15 September 2020

Smart Metering Systems plc

H1 financial and operational performance highlights business resilience, underpinned by balance sheet strength

Smart Metering Systems plc (AIM: SMS, the Group), which installs and manages smart meters and carbon reduction assets (CaRe) to facilitate effective energy management, has published its half year results for the six months ended 30 June 2020.

£'000 (unless stated otherwise)	H1 2020	H1 2019
Index-linked annualised recurring revenue (ILARR)[1]	75,905	68,320
Group revenue	54,151	54,205
Pre-exceptional EBITDA[2]	27,811	25,823
Underlying profit before taxation[3]	9,144	4,644
Underlying basic EPS (p)[4]	5.02	3.40
EBITDA	214,121	20,616
Profit/(loss) before taxation	194,475	(1,725)
Basic EPS (p)	171.07	(1.28)
Net cash/(debt)	44,493	(186,592)

1 ILARR is the revenue generated from meter rental and data contracts at a point in time. Includes revenue from third-party managed meters. H1 2019 ILARR is presented on a pro-forma basis for comparative purposes, excluding a net contribution of £17.6m from disposed I&C meter assets
2 Pre-exceptional EBITDA is statutory EBITDA excluding exceptional items.
3 Underlying profit before taxation is profit before taxation excluding exceptional items and amortisation of intangibles.
4 Underlying basic EPS is underlying profit after taxation divided by the weighted average number of ordinary shares for the purpose of basic EPS.
5 The contracted smart meter order pipeline is comprised of a combination of guaranteed minimum volume commitments, exclusivity arrangements and other contracts with customers.

A reconciliation between reported and underlying performance is detailed in the Financial Review section below.

Highlights

Financial

- ILARR at 30 June 2020 up 11% to £75.9m (30 June 2019: £68.3m, pro-forma)
- Pre-exceptional EBITDA up 8% to £27.8m (H1 2019: £25.8m)
- Underlying profit before taxation up 98% to £9.1m (H1 2019: £4.6m)
- Net cash at 30 June 2020 of £44.5m (30 June 2019: net debt of £186.6m)
- No debt outstanding as at 15 September 2020 and committed facilities available of £300m
- FY 2020 outlook unchanged

Asset disposal – completed 22 April 2020

- c.187,000 I&C meter assets disposed of with a weighted average age of 4.7 years
- £290.6m gross cash proceeds received from asset disposal
- £194.7m gross gain on disposal reported in the period

Dividend

- 25p per share dividend intended in respect of FY 2020, to be paid in four instalments starting October 2020
- Intention to increase by 10% per annum until FY 2024
- Covered by long-term index-linked cash flows from existing metering and data asset base

COVID-19

- Continued growth during challenging period demonstrates the resilience and strength of the business model
- Phased and progressive resumption of all non-essential field work progressing well
- Emergency works maintained throughout the period, helping to keep the UK's energy infrastructure operating securely

Smart meters

- Meter installations are beginning to return to a pre-COVID-19 level. This is expected to be achieved in Q4, albeit ongoing local lockdowns continue to be monitored.
- c.2 million contracted smart meter order pipeline[5] expected to add c.£40m ILARR over the rollout period

CaRe assets

- Good progress in the origination of CaRe assets pipeline
- Partnership agreement with Columbia Threadneedle European Sustainable Infrastructure Fund (ESIF) announced in March 2020 provides funding options
- Initial portfolio identified in grid-scale battery storage

Continued ESG enhancements

- Establishment of a Health, Safety & Sustainability Board Committee
- Strong net positive environmental impact
- Active participation in Smart Metering Remobilisation Working Group established by BEIS
- Proactive engagement with staff during COVID-19, with a focus on employee wellbeing

Board changes

- On 23 June 2020, Willie MacDiarmid stepped down from the Board and as Non-executive Chairman
- Miriam Greenwood, formerly the Senior Independent Non-executive Director, appointed as Non-executive Chairman
- Jamie Richards appointed as Non-executive Director

Alan Foy, Chief Executive Officer, commented:

"We have delivered a robust financial performance in the face of a highly challenging operating environment in the first half of 2020, with increases in index-linked annualised recurring revenue (ILARR) and underlying profitability.

"The completion of a disposal of a minority of our I&C meter asset portfolio in April has further underscored the attractive nature of the meter asset class, provided balance sheet strength and enabled us to substantially increase the FY 2020 dividend. We have announced today an intended annual increase of 10% over the coming four years.

"Our pipeline of CaRe asset opportunities is making strong progress across a range of asset classes following our agreement with Columbia Threadneedle European Sustainable Infrastructure Fund announced in March, with an initial portfolio identified in grid-scale battery storage.

"The entire team at SMS has demonstrated outstanding resilience and commitment in the face of the challenges presented by COVID-19. We are well positioned, both financially and operationally, to deliver on our sizeable contracted smart meter order pipeline and move forward with the development of CaRe assets. Together, these will support the next phase of our evolution as a business at the heart of smart energy management."

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Notes to Editors

SMS plc (www.sms-plc.com) installs and manages smart meters, data and carbon reduction assets ("CaRe") to facilitate effective energy management. The Group manages and optimises these assets through its in-house technology and data analytical platform. As at 30 June 2020 SMS had 3.74 million meter and data assets under management.

Established in 1995, SMS provides a full end-to-end service, from funding and installation to management and maintenance, with a highly skilled workforce, deep engineering expertise and well-established industrial partnerships.

SMS is leading the smart energy revolution and the assets deployed remain at the heart of delivering and accelerating the UK government's net zero carbon ambition. In 2019, SMS was awarded the London Stock Exchange Green Economy Mark.

SMS plc is headquartered in Glasgow with a national presence across twelve UK locations.

SMS's shares are listed on AIM.

Overview

The first six months of 2020 has demonstrated again the resilience and strength of both the Group's business model and the infrastructure asset classes which SMS originates.

Financial review

The Group reports financial performance on an underlying basis that shows growth over the prior period with underlying profit before taxation increasing by 98% to £9.1m. This underlying increase reflects the strength in the Group's ILARR and a dedicated focus on cost control. Despite the ongoing effects of COVID-19, the Group continues to trade in line with the Board's expectations.

Minority assets disposal

The Group completed the disposal of a minority of its meter assets from the I&C portfolio on 22 April 2020 for £290.6m. This has resulted in SMS having a positive net cash position of £44.5m which, together with a £300m RCF facility, supports the growth of the domestic smart meter asset base.

Enhanced dividend

SMS announces that the long-term index-linked cash flows from its existing asset base are able to support an intended annual increase of 10% in dividends for each of the financial years FY 2021, FY 2022, FY 2023 and FY 2024. This clarification, to the previously stated intention to grow dividends at least in line with RPI, will result in a more predictable return to shareholders and reflects the forecast growth of the business over and above RPI in that period. The Group's strong liquidity position supports the funding of its contracted smart meter order pipeline, which will further add to its long-term index-linked cash flows.

COVID-19

The impact of COVID-19 has slowed the growth of the Group's smart meter asset portfolio in the first half of this year, but SMS has been able to implement a phased and progressive resumption of all non-essential field work from 1 June 2020. The Enrolment and Adoption process for SMETS1 meters is also progressing well and implementation is underway for the Group's largest cohort of SMETS1 meters.

The Group is proud to have been able to support customers and end consumers throughout the challenging lockdown period in the provision of emergency call-out services, ensuring that both I&C and domestic customers remained safely "on supply".

SMS also successfully moved its office-based staff to home-based working and established a full range of wellbeing and personal development programmes to support the entire workforce during this challenging period. Despite the material impact of the cessation of activities on the utilisation of a large number of the workforce, the Group was able to return the grant received from the UK government under the Coronavirus Job Retention Scheme.

The Board thanks all its employees for their hard work and support in continuing to deliver services seamlessly in these challenging times. The welfare of employees and customers has remained the Group's primary concern throughout, informing both the decision to stand down non-essential engineering activity on 24 March and the phased and progressive remobilisation of meter exchanges from 1 June. SMS can report that this remobilisation is progressing well and meter installations are beginning to return to a pre-COVID-19 level.

The Group also successfully completed the final phase implementation of a Group-wide ERP system during lockdown.

Development of CaRe assets

The Group announced in March 2020 a partnership agreement with Columbia Threadneedle European Sustainable Infrastructure Fund (ESIF) and has made strong progress in its pipeline of carbon reduction (CaRe) assets, with an initial identified portfolio in grid-scale battery storage. This growing pipeline of activity is across several asset classes including distributed generation, battery storage, energy efficiency, heat and electric vehicle charging infrastructure projects, all of which serve to reduce carbon emissions.

ESG and sustainability

ESG and sustainability remain key to the Group's operations and culture. This has been supported by the establishment of a dedicated Health, Safety & Sustainability Board Committee which sets objectives, reviews policies and procedures and monitors performance. The Group has focused on supporting the physical and mental health and wellbeing of all staff during the COVID-19 crisis.

SMS has transitioned its health & safety management systems to ISO 45001 from the previous OHSAS 18001 during H1 2020. This change in accreditation emphasises leadership and responsibility for health and safety across the entire organisation, and this approach has been reinforced throughout the senior management team.

Board changes

On 23 June 2020, Willie MacDiarmid, the Group's Non-executive Chairman, stepped down from the Board after six years in the role. Miriam Greenwood, formerly the Senior Independent Non-executive Director, has succeeded Willie as Non-executive

Chairman. In addition, SMS appointed Jamie Richards, a Chartered Accountant with 25 years' experience in fund management, banking and corporate recovery, as a Non-executive Director and Chair of the Remuneration Committee. The Board thanks Willie for his considerable contribution and leadership over the past six years and welcomes both Miriam, in her new role as Non-executive Chairman, and Jamie, who brings considerable expertise and experience in the infrastructure and solar sectors.

