12 March 2020

This announcement contains inside information for the purposes of article 7 of EU Regulation 596/2014

Smart Metering Systems plc

MINORITY ASSETS DISPOSAL TO RAISE £291M

ENHANCED LONG-TERM, RPI LINKED DIVIDEND POLICY

Smart Metering Systems plc (AIM: SMS, the "Group", "SMS") has conditionally sold a minority of the Group's meter assets (the "Disposed Portfolio") to funds managed by Equitix Investment Management Limited (the "Purchaser") for a total gross cash consideration of £291 million (the "Disposal"). The Group expects to receive net cash consideration of £282 million, after expenses.

The Disposal will enable the implementation of an enhanced long-term, sustainable dividend payment policy and results in a significant reshaping of SMS's capital structure.

As previously notified the Group is announcing its FY2019 results on 17 March 2020 and can confirm FY2019 results continue to be in line with market expectations.

HIGHLIGHTS

- **Disposal**
    - Attractive valuation for a minority of the Group's meter assets
    - The cash consideration will result in positive net cash position for the Group overall on completion
    - SMS to continue to manage the Disposed Portfolio on behalf of the Purchaser

- **Revised dividend policy**
    - Proposed dividend of 25p per share for FY2020, increasing at least in line with RPI p.a. until FY2024
    - Proposed scrip alternative for up to 30% of dividend
    - Prudent cash cover expected in all years; earnings cover grows over time

- **Ongoing capital structure**
    - Existing debt fully repaid; amended £300 million RCF on the same terms
    - Intention to maintain a prudent net debt / EBITDA ratio through the remainder of the roll-out
    - Flexibility in funding further growth in a capital efficient way

- **UK smart meter roll out opportunity**
    - Existing portfolio of over 1.2 million domestic smart meters at 31 December 2019
    - Order book of a further 2 million meters expected to add c.£40 million to the Group's ILARR
    - Additional opportunities beyond order book with contracted and potential customers
    - Following BEIS' proposed consultation to extend the deadline to 2024, the smart meter roll-out profile is expected to be more evenly spread, enabling SMS to manage its cost base more efficiently

Alan Foy, Chief Executive Officer, commented:

"This transaction realises considerable cash returns and demonstrates the substantial value of our smart meter portfolio.

"It also will enable us to enhance greatly shareholder value with significant and sustainable increase in dividends - underpinned by our asset-backed, inflation-linked, recurring revenue stream.

"With a strengthened balance sheet, we will also be in a much stronger position to invest in the sizeable UK smart meter rollout programme, which is central to the establishment of a decentralised and decarbonised energy system."

Achal Bhuwania, Deputy Chief Investment Officer for Equitix, said:

"We are very pleased to participate in the UK smart metering programme whilst creating a long-term partnership with SMS. This acquisition aligns with our business objectives of investing in the country's sustainable energy transition initiatives, which we are excited to be part of."

There will be an analyst conference call at 8.15am today – please contact sms@instinctif.com or telephone 020 7457 2077 for details.

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OVERVIEW

The Disposal of a minority of the Group's meter assets portfolio demonstrates the inherent value of SMS's meter assets and enables a significant reshaping of SMS's capital structure. It substantially enhances shareholder value through the implementation of an enhanced long-term, sustainable dividend policy during and after the meter roll out phase.

The Board intends to maintain a prudent net debt / EBITDA ratio of 3x - 4x through the remainder of the roll-out. The Group has flexibility in the funding of its future growth in a capital efficient manner.

The information below provides further details on the Disposal (and the financial effects on the Group), the Group's revised dividend policy, the revised capital structure, SMS' current trading and outlook and the expected financial effects of the Disposal.

THE DISPOSAL

On 31 July 2019, SMS announced that it was exploring options to monetise the value of a minority of the Group's meter assets. On 17 September 2019 and on 31 January 2020, SMS reiterated that *"the Group continues to be in discussions regarding the sale of a minority of the Group's meter assets".*

On 11 March 2020, SMS entered into a put and call option to subsequently sign a sale and purchase agreement (the "SPA") with funds managed by Equitix, pursuant to which it has conditionally agreed to sell the entire issued share capital of Crail Meters Limited to the Purchaser for total cash consideration of £291 million (before transaction costs).

