rate. According to OFGEM figures, 23% of customers with a smart meter switched supplier in 2017 compared to 17% of those with a traditional meter.

The government has also reaffirmed its commitment to SMETS1 meters being enrolled and adopted into the DCC to ensure full interoperability and to remove the problems that some people with first-generation smart meters have experienced when switching. This is an area that SMS is currently directly involved in developing as it continues to host a metering test lab for the DCC – the organisation mandated to manage the UK's smart meter data and communications system. Testing at the lab in Cardiff aims to ensure that any original SMETS1 smart meters maintain full functionality when adopted and enrolled into the new SMETS2 data network. It is also important to note that any loss of functionality in the short term can be addressed by the energy supplier, should they put in place commercial arrangements to operate the meter in smart mode.

We believe that smart meters provide consumers with the best opportunity to reduce their energy consumption and save money as they provide the ability to see energy usage and costs in real time and enable two-way communication with the grid. As well as helping consumers to make behavioural changes to reduce energy usage, this also facilitates "real-time" automated responses to changing demand, improved matching of energy supply to consumption, and demand-side response schemes that allow consumers to control when they use, store or export their energy. We are already seeing energy suppliers introduce time-of-use tariffs which will be key to enabling the full realisation of these benefits. Aimed at both households and businesses, these smart meter-enabled tariffs look to incentivise customers to use more energy during off-peak periods, and less of it when supply is low or demand is high. They do this by charging cheaper rates at certain times of night or day, when demand is at its lowest, and higher rates at popular times.

The benefits of this are twofold. Firstly, network operators can better balance the grid by matching supply with demand, meaning less power generation and network investment is required to support the government's plans for the electrification of heat and transport in the UK (potentially saving the country up to £40bn by 2050), while additionally allowing for much better integration of intermittent renewable sources. This ultimately leads to a smarter, lower carbon and more efficient grid.

Secondly, customers are further empowered to lower their bills through both behaviour change and automation of demand usage. This helps consumers to further reduce energy usage, leading to a decrease in peak consumption during the day.

SMS continues to lead the market and deliver the future of smart energy. We do this by providing smart meter and grid infrastructure programmes, as well as data-driven services which enable energy suppliers and customers to obtain greater control over the generation, use and storage of energy. We use finance, technology, engineering skills and knowledge to provide these solutions for our customers – delivering value to them, reducing carbon emissions and generating long-term sustainable and recurring revenue streams.

Consolidated interim statement of comprehensive income

For the period ended 30 June 2018

	Six months ended 30 June 2018 Unaudited £'000	Six months ended 30 June 2017 Unaudited £'000	Year ended 31 December 2017 Audited £'000
Revenue	**46,741**	36,842	79,593
Cost of sales	**(24,281)**	(17,869)	(39,164)
Gross profit	**22,460**	18,973	40,429
Administrative expenses	**(11,274)**	(10,371)	(21,270)
Other operating income	**1,127**	2,473	3,446
Profit from operations	**12,313**	11,075	22,605
Operating profit before exceptional items, other operating income and amortisation of intangibles	**12,500**	10,206	22,825
Amortisation of intangibles	**(1,093)**	(1,048)	(2,151)
Other operating income	**1,127**	2,473	3,446
Exceptional items	**(221)**	(556)	(1,515)
Finance costs: exceptional	**—**	—	(524)
Finance costs	**(2,332)**	(1,805)	(4,137)
Finance income	**143**	—	21
Profit before taxation	**10,124**	9,270	17,965
Taxation	**(1,755)**	(1,603)	(3,306)
Profit for the period attributable to equity holders	**8,369**	7,667	14,659
Other comprehensive income	**—**	—	—
Total comprehensive income	**8,369**	7,667	14,659

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

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

	Six months ended 30 June 2018 Unaudited	Six months ended 30 June 2017 Unaudited	Year ended 31 December 2017 Audited
Basic earnings per share (pence)	**7.45**	8.59	16.17
Diluted earnings per share (pence)	**7.37**	8.45	15.98