Strategy

The smart meter rollout plays a central role in facilitating the transition to a zero carbon economy. The Group's commitment to deliver the future of smart energy has been demonstrated by the agreement with ESIF to develop a pipeline of CaRe assets. This strategic goal is underpinned by the Group's focus on delivering long-term value to its shareholders and ensuring a safe, efficient and productive working environment for its people.

As reported in the Group's 2019 Annual Report, the Group's strategy is characterised by an enhanced dividend policy and the maximisation of growth opportunities in meter and CaRe assets, whilst maintaining a prudent level of financial leverage. The Board continues to review and evolve the Group's strategic framework and has four key strategic pillars against which developments are measured, now including a dedicated objective around enhancing shareholder value:

- delivery of growth in secure long-term index linked revenue streams;
- enhancement of shareholder value with an attractive, sustainable dividend policy;
- optimisation of capital allocation and maintenance of an efficient capital structure; and
- delivery of operational efficiency and customer excellence in everything SMS does.

Minority assets disposal

SMS completed the sale of a minority of the Group's I&C meter assets to funds managed by Equitix on 22 April 2020. The disposed portfolio represented £18.4m of ILARR and was sold for gross proceeds of £290.6m (a 16.4x multiple of net EBITDA), following which the Group has reported a gross gain on disposal of £194.7m in the period.

SMS continues to manage this portfolio, which has a weighted average age of 4.7 years, receiving annual RPI-linked recurring management fees of c.£0.8m. SMS maintains a presence in the I&C sector through its retained I&C meter asset portfolio, with an ambition to grow this portfolio further. The Group also continues to deliver data services and operate a successful multi-utility connection business.

The disposal reinforces the attractive nature of the asset class and allows SMS to accelerate its growth in domestic and I&C meter assets. It has also reset the Group's leverage and will support the Group's new dividend policy.

Current trading and outlook

COVID-19 slowed the smart meter installation run rate for the entire UK industry, but it also reduced the capital expenditure requirement over the period, providing further support to the Group's liquidity. Furthermore, because of this temporary deceleration in the smart meter exchange programme, the Group's traditional meter portfolio has remained in place for longer than anticipated and has continued to generate revenue from both meter rental and transactional emergency work. The Group's strong liquidity profile ensures that the Group will be able to fund its c.2 million contracted domestic smart meter order pipeline, with further opportunities from existing customers.

The Group recommenced non-essential meter exchange activity on 1 June and adopted an appropriately phased and progressive approach. Meter installations are beginning to return to a pre-COVID-19 level. This is expected to be achieved in Q4, albeit ongoing local lockdowns continue to be monitored. The Enrolment and Adoption process for SMETS1 meters is progressing well and implementation is underway for the Group's largest cohort of SMETS1 meters.

At 31 August 2020 ILARR from the Group's meter and data assets stood at £76.6m (30 June 2020: £75.9m) and total meter and data assets under management had increased to 3.80 million (30 June 2020: 3.74 million).

Despite the effects of COVID-19, the Group continues to trade in line with the Board's expectations and FY 2020 revenue and underlying profitability also remains in line. This reflects the resilience of the Group's business model and the defensive nature of the metering infrastructure asset class with the stable cash flows it generates.

ESG

ESG and sustainability remain key to SMS's operations and culture. For over two decades, SMS has focused on providing energy solutions to the UK's largest emissions sectors. The Group has invested significant resources in its delivery of a fully integrated, end-to-end energy service, underpinned by extensive industrial expertise, a full in-house technology platform and well-established infrastructure. Effective partnerships enable SMS to identify opportunities, positioning the Group well to help deliver the UK government's net zero carbon ambition.

The environment

The significance of ESG, and sustainability in the business, is emphasised by the establishment of a Health, Safety & Sustainability Board Committee in H1 2020. This Committee sets objectives, reviews policies and procedures, and monitors performance, ensuring the provision of appropriate resources to meet the Group's objective of reducing its own carbon footprint and that of its customers.

SMS is proud of the net positive effect of its solutions, which was recognised through the London Stock Exchange's Green Economy Mark, as announced in November 2019. This is awarded to organisations that generate over 50% of total annual revenues from products and services that contribute to the global green economy.

With a concentrated focus on its own environmental performance, the Group is working towards the goal of a net zero footprint, at the same time as it continues investment in services and solutions which reduce the Group's customers' environmental impact.

People

By listening to employees, SMS has been able to improve its reward initiatives and implement a range of new and enhanced measures. The Group has also achieved several accreditations during the period in recognition of its policies and practices in areas such as healthy working, family and disability.

In addition, SMS achieved the C-19 Business Pledge founded by former UK Cabinet Minister Rt Hon. Justine Greening. The aim of the Pledge is to encourage businesses to be proactive in committing to tackle the coronavirus pandemic by helping communities, businesses and society.

COVID-19 best practice

From the start of the COVID-19 lockdown, the Group continued to deliver emergency callout services ensuring continuity of energy supply, including to care homes and critical national infrastructure. Updated risk assessments were implemented, and appropriate PPE and training were issued to support this activity.

SMS has also been an active member of the Smart Metering Remobilisation Working Group, assembled by BEIS to act as a forum to proactively address the challenges faced by COVID-19 and share best working practices in relation to smart meter installations. Through this forum, the Group has shared best practices relating to customer communications, as well as the health and safety techniques used by its engineers, helping to maintain traction for the UK smart meter rollout.

Throughout 2020, and in particular during the COVID-19 crisis, SMS has proactively engaged with and communicated with its staff, with a focus on employee wellbeing. The Group's dedicated Company wellbeing page, created with employee participation, supports mental, financial and physical wellbeing by offering support on home schooling, financial sign posting, bereavement counselling, remote working advice and mental health support. Accredited Mental Health First Aid training has been provided, supplemented by 100 employees who previously attended Mind mental health training, mindfulness sessions and exercise classes. Staff have also been supported with continuous training and development via e-learning modules on topics including resilience, homeworking and a safe and healthy return to work.

Operational review by division

Asset management:

Despite the temporary suspension of all non-essential field work between 24 March and 1 June 2020, ILARR from the Group's meter and data assets grew 4.6% to £75.9m as at 30 June 2020 (31 December 2019: £72.6m, pro forma, excluding the net contribution from disposed I&C meter assets) whilst total meter and data assets under management stood at 3.74 million (31 December 2019: 3.73 million). COVID-19 has slowed capital deployment into new smart meter assets, with the corollary being that the Group's portfolio of traditional meters has remained on the wall for longer than expected and has continued to generate revenue over the period through both meter rental and transactional emergency work.

ILARR from the domestic smart meter portfolio grew 7.4% to £40.9m, ILARR from data assets grew 2.2% to £12.5m, and ILARR from Industrial and Commercial meters grew c.15.8%, on a pro-forma basis, to £4.2m. Traditional domestic meter ILARR decreased by 1.6% to £18.3m, as expected. SMS expects the remaining traditional meter portfolio to be exchanged with smart meters over the course of the UK smart meter rollout. The Group, currently, has a contracted order pipeline of c.2 million smart meters, which will add c.£40m to ILARR, from an existing customer base that has an additional c.4 million meters to be exchanged.

Positive progress has been made in the maturity of the DCC SMETS2 solution and platform, with the initial industry-wide radio frequency technical issues now resolved and energy suppliers beginning to introduce SMETS2 pre-payment solutions. As at 7 September 2020, over 919,000 SMETS1 meters had been migrated to the DCC systems through the Enrolment and Adoption process, with the cohorts of meter types which form the Group's SMETS1 portfolio beginning migration in August 2020. This process is expected to continue from now through to the end of 2021.

Half-hourly data settlement services have begun to be deployed to energy supplier customers, alongside smart meter firmware management and testing requirements, which will provide significant additional value and further opportunities for growth over coming years.

Asset installation:

The COVID-19 crisis had a direct impact on the asset installation division, impeding its ability to deploy meter assets between 24 March and 1 June 2020 due to the temporary cessation of all non-essential meter works between these dates. The division has recommenced all installation activities in a phased and progressive manner, having implemented a robust training regime, PPE and supporting control measures to ensure the safety of its engineers and support staff. Remobilisation is progressing well and meter installations are beginning to return to a pre-COVID-19 level.

An improvement in the meter installation run rate is very encouraging. However, future challenges cannot be ruled out, particularly from potential local or national lockdowns caused by a subsequent wave of infections.

SMS also installed the industry's first three-phase SMETS2 meter, in August 2020, which will enable smart meters to be used for large domestic and small I&C properties for the first time. This is a significant milestone for the industry and demonstrates the Group's leading position in developing and delivering innovative market solutions in partnership with its customers and supply chain.

The extension to the UK smart meter rollout deadline to 1 July 2025 provides a smoother runway for installations over coming years. The Group has taken measures to ensure the efficiency of its delivery with a focus on technology solutions and optimisation of engineering resources to allow flexibility in delivering its contracted meter installation pipeline.

Energy management:

Many of the Group's consultancy and energy management services proceeded as normal during the first half of the year; however, COVID-19 has had a significant impact in forcing the temporary suspension of all site works. This has impacted the ability to deploy energy saving solutions to customers, most notably the delivery of an LED lighting and heating controls project for a large hotel chain. Revenue in this division in H1 has declined as a result. However, SMS has remained in active contact with its key customers and all contracts remain intact, with work successfully resuming in August.