Crail Meters Limited is a wholly owned subsidiary of the Group whose sole assets are the Disposed Portfolio, being c.187,000 meter assets from the Group's I&C meter portfolio which, as at 31 December 2019, generated ILARR of c. £18.4 million and had an average asset life of c.4.7 years.

Following the deduction of transaction and other expenses, and subject to Completion, the Group expects to receive net cash consideration of £282 million.

The Disposal is expected to result in a gain on Disposal of £193 million (after expenses) which will be reflected in Exceptional Items in the Group's Annual Accounts for the year to 31 December 2020.

The Group continues to be a market leader in the I&C market through its retained meter asset portfolio, successful multi-utility metering connection business and meter exchange programmes and the ongoing management of the disposed meter portfolio under its existing contractual arrangements with energy suppliers.

SMS and the Purchaser have also entered into a Technical Services Agreement and a Management Services Agreement, pursuant to which SMS will continue to manage the Disposed Portfolio on behalf of the Purchaser and will receive annual RPI-linked recurring management fees totalling approximately £0.8 million in the first year following completion of the Disposal.

Completion is currently expected to occur on 22 April 2020, pursuant to the transfer of the consideration proceeds from the Purchaser.

The gross consideration of £291 million, after adjusting for the assumed management fee to be received by SMS, implies an attractive valuation for the Disposed portfolio.

Rationale for the Disposal

The extension of the UK Government's domestic smart meter roll-out target in September 2019 has provided energy suppliers with greater timing flexibility than before, and SMS now expects the installation profile to be more evenly spread through until the end of 2024 as a result. This has also enabled SMS to review and optimise its capital structure and seek to accelerate shareholder distributions.

The key rationale for the Disposal are as follows:

- Accelerate growth in meter assets: Existing c.2 million smart meter order book and potential pipeline beyond – overall market had c.37 million meters to be exchanged at 30 September 2019 (latest publicly available information)
- Resets Group leverage: The Disposal fully resets the Group's leverage, resulting in a positive net cash position
- Accelerate dividends: The Disposal allows the Group to pay notably-increased dividends supported by its significant retained asset base with highly sustainable and annuity-style cash flows
- Demonstrates value: The Disposal reinforces the attractive nature of the UK meter asset class, due in part to its index-linked long-term cash flows with very limited maintenance or throughput risks.

REVISED DIVIDEND POLICY

The Group's dividend policy to date has been one of aiming to provide a progressive, through-cycle dividend that shared the rewards of SMS's profitability and growth with shareholders, whilst continuing to invest substantial sums in the smart meter opportunity.

SMS paid a final cash dividend for FY2018 of 3.98 pence per share (an increase of 15% on 3.46 pence per share in FY2017) and an interim cash dividend for FY2019 of 2.30 pence per share (an increase of 15% on 2.00 pence per share in FY2018).

The FY2019 results are due for publication on 17 March 2020. However, the Board is currently minded to propose a final dividend for FY2019 of 4.48 pence per share, giving a total for 2019 of 6.88 pence per share.

The unlocking of value from the Disposal will enable the Board to accelerate shareholder distributions by proposing a revised dividend policy, which seeks to provide SMS shareholders with a long-term and secure dividend pay-out, underpinned by the Group's highly sustainable, annuity-style cash flows.

Under the proposed revised dividend policy:

- 25p per share dividends proposed for the year ending 31 December 2020 ("FY2020")
- dividends to increase at least in line with RPI every year until the end of FY2024
- proposed scrip alternative for up to 30% of future dividends allowing SMS shareholders to choose between short term cash and further investment in SMS equity

The Board believes that the revised dividend policy will appropriately balance the needs of SMS stakeholders and the ongoing capital structure and future funding requirements of the Group.