Consolidated interim statement of financial position

As at 30 June 2018

	30 June 2018 Unaudited £'000	30 June 2017 Unaudited £'000	31 December 2017 Audited £'000
Assets			
Non-current assets			
Intangible assets	**15,094**	13,999	13,870
Property, plant and equipment	**335,297**	199,808	265,346
Investments	**74**	118	118
Trade and other receivables	**488**	734	594
	350,953	214,659	279,928
Current assets			
Inventories	**18,909**	12,895	16,575
Trade and other receivables	**27,073**	20,451	25,282
Income tax recoverable	**491**	224	426
Cash and cash equivalents	**46,844**	7,816	150,600
	93,317	41,386	192,883
Total assets	**444,270**	256,045	472,811
Liabilities			
Current liabilities			
Trade and other payables	**49,881**	42,656	48,182
Bank loans and overdrafts	**16,987**	17,012	23,197
Commitments under hire purchase agreements	**—**	6	—
	66,868	59,674	71,379
Non-current liabilities			
Bank loans	**133,196**	112,807	163,887
Deferred tax liabilities	**11,865**	9,466	9,924
	145,061	122,273	173,811
Total liabilities	**211,929**	181,947	245,190
Net assets	**232,341**	74,098	277,621
Equity			
Share capital	**1,125**	900	1,124
Share premium	**158,861**	12,023	158,592
Other reserves	**9,562**	9,562	9,562
Treasury shares	**(761)**	(518)	(697)
Retained earnings	**63,554**	52,131	59,040
Total equity attributable to equity holders of the parent company	**232,341**	74,098	227,621

Consolidated interim statement of changes in shareholders' equity

For the period ended 30 June 2018

	Share capital £'000	Share premium £'000	Other reserve £'000	Treasury shares £'000	Retained earnings £'000	Total £'000
As at 1 January 2017	892	10,861	8,447	(327)	46,543	66,416
Total comprehensive income for the period	—	—	—	—	7,667	7,667
Transactions with owners in their capacity as owners						
Dividends (note 4)	—	—	—	—	(2,452)	(2,452)
Shares issued	8	1,162	1,115	—	—	2,285
Shares held by Share Incentive Plan	—	—	—	(191)	—	(191)
Share options	—	—	—	—	352	352
Income tax effect of share options	—	—	—	—	21	21
As at 30 June 2017	900	12,023	9,562	(518)	52,131	74,098
Total comprehensive income for the period	—	—	—	—	6,992	6,992
Transactions with owners in their capacity as owners						
Dividends (note 4)	—	—	—	—	(1,576)	(1,576)
Shares issued	224	146,569	—	—	—	146,793
Shares held by Share Incentive Plan	—	—	—	(179)	70	(109)
Share options	—	—	—	—	94	94
Income tax effect of share options	—	—	—	—	1,329	1,329
As at 31 December 2017	1,124	158,592	9,562	(697)	59,040	227,621
Adjustment on initial application of IFRS 9	—	—	—	—	(49)	(49)
Restated retained earnings as at 1 January 2018	1,124	158,592	9,562	(697)	58,991	227,572
Total comprehensive income for the period	—	—	—	—	8,369	8,369
Transactions with owners in their capacity as owners						
Dividends (note 4)	—	—	—	—	(3,892)	(3,892)
Shares issued	1	269	—	—	—	270
Shares held by Share Incentive Plan	—	—	—	(64)	—	(64)
Share options	—	—	—	—	271	271
Income tax effect of share options	—	—	—	—	(185)	(185)
As at 30 June 2018	**1,125**	**158,861**	**9,562**	**(761)**	**63,554**	**232,341**