The priority during this difficult period has been, where possible, to provide an uninterrupted service to existing customers. The Group has also made progress in the origination of CaRe assets, following the Group's announcement of its funding partnership with ESIF on 17 March 2020. The potential scope for deployment of CaRe assets has also improved further following the UK government's policy response to help the economic recovery from the COVID-19 crisis, aimed particularly at green recovery.

CaRe asset opportunities are at various stages of development, but notable progress has been made in grid-scale battery storage. SMS has exclusivity to 117.5MW grid-scale battery storage "shovel-ready" sites with a further pipeline of projects at various stages of development. The "shovel-ready" projects are expected to be constructed over the next 12–18 months. This is a key asset class required by the UK energy system to provide flexibility services to balance the grid and support the continued introduction of more intermittent renewable generation.

In addition, continued development has been made in the verticals below:

- **"Behind the Meter" smart solar and storage:** Solo Energy, a wholly owned subsidiary of the Group, is delivering trials of its "Behind the Meter" "solar plus battery" business model with local authorities and housing associations for up to 1,500 households.
- **EV infrastructure**: SMS is an OLEV accredited EV charger installer. It is currently managing the planned roll-out of 1,200 EV charge points as part of an on-street parking project in partnership with a global telco company and has also been appointed by Crown Commercial Service (CCS) to its delivery framework for vehicle charging infrastructure solutions.
- **Heat networks and meters:** SMS is currently piloting a solution for a nation-wide hotel chain for smart heating controls and is also addressing the need, legislated for in the Heat Network (Metering and Billing) Regulations, for heat meters to be installed to existing and new heat networks.

These opportunities are all within SMS's existing developmental capabilities and the partnership with ESIF provides funding options, allowing further development of these CaRe assets. Capital will be allocated to these portfolios on an asset-by-asset basis and only once funding is secured.

Financial review

In summary, the six-month period ended 30 June 2020 was challenging, however SMS has responded well, adapting to a new way of working under the restrictions resulting from the UK-wide economic shutdown and reporting financial performance on an underlying basis, which shows growth over the prior period.

The resilience of the underlying business model of investment in assets with a long-term income stream was clearly demonstrated by the asset management segment, which showed revenue growth in the period despite the lockdown. Underlying Group profitability at both EBITDA and PBT level also show period on period growth.

Our liquidity was also significantly strengthened in the period as the £290.6m gross cash proceeds from the sale of a minority of meter assets were used to repay the entirety of the Group's debt, leaving the business in a cash positive position and with access to a £300m RCF. The Group's strong cash position and underlying growth during the lockdown period enabled the Board to take the decision in June to return furlough grants covering the earlier part of the furlough scheme.

On the strength of the underlying business performance the intention to increase the dividend from 6.88p for FY 2019 to 25p for FY 2020 has been announced, demonstrating the Group's commitment to return value to shareholders from its installed asset base.

Reconciliation of reported to underlying results

SMS uses alternative performance measures, defined at the end of the Financial Review, to present a clear view of what the Group considers to be the results of its underlying, sustainable business operations. By excluding certain items, this enables consistent year-on-year comparisons and aids a better understanding of business performance.

A reconciliation of these performance measures is disclosed below:

	Period ended 30 June 2020 £m	Period ended 30 June 2019 £m	Percentage change
ILARR[1]	**75.9**	68.3	11%
Group revenue	**54.2**	54.2	Flat
Statutory profit from operations	**197.7**	2.4	
Amortisation of intangibles	**0.9**	1.1	
Depreciation	**15.5**	17.2	
Statutory EBITDA	**214.1**	20.6	>100%
Exceptional items (EBITDA related)	**(186.3)**	5.2	
Pre-exceptional EBITDA	**27.8**	25.8	8%
Net interest (excl. exceptional)	**(3.1)**	(4.0)	
Depreciation	**(15.5)**	(17.2)	
Underlying profit before taxation	**9.1**	4.6	98%
Exceptional items (EBITDA)	**186.3**	(5.2)	
Exceptional items (interest)	**(0.1)**	(0.1)	
Amortisation of intangibles	**(0.9)**	(1.1)	
Statutory profit/(loss) before taxation	**194.5**	(1.7)	>100%
Taxation	**(1.7)**	0.3	
Statutory profit/(loss) after taxation	**192.8**	(1.4)	>100%
Amortisation of intangibles	**0.9**	1.1	
Exceptional items (EBITDA and interest)	**(186.2)**	5.3	
Tax effect of adjustments	**(1.8)**	(1.1)	
Underlying profit after taxation	**5.7**	3.9	46%
Weighted average number of ordinary shares (basic)	**112,686,659**	112,495,520	
Underlying basic EPS (pence)	**5.02**	3.40	
Weighted average number of ordinary shares (diluted)	**113,568,045**	113,409,293	
Underlying diluted EPS (pence)	**4.98**	3.37	

1 ILARR for the period ended 30 June 2019 is presented on a pro-forma basis for comparative purposes, excluding a net contribution of £17.6m from disposed I&C meter assets

Revenue

	30 June 2020 £'m	30 June 2019 £'m	Percentage change
Asset management	**42.0**	39.4	7%
Asset installation	**9.4**	10.2	(8%)
Energy management	**2.8**	4.6	(40%)
Group revenue	**54.2**	54.2	Flat

The disposal of c.187,000 of the Group's meter assets in April 2020 has resulted in a net ILARR adjustment of £17.6m, presented on a pro-forma basis as £72.6m at 31 December 2019 for comparative purposes. Like-for-like ILARR therefore grew 4.6% to £75.9m as at 30 June 2020, despite the temporary suspension of all non-essential site work between 24 March and 1 June in response to COVID-19. This reflects continued growth in the meter estate from Q1 smart meter installations, together with the effect of an annual RPI increase effected in April. The Group's remobilisation plan is progressing well and management expects run rates to return to similar levels prior to COVID-19 in Q4 2020, albeit ongoing local lockdowns continue to be monitored.

Asset management revenues are up, despite loss of revenue from the asset disposal, due to the flow through effect of installations in 2019 and Q1 2020, together with an annual RPI increase in April 2020. Whilst COVID-19 restrictions have slowed growth in the short term, the Group's installed portfolio of 3.74 million revenue-generating assets provides extensive financial resilience.

Asset installation revenue has decreased 8% to £9.4m as compared with the prior period. This is in part due to legacy installation-only work for third parties coming to an end, as anticipated, in the first quarter of 2019. The suspension of all non-essential field work as a result of COVID-19 brought a reduction in revenues from utility connections and infrastructure services; however, customer contracts remain intact and revenues should return to normal levels in H2. The adverse impact on revenues due to COVID-19 has, in part, been mitigated by the continued delivery of emergency jobs during the outbreak.

Of the Group's operating segments, energy management has experienced the largest decrease in revenue as a result of COVID-19 with a reduction of 40% to £2.8m (2019: £4.6m). This is attributable to the suspension of all site work from mid-March, most notably the suspension of work associated with the energy-efficient lighting and heating control project for a large hotel chain. Projects have started to resume but it is anticipated that site work will initially run at a lower capacity as the broader hospitality industry recovers.

Gross margins

Overall, the depreciation-adjusted gross margin at the Group level has increased 5% to 65% (2019: 60%). SMS includes depreciation on revenue-generating assets within cost of sales and removing this from the gross margin provides a better comparison of the Group's underlying trading performance year on year.

This is a result of an overall increase in depreciation-adjusted gross profit of £2.9m. Although revenues have remained flat, supported by the flow through impact of the Group's ILARR, costs of sale have decreased by £2.9m due to the suspension of non-essential field work.

The depreciation-adjusted gross margin for asset management has increased from 92% to 94%, reflecting the growth in revenues detailed above and a reduction in cost of sales due to lower contractor costs incurred in the data business as a result of COVID-19. The gross margin for asset management, including depreciation, has increased by 9% from 53% to 62%, primarily as a result of a change to a depreciation related accounting estimate, made with effect from 1 January 2020, in relation to SMS's traditional meter assets. With the smart meter exchange programme being extended to 1 July 2025, management has extended the estimated economic life of the traditional meters to match and the depreciation charge therefore reduces. As a result, there is a £2.3m credit recognised within depreciation in cost of sales on a statutory basis – see note 1(a) to the financial statements for further details.

The asset installation business reported a negative gross profit margin of 5% (2019: negative 48%). The low margin in H1 2019 was due to the Group's decision to retain its installation capacity to ensure the business was appropriately positioned to benefit from the run rates initially anticipated from progression to the main SMETS2 phase of the smart meter rollout. As initial installation targets in the market started to look increasingly challenging, attention was turned to controlling the Group's operating cost base in order to increase efficiency in the labour force. As a result, the gross profit margin improved to negative 6% in H2 2019. The further improvement to negative 5% in H1 2020 reflects a continued, dedicated focus on cost control in the first part of the year, adapting the Group's engineer capacity in order to meet customer demand efficiently. Following the suspension of all smart meter installations from 24 March to 1 June, management has reduced operating costs where possible, with furloughed staff costs that would ordinarily be capitalised recognised within exceptional costs, as detailed below. The overall margin for the division has thus been protected.

The energy management gross margin has increased to 29% (2019: 22%), supported by the commencement of a smart heating controls project in H2 2019 at slightly higher margins.

EBITDA

Statutory EBITDA increased to £214.1m (2019: £20.6m) largely as a result of the gain of £194.7m recognised upon disposal of a minority of the Group's meter assets. Pre-exceptional EBITDA provides a more ready comparison of trading, period on period, showing an increase of c.8% to £27.8m (2019: £25.8m).