Further detail on the proposed revised dividend policy is summarised below:

- The anticipated total cash dividend of 25 pence per share for FY2020 represents an increase of 3.6x on the proposed total 6.88 pence per share for FY2019.
- Based on the current issued share capital of approximately 112.5 million shares, this equates to an annual total dividend of approximately £28.2 million.
- The dividend of 25 pence per share is expected to be payable to SMS shareholders in four equal cash increments of 6.25 pence per share in each of October 2020, January 2021, April 2021 and July 2021 as multiple interim dividends to provide shareholders with regular payments.
- The total dividend is anticipated to increase at least in line with RPI (at 31 December for the prior year end) in each of FY2021, FY2022, FY2023 and FY2024. If RPI is negative, no change is anticipated to be made to the 25 pence per share, or then equivalent amount.
- A level of cash cover from operations of c2.0x is expected to be maintained, increasing over the growth phase with earnings cover expected to improve over time.

The Board intends to propose at the forthcoming Annual General Meeting the establishment of a scrip alternative to SMS shareholders for up to 30% of the dividend. This optional alternative enables SMS shareholders to receive new fully paid ordinary SMS shares instead of cash dividends and so increase their shareholding in SMS without incurring dealing costs or stamp duty. Further details are included in Appendix I.

A combination of residual long-term cash flows, significant attractive growth opportunities coupled with a variety of funding options provides SMS with several levers to rebase dividends in the future.

REVISED CAPITAL STRUCTURE

Subject to completion of the Disposal, the net cash consideration will be applied towards the immediate repayment of amounts outstanding under the Group's existing £420 million debt facility and will result in a positive net cash position.

Concurrent with the Disposal, the Group has amended its existing revolving credit facility with a syndicate of lenders from £420 million to £300 million on the same terms. The key terms of the facility remain unchanged, with key metrics being a leverage covenant of 5.75x net debt to EBITDA and a current interest rate margin of 185bps over 3-month LIBOR.

SMS intends to maintain future leverage at prudent levels and the Board believes it will have flexibility in funding future meter growth.

UPDATE ON UK METER ROLL OUT OPPORTUNITY

The roll-out of smart meters is a key element to the UK achieving government targets for net carbon neutrality.

The political commitment to the smart meter rollout, built on the economic and environmental business case, has been reaffirmed by BEIS's intention to introduce compulsory annual installation targets on the energy suppliers between 2021 and 2024. BEIS's consultation is a tougher backdrop, though over an extended time period, for energy suppliers.

The "Radio Frequency" interference issues in the Northern region has now been resolved, with SMETS2 meters being installed in increasing volumes during the latter part of 2019. With an extended rollout timescale, we continue to work closely with all our customers to mobilise and deliver their rollout requirements. For instance, some independent energy suppliers are still finalising integrations with the Data Communications Company ("DCC") and end-to-end testing, with readiness to commence mass SMETS2 meter rollouts at varying stages of development. We expect the roll-out profile to be more evenly spread until 2024. The Group will take this proposed extension into account when reviewing its depreciation policy over the traditional meter portfolio and will update the market when a conclusion is reached.

SMS has an orderbook of c.2 million meters which will add a further c.£40 million ILARR or c.£21 million net growth after £19 million of traditional meter rental is removed on exchange over the rollout period. Additional opportunities exist beyond the order book with contracted and potential customers. With a full turnkey end-to-end delivery platform, SMS is well placed to maximise opportunities in the UK smart metering space.

CURRENT TRADING AND OUTLOOK (EXCLUDING IMPACT OF DISPOSAL)

SMS is due to publish its results on 17 March 2020 with the Group's financial and operating performance in line with the trading update published on 31 January 2020.

FINANCIAL EFFECTS OF THE DISPOSAL

As at 31 December 2019, the net asset value (unaudited) for the Disposed Portfolio was c. £89 million.

The net cash consideration of £282 million represents a positive gain on disposal of approximately £193 million, which will be reflected in Exceptional Items in the Group's accounts for the year ending 31 December 2020. This gain is expected to significantly increase the distributable reserves of SMS, once the relevant audited accounts have been published.

For the year ended 31 December 2019, the unaudited underlying PBT for the Disposed Portfolio was £10.9 million.

The Disposal, after adjusting for expected pro forma interest costs savings on repaid indebtedness and receipt of the management fee (£0.8 million p.a. in the first full year), is expected to be dilutive to underlying earnings per share in the year ending 31 December 2020. These statements are made before any redeployment over time of the net proceeds of the Disposal into value accretive activities by SMS.