Consolidated interim statement of cash flows

For the period ended 30 June 2018

	Six months ended 30 June 2018 Unaudited £'000	Six months ended 30 June 2017 Unaudited £'000	Year ended 31 December 2017 Audited £'000
Operating activities			
Profit before taxation	**10,124**	9,270	17,965
Finance costs	**2,332**	1,805	4,661
Finance income	**(143)**	—	(21)
Depreciation	**9,999**	6,015	14,061
Amortisation	**1,093**	1,048	2,151
Share-based payment expense	**271**	352	446
Impairment of investment	**44**	—	—
Loss on disposal of property, plant and equipment	**177**	—	—
Movement in inventories	**(2,334)**	(6,774)	(10,454)
Movement in trade and other receivables	**(1,616)**	(4,659)	(9,300)
Movement in trade and other payables	**1,717**	16,154	22,031
Cash generated from operations	**21,664**	23,211	41,540
Taxation	**(64)**	(891)	(1,008)
Net cash generated from operations	**21,600**	22,320	40,532
Investing activities			
Payments to acquire property, plant and equipment	**(80,849)**	(48,968)	(123,864)
Disposal of property, plant and equipment	**722**	1,700	3,335
Payment to acquire intangible assets	**(2,317)**	—	(1,416)
Finance income	**143**	—	21
Net cash used in investing activities	**(82,301)**	(47,268)	(121,924)
Financing activities			
New borrowings	**70,440**	36,111	104,075
Borrowings repaid	**(107,458)**	(8,127)	(19,167)
Hire purchase repayments	**—**	(22)	(29)
Finance costs	**(2,351)**	(1,724)	(4,521)
Net proceeds from share issue	**270**	1,170	147,963
Movement in Treasury shares	**(64)**	(191)	(300)
Dividends paid	**(3,892)**	(2,452)	(4,028)
Net cash generated from financing activities	**(43,055)**	24,765	223,993
Net (decrease)/increase in cash and cash equivalents	**(103,756)**	(183)	142,601
Cash and cash equivalents at the beginning of the period	**150,600**	7,999	7,999
Cash and cash equivalents at the end of the period	**46,844**	7,816	150,600

Reconciliation of net cash flow to movement in net debt

For the period ended 30 June 2018

	Six months ended 30 June 2018 Unaudited £'000	Six months ended 30 June 2017 Unaudited £'000	Year ended 31 December 2017 Audited £'000
Net (decrease)/increase in cash and cash equivalents	**(103,756)**	(183)	142,601
Decrease/(increase) in net debt arising from cash movements	**37,018**	(27,482)	(84,697)
Increase in net debt arising from non-cash movements	**(118)**	(162)	(211)
(Increase)/decrease in net debt in period	**(66,856)**	(27,827)	57,693
Net debt at beginning of period	**(36,483)**	(94,176)	(94,176)
Net debt at end of period	**(103,339)**	(122,003)	(36,483)

Notes to the interim report
For the period ended 30 June 2018

1 Basis of preparation and accounting policies
The Group's half-yearly financial report consolidates the results of the Company and its subsidiary undertakings made up to 30 June 2018. The Company is a limited liability company incorporated and domiciled in Scotland 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 for the year ended 31 December 2017.

The financial information for the six months ended 30 June 2018 is also unaudited.

The comparative information for the year ended 31 December 2017 has been extracted from the Group's published financial statements for that year, which were prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union and 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(2) or (3) 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 approval of these financial statements. Our forecasts show continued capital investment which is funded from retained profits and external finance, with strong support from our banking group, together with the ability to raise additional capital from the equity market. At 30 June 2018, the Group had cash of £46.8m and available facilities of £129.8m and continued to be cash generative through trading operations.

Significant accounting policies
As required in AIM Rule 18, the interim financial information for the six months ended 30 June 2018 is presented and prepared in a form consistent with that which will be adopted in the annual statutory financial statements for the year ended 31 December 2018 and having regard to the IFRS applicable to such annual accounts.

New standards, interpretations and amendments adopted by the Group
From 1 January 2018, the following standards and amendments are effective in the Group's consolidated financial statements:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers

The impact of adoption of these standards and the key changes to the accounting policies are disclosed below. The full revised accounting policies applicable from 1 January 2018 will be provided in the Group's consolidated financial statements for the year ending 31 December 2018.

Other amendments to IFRSs that became effective for the period beginning on 1 January 2018 did not have any impact on the Group's accounting policies.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Impact of adoption of IFRS 15 Revenue from Contracts with Customers
The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018. As disclosed in the financial statements to 31 December 2017 a review was carried out in the year to 31 December 2017 to assess the impact on transitioning to IFRS 15. IFRS 15 has had no impact on results previously reported and accordingly there has been no restatement of the previously reported results for the periods to 30 June 2017 and 31 December 2017 nor use of the modified retrospective method to adjust the opening balance sheet at 1 January 2018.