This underlying increase demonstrates the financial resilience of the Group's business model with strong ILARR and a dedicated focus on cost control. Up to March 2020 cost control was focused on right-sizing the Group's internal installation capacity, as detailed above. Towards the end of March, as the pandemic worsened, management turned its attention to ensuring the Group's operating cost base was as streamlined as possible, suspending any non-critical business spend.

Other costs in the year which impacted the Group's underlying profitability include a £0.5m bad debt charge in relation to a customer with which a settlement agreement was reached during the first half of the year. The Group was partially provided against this debt prior to the settlement. There have been no significant changes to expected loss rates in relation to the Group's trade receivable portfolio. The impact of COVID-19 on the Group's credit risk is discussed in the "Other exceptional items" section below.

Disposal of a minority of the Group's I&C portfolio (the Disposal)

As previously announced, on 12 March 2020, the Group conditionally signed an agreement to dispose of a minority of the Group's meter assets through the sale of the entire share capital of Crail Meters Limited (Crail), a wholly owned subsidiary of the Group. This transaction completed on 22 April 2020.

The meter asset provider (MAP) business that was transferred comprised c.187,000 Industrial & Commercial (I&C) meter assets, representing c.£18.4m ILARR.

Total gross cash consideration received by the Group on 22 April 2020 was £290.6m, reinforcing the inherent value of the Group's meter assets, which generate highly stable and long-term index-linked cash flows with limited maintenance requirements. These proceeds have allowed the Group to reset its leverage, supporting a £270m voluntary prepayment of the Group's revolving credit facility and driving a net cash position of £44.5m at 30 June 2020.

Overall, the Disposal has given rise to a gross gain of £201.6m in the period. After the deduction of £6.9m transaction costs, a net gain on disposal of £194.7m has been recognised separately in the consolidated statement of comprehensive income as exceptional. Of this net gain, £6.2m relates to the transfer of a deferred tax liability on those assets. Further details can be found in note 5 to the financial statements.

The Disposal does not constitute a discontinued operation on the basis that the minority portfolio of I&C assets disposed does not represent the loss of a separate, major line of business and, whilst I&C activities have been significantly reduced, they have not been entirely discontinued. The Group will continue to pursue new contracts.

The disposed portfolio of assets generates a new recurring revenue stream for the Group in the form of management fees. The Group will continue to manage the portfolio of disposed assets for the new owners, generating annual RPI-linked recurring management fees of £0.8m for these services.

Other exceptional items

The operating charge to the income statement in respect of other exceptional items of £8.4m (2019: £5.2m) is driven largely by £5.6m of costs attributable to COVID-19 that management has deemed appropriate to classify as exceptional in line with the Group's accounting policy.

As a result of the temporary suspension of all non-essential field work in response to COVID-19, management has estimated that £5.2m of costs that would have ordinarily been capitalised as directly attributable to the installation of meter assets – consisting primarily of staff costs – have remained in underlying profit. As material costs, attributable to a rare macroeconomic event, management has taken the judgement to recognise these costs as exceptional. In addition, management has recognised an exceptional bad debt charge of £0.4m in relation to a sub-portfolio of smaller, independent customers which have been identified as

having a potentially elevated credit risk as a direct consequence of COVID-19, and have been provided for on a specific basis. This judgement will be revisited as the economy recovers.

Excluding COVID-19 costs, other operating exceptional items total £2.8m and primarily comprise £2.6m of losses on the traditional and SMETS1 meter portfolio (2019: £4.1m). With the Enrolment and Adoption process of SMETS1 meters into the DCC now due to extend into 2021, consistent with 2019 the Group has continued to see a small proportion of SMETS1 meters removed from the wall. As these removals are attributable to the temporary industry transition period, management has taken the judgement to recognise losses arising on the disposal of these meters as exceptional.

The remaining exceptional operating cost of £0.2m relates to restructuring costs incurred in right-sizing the Group's installation business in response to delays in the UK smart meter rollout.

Operational and pre-tax profits

Depreciation costs on general property, plant and equipment, excluding meter assets, have increased by £0.5m to £2.2m (2019: £1.7m) due to net additions across the various asset classes.

Depreciation costs on meter assets have decreased by £2.1m to £13.3m (2019: £15.5m). This is predominantly due to management's revision of the useful economic life of traditional meter assets through to 1 July 2025 following the UK government's confirmation in June 2020 that it will introduce a new four-year regulatory framework for the next phase of the UK smart meter rollout, to be implemented from 1 July 2021. As a result of this change in estimate, the depreciation charge in the income statement for the period ended 30 June 2020 was reduced by £2.3m. The additional depreciation charged in relation to newly installed meters has been offset by a decrease in depreciation as a result of removals, making up the remaining net £0.2m difference.

The net interest charge in the period is £3.2m (2019: £4.1m), reflecting the overall lower leveraged position of the Group following the Disposal.

Underlying profit before taxation has increased by 98% to £9.1m due to a flow through of the above points.

Effective tax rate

The current forecast of the effective tax rate for the full year is estimated at 39.28% (30 June 2019: 17.78%). The increase in the effective rate is driven primarily by an increase in the deferred tax rate from 17% to 19%, which has been applied to the Group's brought forward deferred tax liabilities on its portfolio of meter assets. Excluding the impact of this rate change, the full year effective tax rate is estimated at 20.55%. This still reflects an increase on the prior period as a result of an increase in permanent differences from disallowable items.

The Group's capital expenditure as it pertains to meter assets qualifies for capital allowances, providing the Group with tax relief on such expenditure. These allowances are claimed in the tax year in which the asset is acquired and set against taxable profit for that year, thus reducing the total tax payable. As a result, the Group was not tax paying in either the current or prior period.

Earnings per share (EPS)

Underlying basic EPS, which excludes exceptional costs, amortisation of intangibles and their associated tax effect is 5.02p (2019: 3.40p), reflecting the underlying profitability of the Group. Statutory earnings per share increased to 171.07p (2019: (1.28p)) as a result of higher statutory profits for the reasons detailed above.

Diluted EPS does not vary significantly from basic EPS; a small decrease is seen as a result of the dilutive impact of shares issuable in the future to settle the Group's share scheme obligations.

Dividend

As detailed below, the Group's liquidity position has remained strong since the end of the year, despite the challenges COVID-19 has presented. The second interim dividend for 2019 of 4.58p per share (£5.2m) was paid to shareholders on 4 June 2020.

The Group has a growing, sustainable dividend and, as previously announced, in line with the Board's policy SMS intends to pay a 25p per share dividend in respect of FY 2020 (representing an increase of 3.6x over FY 2019), with the first of three interim dividend instalments to be paid in October 2020, followed by a final dividend in July 2021. A scrip dividend alternative will also be offered with the October interim dividend.

The provisional dividend timetable for FY 2020 will be as follows:

Instalment	Ex-dividend date	Record date	Payment date
1	1 October 2020	2 October 2020	29 October 2020
2	7 January 2021	8 January 2021	28 January 2021
3	1 April 2021	2 April 2021	29 April 2021
4	1 July 2021	2 July 2021	29 July 2021

When the revised dividend policy was initially announced on 12 March 2020, highlighting the significant increase from 6.88p to 25p per share, the Group also stated the Board's intention to increase dividends at least in line with RPI p.a. until FY 2024.

The Board is pleased to provide further clarity around the dividend growth intentions of annually increasing the dividends by 10% for each of the financial years FY 2021, FY 2022, FY 2023 and FY 2024. As is usual practice, the Board will review this regularly with shareholder value in mind, taking into account a range of factors including expected business performance.

These future dividend payment amounts are covered by income from the Group's existing metering and data asset base and their long-term index-linked cash flows.

Cash flow

Operating cash inflow in H1 2020 was £10.6m (2019: £15.0m), supported by robust operational performance and a continued focus on cash collection despite the challenges of COVID-19. This operating cash flow is net of a restricted cash balance of £4.9m that has been recognised in H1 2020 in relation to amounts received from energy suppliers on the I&C assets disposed of. Cash collection forms part of the Group's ongoing management of the portfolio of disposed assets for the new owners and, until this cash has been allocated, it is held in a restricted trust account. In line with IAS 7, this movement in restricted cash has been classified as an operating cash flow in line with the operational nature of the management service being delivered.

Capital expenditure on property, plant and equipment was £17.4m (2019: £48.4m). Of this, £16.5m (2019: £43.4m) has been used to invest in revenue-generating assets. This capital expenditure is lower than the prior period as a result of the disruption caused by COVID-19 and the temporary suspension of non-essential field work, including smart meter installations, from 24 March 2020 to 1 June 2020. Over three months into the Group's remobilisation plan, installation rates are beginning to resume to normal levels. Capital expenditure is thus expected to increase in H2, although is unlikely to reach the same levels as 2019 due to the knock-on delays caused by the suspension.

A further £2.7m (2019: £3.7m) investment has been made in intangible assets. This includes development of software to support the installations business, together with investment in a Group-wide Enterprise Resource Planning system that went live across the Group in H1 2020 and will consolidate, integrate and update various support systems.

As detailed above, gross proceeds from the Disposal were used to make a voluntary prepayment under the Group's revolving credit facility and the total outstanding principal value at 22 April 2020 of £270m, together with outstanding interest and commitment fees of £0.6m, was settled. Following this, there has been a £15.0m increase to cash held from drawdowns. £4.8m of interest and loan costs have also been paid (2019: £5.3m), including £0.1m of transaction costs incurred in modifying the total commitments available under the facility.