SMS's effective tax rate for the year ending 31 December 2019 of 26.8% is not expected to change as a result of the Disposal. Excluding one off transactional deal costs, the effective tax rate returns to a more normalised rate of 19.6%.

Notes to Editors

1. Smart Metering Systems plc ("SMS"):

SMS plc (www.sms-plc.com) installs smart meters and data loggers that facilitate effective energy management and a low carbon future. Established in 1995, SMS provides a full end-to-end service for metering financing, installation, management and maintenance, with a highly skilled workforce and deep engineering expertise.

SMS had installed 3.7 million meter and data assets as of 31 December 2019. SMS' smart meter expertise also enables the Company to provide consultancy services that allow organisations and corporates to enhance long term efficiency and effectiveness in the management of energy.

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

SMS employs in excess of 1,200 people across the UK who support the installation and ongoing management of metering assets.

SMS plc is headquartered in Glasgow with 12 locations across the UK.

SMS's shares are listed on AIM.

2. Equitix Investment Management Limited ("Equitix"):

Founded in 2007 and headquartered in London, Equitix is a leading infrastructure investment firm that manages over £5 billion on behalf of long term investors, including a large proportion of UK pension funds. We manage six core infrastructure flagship funds, 15 co-investment funds which are dedicated to larger infrastructure projects, and a number of segregated managed accounts providing customized solutions. Our investment strategy focuses on core infrastructure projects, predominantly located in the UK and covering a wide range of sectors with a particular focus on social infrastructure, transportation, regulated utilities and renewables. Across all of our core funds, we seek to hold assets for the life of the fund, which is typically 25 years. We have acquired over 280 core infrastructure projects since our inception, thereby establishing a strong reputation as a trusted partner, operator and fiduciary fund manager.

3. Cautionary Statement:

This announcement contains certain statements, statistics and projections that are or may be forward-looking. The accuracy and completeness of all such statements, including, without limitation, statements regarding the future financial position, strategy, projected costs, plans and objectives for the management of future operations of Smart Metering Systems plc and its subsidiaries is not warranted or guaranteed. These statements typically contain words such as 'intends', 'expects', 'anticipated', 'estimates' and words of similar import. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Although Smart Metering Systems plc believes that the expectations will prove to be correct. There are a number of factors, many of which are beyond the control of Smart Metering Systems plc, which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. This announcement contains inside information on Smart Metering Systems plc.

4. Person responsible:

The person responsible for arranging the release of this announcement on behalf of Smart Metering Systems is Craig McGinn.

APPENDIX I

Further details of the proposed scrip alternative.

It is intended the scrip dividend reference price will be calculated as the average closing mid-market price of an SMS ordinary share for the five dealing days commencing with, and including, the ex-dividend date.

The operation of this alternative will always be subject to the Board's decision to make an offer of new fully paid ordinary shares in respect of any particular dividend; should the Board decide not to offer new shares in respect of any particular dividend, cash will automatically be paid instead.

No fraction of a new share will be issued and calculation of entitlement to new shares will always be rounded down to the nearest whole new share.

The alternative is subject to SMS's Articles and these terms and conditions, as amended from time to time, and is governed by, and its terms and conditions are to be construed in accordance with, Scottish law. By electing to receive new shares under the alternative, SMS shareholders agree to submit to the exclusive jurisdiction of the Scottish courts in relation to the alternative.

SMS Shareholders who are resident outside the UK may treat the optional alternative as an invitation to receive new ordinary shares unless such an invitation could not lawfully be made to such shareholders without compliance with any registration or other legal or regulatory requirements. It is the responsibility of any person resident outside the UK wishing to elect to receive new ordinary shares under the optional alternative to be satisfied that such an election can validly be made without any further obligation on the part of SMS, and to be satisfied as to full observance of the laws of the relevant territory, including obtaining any governmental, regulatory or other consents which may be required and observing any other formalities in such territories and any resale restrictions which may apply to the new shares. Unless this condition is satisfied, such shareholders may not participate in the optional alternative.

SMS may consider (subject to the appropriate shareholder approvals being in place) the option to buy back its own shares up to the amount of the scrip issuance to help manage dilution over time.

Further specific details on the scrip alternative will be provided in future announcements and/or shareholder communications.