Impact on IFRS 9 Financial Instruments
IFRS 9 replaces the provisions of IAS 39 Financial Instruments: Recognition and Measurement that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out below.

IFRS 9 has been adopted without restating comparative information.

The reclassifications and the adjustments arising from the new impairment rules are recognised in the opening consolidated statement of financial position on 1 January 2018.

Classification and measurement
On application of IFRS 9 on 1 January 2018 the Group has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories.

Impairment of financial assets
The Group has three types of financial assets that are subject to IFRS 9's new expected credit loss model:

- trade receivables; and

- debt investments carried at Fair Value through Other Comprehensive Income (FVOCI).

From 1 January 2018, the Group assesses on a forward-looking basis the expected credit loss associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

2 Segmental reporting

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

Asset Management comprises management of gas and electricity meters and ADM™ units within the UK.

Asset Installation comprises the installation of domestic and I&C gas and electricity meters and infrastructure connections throughout the UK, with internally generated installation costs capitalised.

Energy Management comprises the provision of advice on energy costs, consumption and control.

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 those reported to the Board. Segment performance is evaluated based on revenue generation and gross profit.

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

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

30 June 2018	**Asset Management £'000**	**Asset Installation £'000**	**Energy Management £'000**	**Unallocated £'000**	**Total operations £'000**
Segment/Group revenue	**31,642**	**12,107**	**2,992**	**—**	**46,741**
Cost of sales	**(13,013)**	**(8,924)**	**(2,344)**	**—**	**(24,281)**
Segment profit – Group gross profit	**18,629**	**3,183**	**648**	**—**	**22,460**
Other operating costs	**—**	**—**	**—**	**(8,370)**	**(8,370)**
Depreciation	**—**	**(48)**	**—**	**(415)**	**(463)**
Amortisation	**(1,093)**	**—**	**—**	**—**	**(1,093)**
Exceptional items	**—**	**—**	**—**	**(221)**	**(221)**
Profit from operations	**17,536**	**3,135**	**648**	**(9,006)**	**12,313**
Net finance costs	**(2,189)**	**—**	**—**	**—**	**(2,189)**
Profit before tax	**15,347**	**3,135**	**648**	**(9,006)**	**10,124**
Tax expense					**(1,755)**
Profit for the period					**8,369**

30 June 2017	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Unallocated £'000	Total operations £'000
Segment/Group revenue	22,132	13,083	1,627	—	36,842
Cost of sales	(8,442)	(8,431)	(996)	—	(17,869)
Segment profit – Group gross profit	13,690	4,652	631	—	18,973
Other operating costs	—	—	—	(5,962)	(5,962)
Depreciation	—	—	—	(332)	(332)
Amortisation	(1,048)	—	—	—	(1,048)
Exceptional items	—	—	—	(556)	(556)
Profit from operations	12,642	4,652	631	(6,850)	11,075
Net finance costs	(1,805)	—	—	—	(1,805)
Profit before tax	10,837	4,652	631	(6,850)	9,270
Tax expense					(1,603)
Profit for the period					7,667

31 December 2017	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Unallocated £'000	Total operations £'000
Segment/Group revenue	48,655	27,517	3,421	—	79,593
Cost of sales	(18,958)	(17,970)	(2,236)	—	(39,164)
Segment profit – Group gross profit	29,697	9,547	1,185	—	40,429
Items not reported by segment					
Other operating costs	—	—	—	(13,465)	(13,465)
Depreciation	—	(24)	—	(669)	(693)
Amortisation	(2,151)	—	—	—	(2,151)
Exceptional items	—	—	—	(1,515)	(1,515)
Profit from operations	27,546	9,523	1,185	(15,649)	22,605
Net finance costs: exceptional	—	—	—	(524)	(524)
Net finance costs: other	(4,116)	—	—	—	(4,116)
Profit before tax	23,430	9,523	1,185	(16,173)	17,965
Tax expense					(3,306)
Profit for the year					14,659

All revenues and operations are based and generated in the UK. Those assets and liabilities that are managed and reported on a segmental basis are detailed below.