The Group continues to manage its cash flows carefully amidst the ongoing disruptions of COVID-19, with a continued concentrated effort to collect debt from customers and manage business costs prudently so that operational flexibility is maintained in this uncertain time.

Financial resources

Concurrent with the voluntary facility prepayment detailed above, the total available funding under the loan facility was reduced from £420m to £300m on the same terms through to the end of 2023. The Group has not required any new or extended facilities as a result of COVID-19, nor has it needed to renegotiate or waive any of its bank covenants. The Group was fully compliant with all of its bank covenants at 30 June 2020.

At 30 June 2020, utilisation of the new facility totalled £12.7m, net of £2.3m arrangement fees which continue to be amortised over the term of the facility. No principal repayments are required until 2022.

As a result of the Disposal, together with lower capital expenditure on revenue-generating assets as a result of the suspension of all non-essential field work, the Group was in a net cash position of £44.5m at 30 June 2020 (31 December 2019: net debt of £219.2m). This excludes restricted cash as described above. The Group's available cash and unutilised element of the revolving credit facility stood at £342.3m (2019: £200.8m) and the Group had cash in bank of £57.3m at 30 June 2020 (31 December 2019: £50.1m), again excluding restricted cash.

As anticipated, the Disposal has provided the Group with significant headroom to manage the business going forward on a low leveraged basis. The liquidity of the Group remains strong and continues to provide the financial flexibility required in order to maximise growth in a capital efficient way.

Definitions of alternative performance measures

Alternative performance measure	Definition
Index-linked annualised recurring revenue	The revenue being generated from meter rental and data contracts at a point in time. Includes revenue from third-party managed meters.
Depreciation-adjusted gross profit	Statutory gross profit adding back depreciation on revenue-generating assets, recognised within statutory cost of sales.
Depreciation-adjusted gross profit margin	Depreciation-adjusted gross profit divided by statutory revenue.
Pre-exceptional EBITDA	Statutory EBITDA excluding exceptional items.[1]
Underlying profit before taxation	Profit before taxation excluding exceptional items and amortisation of intangibles.
Underlying profit after taxation	Profit after taxation excluding exceptional items and amortisation of intangibles and the tax effect of these adjustments.
Underlying basic EPS	Underlying profit after taxation divided by the weighted average number of ordinary shares for the purposes of basic EPS.
Underlying diluted EPS	Underlying profit after taxation divided by the weighted average number of ordinary shares for the purposes of diluted EPS.
Net debt	Total bank loans less cash and cash equivalents, excluding restricted cash. Excludes lease liabilities recognised under IFRS 16.

1 Exceptional items are those material items of income and expense which, because of the nature or expected infrequency of the events giving rise to them, merit separate presentation on the consolidated income statement.

Financial tables and notes

Consolidated income statement

For the period ended 30 June 2020

		Unaudited					
		Six months ended 30 June					
	Notes	**2020 Before exceptional items £'000**	**2020 Exceptional items[1] £'000**	**2020 Total £'000**	2019 Before exceptional items £'000	2019 Exceptional items[1] £'000	2019 Total £'000
Revenue	3	**54,151**	**—**	**54,151**	54,205	—	54,205
Cost of sales		**(27,846)**	**(4,309)**	**(32,155)**	(37,295)	—	(37,295)
Gross profit		**26,305**	**(4,309)**	**21,996**	16,910	—	16,910
Administrative expenses		**(15,726)**	**(4,110)**	**(19,836)**	(11,359)	(5,207)	(16,566)
Other operating income		**844**	**—**	**844**	2,019	—	2,019
Gain on disposal of subsidiary	5	**—**	**194,729**	**194,729**	—	—	—
Profit from operations		**11,423**	**186,310**	**197,733**	7,570	(5,207)	2,363
Finance costs		**(3,251)**	**(115)**	**(3,366)**	(4,098)	(103)	(4,201)
Finance income		**108**	**—**	**108**	113	—	113
Profit/(loss) before taxation		**8,280**	**186,195**	**194,475**	3,585	(5,310)	(1,725)
Taxation		**(3,322)**	**1,621**	**(1,701)**	(637)	919	282
Profit/(loss) for the period and total comprehensive income attributable to owners of the parent[1]		**4,958**	**187,816**	**192,774**	2,948	(4,391)	(1,443)

1 Refer to note 4 for details of exceptional items.

Consolidated statement of comprehensive income

For the period ended 30 June 2020

	Unaudited					
	Six months ended 30 June					
	2020 Before exceptional items £'000	**2020 Exceptional items £'000**	**2020 Total £'000**	2019 Before exceptional items £'000	2019 Exceptional items £'000	2019 Total £'000
Profit for the period	**4,958**	**187,816**	**192,774**	2,948	(4,391)	1,443
Other comprehensive income						
Exchange differences on translation of foreign operations	**83**	**—**	**83**	—	—	—
Other comprehensive income for the period, net of tax	**83**	**—**	**83**	—	—	—
Total comprehensive income for the period attributable to owners of the parent	**5,041**	**187,816**	**192,857**	2,948	(4,391)	1,443

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

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

	Notes	**Six months ended 30 June 2020 Unaudited**	Six months ended 30 June 2019 Unaudited
Basic earnings per share (pence)	6	**171.07**	(1.28)
Diluted earnings per share (pence)	6	**169.74**	(1.27)

Consolidated interim statement of financial position

As at 30 June 2020

	Notes	**Unaudited 30 June 2020 £'000**	Audited 31 December 2019 £'000
Assets			
Non-current assets			
Intangible assets		**25,680**	23,743
Property, plant and equipment	8	**321,971**	412,658
Investments		**75**	75
Trade and other receivables		**16**	232
Total non-current assets		**347,742**	436,708
Current assets			
Inventories		**23,802**	22,061
Trade and other receivables		**47,858**	48,287
Income tax recoverable		**234**	227
Cash and cash equivalents		**57,289**	50,092
Restricted cash		**4,852**	—
Total current assets		**134,035**	120,667
Total assets		**481,777**	557,375
Liabilities			
Current liabilities			
Trade and other payables		**44,866**	46,796
Lease liabilities		**975**	1,013
Bank loans and overdrafts	9	**53**	1,724
Total current liabilities		**45,894**	49,533
Non-current liabilities			
Bank loans	9	**12,743**	267,536
Lease liabilities		**2,515**	2,950
Deferred tax liabilities		**8,838**	13,779
Total non-current liabilities		**24,096**	284,265
Total liabilities		**69,990**	333,798
Net assets		**411,787**	223,577
Equity			
Share capital		**1,128**	1,128
Share premium		**160,231**	160,106
Other reserve		**9,562**	9,562
Own share reserve		**(859)**	(768)
Foreign currency reserve		**17**	(66)
Retained earnings		**241,708**	53,615
Total equity attributable to owners of the parent		**411,787**	223,577

Consolidated interim statement of changes in equity

For the period ended 30 June 2020

Attributable to the owners of the parent company:	Share capital £'000	Share premium £'000	Other reserve £'000	Own share reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Total £'000
As at 1 January 2019	1,125	158,861	9,562	(588)	—	57,173	226,133
Total comprehensive income for the period	—	—	—	—	—	(1,443)	(1,443)
Transactions with owners in their capacity as owners							
Dividends (note 7)	—	—	—	—	—	(4,485)	(4,485)
Shares issued	2	841	—	—	—	—	843
Movement in own shares	—	—	—	(80)	—	(47)	(127)
Share-based payments	—	—	—	—	—	386	386
Income tax effect of share options	—	—	—	—	—	(93)	(93)
As at 30 June 2019	1,127	159,702	9,562	(668)	—	51,491	221,214
Total comprehensive income for the period	—	—	—	—	(66)	5,440	5,374
Transactions with owners in their capacity as owners							
Dividends (note 7)	—	—	—	—	—	(2,594)	(2,594)
Shares issued	1	404	—	—	—	(829)	(424)
Movement in own shares	—	—	—	(100)	—	(122)	(222)
Share-based payments	—	—	—	—	—	285	285
Income tax effect of share options	—	—	—	—	—	(56)	(56)
As at 31 December 2019	1,128	160,106	9,562	(768)	(66)	53,615	223,577
Total other comprehensive income for the period	—	—	—	—	83	—	83
Transactions with owners in their capacity as owners							
Dividends (note 7)	—	—	—	—	—	(5,168)	(5,168)
Shares issued	—	125	—	—	—	—	125
Movement in own shares	—	—	—	(91)	—	(70)	(161)
Share-based payments	—	—	—	—	—	389	389
Income tax effect of share options	—	—	—	—	—	168	168
As at 30 June 2020	**1,128**	**160,231**	**9,562**	**(859)**	**17**	**241,708**	**411,787**

Consolidated interim statement of cash flows

For the period ended 30 June 2020

	Six months ended 30 June 2020 Unaudited £'000	Six months ended 30 June 2019 Unaudited £'000
Operating activities		
Profit before taxation	**194,475**	(1,725)
Finance costs	**3,251**	4,098
Finance income	**(108)**	(113)
Foreign exchange loss	**11**	—
Exceptional items: gain on disposal of subsidiary (note 5)	**(194,729)**	—
Exceptional items: other[1]	**2,962**	5,131
Depreciation	**15,523**	17,195
Amortisation of intangibles	**864**	1,058
Share-based payment expense	**389**	318
Loss on disposal of property, plant and equipment	**579**	502
Movement in inventories	**(1,741)**	(6,032)
Movement in trade and other receivables[2]	**(4,277)**	(8,818)
Movement in restricted cash	**(4,852)**	—
Movement in trade and other payables[2]	**(1,754)**	3,352
Cash generated from operations	**10,593**	14,966
Income tax received/(paid)	—	—
Net cash generated from operations	**10,593**	14,966
Investing activities		
Proceeds on disposal of subsidiary, gross	**290,615**	—
Payments to dispose of subsidiary[3]	**(11,573)**	—
Payments to acquire property, plant and equipment	**(17,367)**	(48,421)
Proceeds on disposal of property, plant and equipment	**3,079**	1,864
Payments to acquire intangible assets	**(2,688)**	(3,713)
Finance income received	**108**	113
Net cash generated from/(used in) investing activities	**262,174**	(50,157)
Financing activities		
New borrowings	**15,000**	65,386
Borrowings repaid	**(270,000)**	—
Principal elements of lease payments	**(576)**	(614)
Finance costs paid	**(4,793)**	(5,300)
Net proceeds from share issue	**125**	13
Purchase of own shares	**(161)**	(127)
Dividends paid	**(5,168)**	(4,485)
Net cash (used in)/generated from financing activities	**(265,573)**	54,873
Net increase in cash and cash equivalents	**7,194**	19,682
Exchange gain on cash and cash equivalents	**3**	—
Cash and cash equivalents at the beginning of the period	**50,092**	30,027
Cash and cash equivalents at the end of the period	**57,289**	49,709

1 Other non-cash material exceptional items include £2,611,000 for losses on our meter portfolio and a £351,000 exceptional bad debt charge. In the period ended 30 June 2019, non-cash material exceptional items included £4,115,000 for losses on our meter portfolio and £898,000 of deferred remuneration arising on the acquisition of a subsidiary in 2016 settled in shares in April 2019.

2 Movement in trade and other receivables includes an adjustment of £4,922,000 and movement in trade and other payables includes an adjustment of £237,000 for working capital disposed of as part of the subsidiary sale.

3 Payments to dispose of subsidiary of £11,573,000 include cash disposed of £4,681,000 and transaction costs paid of £6,892,000.

Notes to the interim report

For the period ended 30 June 2020

1 Basis of preparation

This condensed consolidated interim financial report for the half-year reporting period ended 30 June 2020 has been prepared in accordance with Accounting Standard IAS 34 Interim Financial Reporting. The Company is a public limited 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 2019.

The financial information for the six months ended 30 June 2020 is also unaudited.

The comparative information for the year ended 31 December 2019 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.

Going concern

Management prepares budgets and forecasts on a five-year forward-looking basis. These forecasts cover operational cash flows and investment capital expenditure and are prepared based on management's estimation of installation run rates through the UK smart meter rollout.

Following the outbreak of COVID-19, forecasts have been reviewed in detail based on the estimated potential impact of COVID-19 restrictions and regulations, along with the Group's proposed responses. Non-essential field work, including planned installations of smart meters, was suspended from 24 March 2020. However, this was a temporary response measure and, following the government's announcement detailing phased lifting of restrictions, a progressive resumption of all non-essential field work commenced from 1 June 2020. Although this temporary suspension will impact Group revenues and ILARR in the short term, management is of the view that, subject to no further setbacks with the pandemic, smart meter installations – and other site works – should return to normal levels in Q4 2020. Whilst new installations and non-essential field work were suspended, the Group continued to generate ILARR from its 3.7 million revenue-generating assets already on the wall, demonstrating the robust nature of the metering infrastructure asset class.

Management has modelled several different meter installation scenarios, including a downside case, as a result of COVID-19 and has carried out reverse stress testing on its cash flow forecasts. This modelling provides confidence to management that, even in extreme circumstances, the business will still have sufficient resources to continue to operate. Overall, the main impact of COVID-19 is one of timing and, longer term, management does not anticipate any significant effects on the business as a result of the pandemic.

Management has concluded that no significant structural changes to the business are needed as a result of COVID-19.

Following the disposal of a minority of the Group's meter assets, effected by the sale of a wholly owned subsidiary of the Group on 22 April 2020 (the Disposal), gross cash consideration of £290.6m was received (see note 5 for further details). These proceeds were used to make a voluntary prepayment under the Group's existing loan facility of the full outstanding principal of £270m. Concurrently, the total available funding under the loan facility was reduced from £420m to £300m on the same terms through to the end of 2023 (see note 9 for further details). At the date of approving the interim financial report, the Group had access to its full £300m revolving credit facility, with no amounts drawn on the facility. The Group has not required any new or extended facilities as a result of COVID-19, nor has it needed to renegotiate or waive any of its bank covenants.

The Group was compliant with all its debt covenants at 30 June 2020. The financial covenants attached to this facility are that EBITDA should be no less than 4.00x interest and net debt should be no more than 5.75x EBITDA. At 30 June 2020 these stood at 7.06x and -1.34x respectively, demonstrating significant headroom. The Group does not expect to breach these covenants in the year from the date of approval of this report.

As a result of the Disposal, the Group was in a net cash position of £44.5m at 30 June 2020 (31 December 2019: net debt of £219.2m) and, at that date, undrawn facilities were £285m (31 December 2019: £150.0m). The Group balance sheet shows consolidated net assets of £411.8m (31 December 2019: £223.6m), of which £309.4m (31 December 2019: £398.7m) relates to revenue-generating meter and data assets. The liquidity of the Group thus remains strong and continues to provide the financial flexibility required in order to support the Group's long-term growth prospects.

The Group's cash generation over the period from 24 March to 1 June, from its already installed asset portfolio, enabled the return of funds received from the UK government under the Coronavirus Job Retention Scheme (CJRS), together with withdrawal from the scheme altogether. The Group has not had to rely on any other government support schemes as a result of COVID-19. With confidence in the Group's liquidity position, despite COVID-19, the Directors elected not to suspend payment of the second interim dividend for 2019 and £5.2m was paid out to shareholders on 4 June 2020. With significant coverage provided by existing long-term, inflation-linked and recurring cash flows, the Group also remains committed to its revised dividend policy and intends to pay a 25p per share dividend in respect of FY 2020, with the first of four cash instalments to be paid in October 2020.

Based on the current cash flow projections and facilities in place and having given consideration to various outcomes of future performance and forecast capital expenditure, including extreme downside scenarios, the Directors consider it appropriate to continue to prepare the interim financial statements on a going concern basis and are of the view that there are no material uncertainties regarding the Group's going concern status.

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 2019.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

1(a) Significant accounting policies

As required in AIM Rule 18, the interim financial report for the half-year reporting period ended 30 June 2020 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 2020 and having regard to the IFRS applicable to such annual accounts.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim period except for the following changes in estimates that have been made with regard to property, plant and equipment and intangible assets:

Changes in estimates with effect from 1 January 2019

- Subsequent to the impairment review carried out at 31 December 2018, the estimate of residual value on the domestic traditional meter asset portfolio was reduced to 0% to reflect management's updated forecasts and assumptions regarding the recoverability of value on these assets. As a result, the income statement for the period ended 30 June 2019 was charged with an additional £2.9m, recognised within depreciation in cost of sales.
- The following change was made in the latter half of the year ended 31 December 2019, with effect from 1 January 2019. It is therefore consistent with the accounting estimates applied in the previous financial year but is not consistent with those applied in the interim period ended 30 June 2019:
    - Capitalised IT development expenditure is disclosed within intangible assets as part of IT development and software. Development and software were previously disclosed separately but were combined into a single asset class for the year ended 31 December 2019 as all costs capitalised within these categories relate to information technology and, with effect from 1 January 2019, are amortised over the same useful economic life of five years.

Changes in estimates with effect from 1 January 2020

- With respect to the domestic traditional meter asset portfolio, the useful life of all opening assets has been extended from 31 December 2022 to 1 July 2025 to reflect the UK government's confirmation on 18 June 2020 that it will introduce a new regulatory framework for the next phase of the UK smart meter rollout. The new four-year framework will be implemented from 1 July 2021, effectively extending the smart meter rollout to 1 July 2025. It is accepted that the rate of meter exchange to smart meters will vary year by year as the rollout proceeds but there is currently no reliable basis on which to predict the annual profile. Accordingly, a straight line approach to depreciation of these assets continues to be adopted. As a result of this change in estimate, the consolidated income statement for the period ended 30 June 2020 reflected a reduced charge for depreciation of £2.3m, recognised within depreciation in cost of sales.

1(b) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

Standard or interpretation		Effective date
IFRS 3 (amendment)	Definition of a Business	1 January 2020
IAS 1 and IAS 8 (amendment)	Definition of Material	1 January 2020
CF	Conceptual Framework for Financial Reporting	1 January 2020

The amendments listed above did not have any impact on the amounts recognised in prior periods and the current period and are not expected to significantly affect future periods.

1(c) Critical accounting judgements

In addition to the critical accounting judgements disclosed in the Group's published financial statements for the year ended 31 December 2019, the Directors have made the following judgement in the process of preparing the interim financial statements for the period ended 30 June 2020:

Presentation of costs attributable to COVID-19 as exceptional

- On 24 March 2020 the Group temporarily suspended all non-essential field work, including smart meter installations, in response to COVID-19. As a result, management has estimated that £5.2m of costs that would ordinarily be capitalised as directly attributable to the installation of meter assets – consisting primarily of staff costs – have remained in underlying profit. Consistent with the Group's accounting policy on exceptional items (see below), these material costs are attributable to a rare macroeconomic event, being the COVID-19 pandemic, and therefore management has taken the judgement to recognise these costs as exceptional.
- At 30 June 2020, management has assessed the expected credit losses for trade receivables. COVID-19 has generated global financial uncertainty; however, the potential impact of this on the Group's credit risk is mitigated by the highly regulated nature of the utilities industry and the extensive support made available to energy – and other infrastructure – suppliers by the UK government. As a result, management has not increased the expected loss rates for the trade receivables portfolio as a whole. Instead, a sub-portfolio of smaller, independent customers has been identified as having a potentially elevated credit risk, due to a greater risk of administration as a direct consequence of COVID-19. This sub-portfolio of trade receivables has been provided for on a specific basis and has resulted in an additional £0.4m impairment loss. Given the continued and changing uncertainty regarding the impact of COVID-19 on customer default risk, management will continue to monitor the situation and reassess its expected credit losses at

each reporting period end accordingly. Management has taken the judgement to recognise this incremental impairment loss as exceptional on the same basis as that outlined above.