30 June 2018	**Asset Management £'000**	**Asset Installation £'000**	**Energy Management £'000**	**Unallocated £'000**	**Total operations £'000**
Assets by segment					
Intangible assets	**11,597**	**3,497**	**—**	**—**	**15,094**
Property, plant and equipment	**329,838**	**309**	**—**	**5,150**	**335,297**
Inventories	**18,417**	**492**	**—**	**—**	**18,909**
	359,852	**4,298**	**—**	**5,150**	**369,300**
Assets not by segment					**74,970**
Total assets					**444,270**
Liabilities by segment					
Bank loans	**150,183**	**—**	**—**	**—**	**150,183**
Liabilities not by segment					**61,746**
Total liabilities					**211,929**

30 June 2017	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Unallocated £'000	Total operations £'000
Assets by segment					
Intangible assets	10,502	3,497	—	—	13,999
Property, plant and equipment	196,879	115	—	2,914	199,908
Inventories	12,399	376	120	—	12,895
	219,780	3,988	120	2,914	226,802
Assets not by segment					29,243
Total assets					256,045
Liabilities by segment					
Bank loans	129,819	—	—	—	129,819
Commitments under hire purchase agreements	—	6	—	—	6
	129,819	6	—	—	129,825
Liabilities not by segment					52,122
Total liabilities					181,947

31 December 2017	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Unallocated £'000	Total operations £'000
Assets reported by segment					
Intangible assets	10,373	3,497	—	—	13,870
Property, plant and equipment	261,992	251	—	3,103	265,346
Inventories	16,056	410	109	—	16,575
	288,421	4,158	109	3,103	295,791
Assets not by segment					177,020
Total assets					472,811
Liabilities by segment					
Bank loans	187,084	—	—	—	187,084
Liabilities not by segment					58,106
Total liabilities					245,190

3 Earnings per share (EPS)

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

	Six months ended 30 June 2018 Unaudited £'000	Six months ended 30 June 2017 Unaudited £'000	Year ended 31 December 2017 Audited £'000
Profit for the period used for calculation of basic EPS	**8,369**	7,667	14,659
Amortisation of intangible assets	**1,093**	1,048	2,151
Exceptional costs	**221**	556	2,039
Tax effect of adjustments	**(242)**	(425)	(780)
Earnings for the purpose of adjusted EPS	**9,441**	8,846	18,069
Number of shares			
Weighted average number of shares for the purpose of calculating basic EPS	**112,353,015**	89,209,169	90,655,868
Effect of potentially dilutive ordinary shares (restated)			
Share options	**1,191,376**	1,505,450	1,127,750
Weighted average number of ordinary shares for the purpose of diluted EPS	**113,544,391**	90,714,619	91,783,618
EPS			
Basic (pence)	**7.45**	8.59	16.17
Diluted (pence)	**7.37**	8.45	15.97
Adjusted EPS			
Basic (pence)	**8.40**	9.92	19.93
Diluted (pence)	**8.32**	9.75	19.69

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

The June 2017 EPS figures have been restated to reflect the Board's decision to change the presentation of the underlying performance measures to include other operating income.

4 Dividend

	Six months ended 30 June 2018 Unaudited £'000	**Six months ended 30 June 2018 Per share (pence)**	Six months ended 30 June 2017 Unaudited £'000	Six months ended 30 June 2017 Per share (pence)	Year ended 31 December 2017 Audited £'000	Year ended 31 December 2017 Per share (pence)
Paid final dividend	**3,892**	**3.46**	2,452	2.73	2,452	2.73
Paid interim dividend	**—**	**—**	—	—	1,576	1.74
Total dividends	**3,892**	**3.46**	2,452	2.73	4,028	4.47

After 30 June the Directors have approved an interim dividend of 2.00p per share for 2018, which has not been accrued as a liability as at 30 June 2018 in accordance with IAS 8. The dividend will be paid on 23 November 2018 with an ex-dividend date of 25 October 2018 and a record date of 26 October 2018.

5 The half-yearly financial report was approved by the Board of Directors on 11 September 2018.

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.