The Group's accounting policy on exceptional items is included below for reference:

Exceptional items and separately disclosed items

The Group presents as exceptional items on the face of the consolidated income statement those items of income and expense which, because of the material nature or expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in that year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

2 Segmental reporting

For management purposes, the Group is organised into three core divisions, as follows:

- asset management, which comprises regulated management of gas meters, electric meters and ADM™ units within the UK;
- asset installation, which comprises installation of domestic and I&C gas meters and electricity meters throughout the UK; and
- energy management, which comprises the provision of energy consultancy services and, following the acquisition of Solo Energy Limited in September 2019, the management of Distributed Energy Resources (DER) assets.

The Group's chief operating decision maker (CODM), being the SMS plc Board, receives certain management information at a granular "utility" level. Asset management includes reporting on gas meter rental, electricity meter rental, gas data and electricity data. Asset installation includes reporting on gas transactional work and electricity transactional work. However, whilst the Group has the ability to analyse its underlying information in this way, this information is only used to assess performance for the Group as a whole. These utility levels are thus combined within asset management and asset installation, respectively, on the basis that they have similar long-term economic characteristics – they derive from the same asset, use similar delivery processes, have consistent customers and have similar long-term gross margins.

For the purpose of making decisions about resource allocation and performance assessment, it is the operating results of the three core divisions listed above that are monitored by management and the CODM. It is these divisions, therefore, that are defined as the Group's reportable operating segments.

Segment performance is evaluated based on gross profit.

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

30 June 2020	Asset management £'000	Asset installation £'000	Energy management £'000	Unallocated £'000	Total operations £'000
Segment revenue	**41,974**	**22,406**	**2,779**	—	**67,159**
Inter-segment revenue	—	**(13,008)**	—	—	**(13,008)**
Revenue from external customers	**41,974**	**9,398**	**2,779**	—	**54,151**
Cost of sales	**(16,035)**	**(9,824)**	**(1,987)**	—	**(27,846)**
Exceptional cost of sales	—	—	—	**(4,309)**	**(4,309)**
Segment gross profit/(loss)	**25,939**	**(426)**	**792**	**(4,309)**	**21,996**
Other operating costs/income	—	—	—	**(11,810)**	**(11,810)**
Depreciation	**(136)**	—	—	**(2,072)**	**(2,208)**
Amortisation of intangibles	**(848)**	—	**(16)**	—	**(864)**
Exceptions items: gain on disposal of subsidiary	**194,729**	—	—	—	**194,729**
Exceptional items: other	—	—	—	**(4,110)**	**(4,110)**
Profit/(loss) from operations	**219,684**	**(426)**	**776**	**(22,301)**	**197,733**
Net finance costs: exceptional	**(115)**	—	—	—	**(115)**
Net finance costs: other	**(3,128)**	—	—	**(15)**	**(3,143)**
Profit/(loss) before tax	**216,441**	**(426)**	**776**	**(22,316)**	**194,475**
Tax credit	—	—	—	**(1,701)**	**(1,701)**
Profit/(loss) for the period	**216,441**	**(426)**	**776**	**(24,017)**	**192,774**

30 June 2019	Asset management £'000	Asset installation £'000	Energy management £'000	Unallocated £'000	Total operations £'000
Segment revenue	39,368	28,253	4,617	—	72,238
Inter-segment revenue	—	(18,033)	—	—	(18,033)
Revenue from external customers	39,368	10,220	4,617	—	54,205
Cost of sales	(18,554)	(15,156)	(3,585)	—	(37,295)
Segment gross profit/(loss)	20,814	(4,936)	1,032	—	16,910
Other operating costs/income	—	—	—	(6,569)	(6,569)
Depreciation	(661)	—	—	(1,052)	(1,713)
Amortisation of intangibles	(1,058)	—	—	—	(1,058)
Exceptional items	(4,114)	—	—	(1,093)	(5,207)
Profit/(loss) from operations	14,981	(4,936)	1,032	(8,714)	2,363
Net finance costs: exceptional	(103)	—	—	—	(103)
Net finance costs: other	(3,927)	—	—	(58)	(3,985)
Profit/(loss) before tax	10,951	(4,936)	1,032	(8,772)	(1,725)
Tax credit	—	—	—	282	282
Profit/(loss) for the period	10,951	(4,936)	1,032	(8,490)	(1,443)

Inter-segment revenue relates to installation services provided by the asset installation segment to the asset management segment.

Depreciation of £13.3m (30 June 2019: £15.5m) associated with meter assets has been reported within cost of sales as the meter assets directly drive revenue.

All material revenues and operations are based and generated in the UK. Following the acquisition of Solo Energy Limited in September 2019, a small minority of operations are based in the Republic of Ireland.

30 June 2020	**Asset management £'000**	**Asset installation £'000**	**Energy management £'000**	**Unallocated £'000**	**Total operations £'000**
Assets reported by segment					
Intangible assets	**20,184**	**3,496**	**2,000**	—	**25,680**
Property, plant and equipment	**313,870**	**364**	—	**7,737**	**321,971**
Inventories	**23,585**	**217**	—	—	**23,802**
Contract assets	—	—	**149**	—	**149**
	357,639	**4,077**	**2,149**	**7,737**	**371,602**
Assets not by segment					**110,175**
Total assets					**481,777**
Liabilities by segment					
Contract liabilities	**1,135**	**2,078**	**294**	—	**3,507**
Lease liabilities	**810**	—	—	**2,680**	**3,490**
Bank loan	**12,796**	—	—	—	**12,796**
	14,741	**2,078**	**294**	**2,680**	**19,793**
Liabilities not by segment					**50,197**
Total liabilities					**69,990**

31 December 2019	Asset management £'000	Asset installation £'000	Energy management £'000	Unallocated £'000	Total operations £'000
Assets reported by segment					
Intangible assets	18,417	3,493	1,833	—	23,743
Property, plant and equipment	403,948	518	—	8,192	412,658
Inventories	21,734	327	—	—	22,061
Contract assets	—	11	—	—	11
	444,099	4,349	1,833	8,192	458,473
Assets not by segment					98,902
Total assets					557,375
Liabilities by segment					
Contract liabilities	1,360	2,010	124	—	3,494
Lease liabilities	893	—	—	3,072	3,965
Bank loan	269,260	—	—	—	269,260
	271,513	2,010	124	3,072	276,719
Liabilities not by segment					57,079
Total liabilities					333,798

3 Disaggregation of revenue from contracts with customers

The Group reports the following segments: asset management, asset installation and energy management, in accordance with IFRS 8 Operating Segments. We have determined that, to meet the objective of the disaggregation disclosure requirement in paragraph 114 of IFRS 15, which is to disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors, further disaggregation is required into the major types of services offered. The following table thus discloses segmental revenue by type of service delivered

and timing of revenue recognition, including a reconciliation of how this disaggregated revenue ties in with the asset management, asset installation and energy management segments, in accordance with paragraph 115 of IFRS 15.

Period ended 30 June 2020	**Asset management £'000**	**Asset installation £'000**	**Energy management £'000**	**Total operations £'000**
Major service lines				
Metering	**38,029**	—	—	**38,029**
Data management	**3,945**	—	—	**3,945**
Utility connections	—	**3,924**	—	**3,924**
Transactional meter works	—	**5,132**	—	**5,132**
Energy management	—	**342**	**2,779**	**3,121**
	41,974	**9,398**	**2,779**	**54,151**
Timing of revenue recognition				
Services transferred at a point in time	—	**5,132**	—	**5,132**
Services transferred over time	**41,974**	**4,266**	**2,779**	**49,019**
	41,974	**9,398**	**2,779**	**54,151**

Period ended 30 June 2019	Asset management £'000	Asset installation £'000	Energy management £'000	Total operations £'000
Major service lines				
Metering	35,750	—	—	35,750
Data management	3,618	—	—	3,618
Utility connections	—	4,113	—	4,113
Transactional meter works	—	5,802	—	5,802
Energy management	—	305	4,617	4,922
	39,368	10,220	4,617	54,205
Timing of revenue recognition				
Services transferred at a point in time	—	5,677	—	5,677
Services transferred over time	39,368	4,543	4,617	48,528
	39,368	10,220	4,617	54,205

4 Exceptional items

	30 June 2020 £'000	30 June 2019 £'000
Exceptional operating items		
Gain on disposal of subsidiary	**194,729**	—
Costs attributable to COVID-19	**(5,575)**	—
Losses on the traditional and SMETS1 meter portfolio	**(2,611)**	(4,115)
Other	**(233)**	(1,092)
	186,310	(5,207)
Exceptional finance items		
Facility fees	**(115)**	(103)
	(115)	(103)
Total exceptional items	**186,195**	(5,310)

An exceptional gain on the disposal of a subsidiary of £194.7m has been recognised separately on the consolidated income statement for the period ended 30 June 2020. See note 5 for details.

There were total other exceptional items on the consolidated income statement of £8,534,000. Exceptional operating costs comprise £5,575,000 of costs directly attributable to COVID-19 (see note 1(c) – critical accounting judgements – for further details), £2,611,000 of losses on our traditional and SMETS1 meter portfolio and £233,000 of restructuring costs incurred in right-sizing the Group's installation business in response to delays in the UK smart meter rollout. Exceptional finance costs of £115,000 comprise break costs incurred on full voluntary prepayment of the Group's loan facility (see note 9 for details).

In the period ended 30 June 2019, there were total exceptional items on the consolidated income statement of £5,310,000. Exceptional material operating costs comprised £4,115,000 for losses on our meter portfolio and £898,000 of deferred remuneration arising on the acquisition of a subsidiary in 2016 settled in shares in April 2019. Exceptional finance costs of £103,000 included £92,000 accelerated amortisation of loan arrangement fees in relation to the refinancing of the loan facility and £11,000 of bank break fees.

5 Disposal of subsidiary

On 12 March 2020, the Group conditionally signed an agreement to dispose of a minority of the Group's meter assets through the sale of the entire share capital of Crail Meters Limited (Crail), a wholly owned subsidiary of the Group.

The meter asset provision (MAP) business carried on by two existing operating subsidiaries of the Group (the Meter Managers) was transferred to Crail on 12 March 2020. The business transferred included c.187,000 Industrial & Commercial (I&C) meter assets, amongst other working capital balances. Crail continued to trade from 12 March 2020 through to 22 April 2020.

On 22 April 2020 the entire share capital of Crail was sold to an unconnected third party. Total gross cash consideration of £290.6m was received, comprising a payment for the sale of the shares in Crail and the repayment of an intercompany debt owed by Crail to the Meter Managers. There was no contingent or non-cash consideration.

The total carrying amount of net assets disposed was £89.0m, including £86.1m of meter assets, a £9.1m net receivable of working capital balances and £6.2m of deferred tax liabilities, giving rise to a gross gain of £201.6m. After the deduction of £6.9m transaction costs, a net gain on disposal of £194.7m has been recognised separately in the consolidated income statement. Excluding deferred taxation and transaction costs, the gain is £195.4m.

Crail does not meet the definition of a discontinued operation under IFRS 5 on the basis that the minority portfolio of I&C assets disposed does not represent the loss of a separate, major line of business and, although I&C activities have been significantly reduced, they have not been entirely discontinued.

SMS will continue to manage the disposed I&C meter portfolio on behalf of the purchaser, for which it will receive annual RPI-linked management fees of £0.8m.

6 Earnings per share (EPS)

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

	Six months ended 30 June 2020 Unaudited £'000	Six months ended 30 June 2019 Unaudited £'000
Profit/(loss) for the period used for calculation of basic EPS	**192,774**	(1,443)

Number of shares	**Six months ended 30 June 2020 Unaudited**	Six months ended 30 June 2019 Unaudited
Weighted average number of ordinary shares for the purposes of basic EPS	**112,686,659**	112,495,520
Effect of potentially dilutive ordinary shares:		
– share options	**881,386**	913,773
Weighted average number of ordinary shares for the purposes of diluted EPS	**113,568,045**	113,409,293
EPS:		
– basic (pence)	**171.07**	(1.28)
– diluted (pence)	**169.74**	(1.27)

7 Dividends

	Six months ended 30 June 2020 Unaudited £'000	**Six months ended 30 June 2020 Per share (pence)**	Six months ended 30 June 2019 Unaudited £'000	Six months ended 30 June 2019 Per share (pence)	Year ended 31 December 2019 Unaudited £'000	Year ended 31 December 2019 Per share (pence)
Paid final dividend	—	—	4,485	3.98	4,485	3.98
Paid second interim dividend	**5,168**	**4.58**	—	—	—	—
Paid interim dividend	—	—	—	—	2,594	2.30
Total dividends	**5,168**	**4.58**	4,485	3.98	7,079	6.28

Per the Group's revised dividend policy, a 25p per share dividend is intended in respect of FY 2020. This will be paid to shareholders in four cash instalments.

The first instalment is intended to be paid on 29 October 2020 to shareholders on the register at 2 October 2020, with an ex-dividend date of 1 October 2020.

8 Property, plant and equipment

	Freehold/ leasehold property £'000	Meter assets £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Right-of-use assets (note [10]) £'000	Total £'000
Cost							
As at 1 January 2019	2,536	410,128	504	4,248	2,814	—	420,230
Additions	215	95,186	520	2,498	3,279	4,889	106,587
Acquisitions	—	—	—	6	—	—	6
Reclassifications[1]	—	205	—	—	—	—	205
Impairment	—	—	—	—	—	(90)	(90)
Disposals	—	(21,991)	—	(894)	(65)	(54)	(23,004)
Exchange adjustments	—	—	—	—	—	—	—
As at 31 December 2019	2,751	483,528	1,024	5,858	6,028	4,745	503,934
Additions	5	16,466	8	888	—	17	17,384
Disposals	—	(121,719)	—	(47)	(12)	—	(121,778)
Exchange adjustments	—	—	—	2	—	5	7
As at 30 June 2020	**2,756**	**378,275**	**1,032**	**6,701**	**6,016**	**4,767**	**399,547**
Depreciation							
As at 1 January 2019	519	59,766	233	2,618	362	—	63,498
Charge for year	(14)	31,491	267	1,337	1,139	917	35,137
Reclassifications[1]	—	74	—	—	—	—	74
Impairment	—	—	—	—	—	(37)	(37)
Disposals	—	(6,520)	—	(841)	(35)	—	(7,396)
As at 31 December 2019	505	84,811	500	3,114	1,466	880	91,276
Charge for period	81	13,314	157	811	677	483	15,523
Impairment	—	—	—	—	—	—	—
Disposals	—	(29,215)	—	(3)	(5)	—	(29,223)
As at 30 June 2020	**586**	**68,910**	**657**	**3,922**	**2,138**	**1,363**	**77,576**
Net book value							
As at 30 June 2020	**2,170**	**309,365**	**375**	**2,779**	**3,878**	**3,404**	**321,971**
As at 31 December 2019	2,246	398,717	524	2,744	4,562	3,865	412,658
As at 1 January 2019	2,017	350,362	271	1,630	2,452	—	356,732

1 Capitalised development expenditure on ADM™ units was reallocated from IT development and software in intangible assets to meter assets within property, plant and equipment, to align with the Group's accounting policy.

Meter asset disposals in the period include the c.187,000 assets disposed of as part of the sale of a subsidiary on 22 April 2020. The assets disposed of had a net book value of £86,103,000.

Included within the closing meter assets net book value of £309,365,000 (31 December 2019: £398,717,000) is £26,250,000 (31 December 2019: £30,298,000) relating to the traditional domestic meter portfolio. Following the change in our accounting estimate (see note 1(a) for details) these assets will be written down to zero by 1 July 2025. In the H1 2020 consolidated financial statements there was a £2,845,000 depreciation charge recognised on the traditional domestic meter portfolio (H1 2019: £5,489,000). £13,795,000 annualised recurring revenue as at 30 June 2020 (30 June 2019: £15,951,000) arises from the owned traditional and domestic meter portfolio.

The assets are secured by a bond and floating charge.

For the purpose of impairment testing, the traditional meter asset portfolio recognised within "meter assets" is assessed as a stand-alone cash-generating unit (CGU) and its carrying amount is compared with the recoverable amount. In line with IAS 36, no impairment review was considered necessary at 30 June 2020 as the previous impairment review at 31 December 2019 showed a significant excess of recoverable amount over carrying amount and management concluded that there were no reasonably possible changes in the key assumptions that would cause the carrying amounts of the traditional meter portfolio to exceed the value in use. There have also been no events during H1 2020 that would eliminate this excess. As a result of COVID-19, and the temporary suspension of all smart meter installation activity, there has been a lower volume of traditional meter asset removals. In addition, as detailed in note 1(a), the useful economic life of traditional meter assets has been extended to 1 July 2025 following the UK government's announcement of its new framework for the UK smart meter rollout.

Therefore, no impairment has been recognised in the period ended 30 June 2020 (30 June 2019: £nil).

No impairment on other meter assets has been recognised in the period ended 30 June 2020 (30 June 2019: £nil).

9 Bank loans

	30 June 2020 £'000	31 December 2019 £'000
Current		
Bank loans	**53**	1,724
Non-current		
Bank loans	**12,743**	267,536
	12,796	269,260

Bank loans at 31 December 2019 related to the Group's revolving credit facility of £420m, available for five years (the facility). The Group had a total outstanding principal of £270m at 31 December 2019 and, as repayment of the principal is not required until 2022 under the terms of the contract, this balance was classified as non-current. Accrued interest of £1.7m was recognised as part of the carrying value of bank loans at 31 December 2019 together with a deduction of £2.5m for unamortised transaction costs. In 2019, the facility attracted interest at a rate of 1.85% over the three-month LIBOR and 0.65% was payable on undrawn funds. The interest is required to be settled quarterly and was thus classified as current at 31 December 2019.

Following the Group's sale of a wholly owned subsidiary on 22 April 2020, the gross proceeds received of £290.6m were used to make a voluntary prepayment and the total outstanding principal value at 22 April 2020 of £270m, together with outstanding interest and commitment fees of £0.6m, was settled. Concurrently, the total commitments available under the facility were reduced from £420m to £300m. There were no other material changes to the terms and conditions. This amendment does not substantially change the existing revolving credit facility, nor does it discharge any obligations. As such, this is deemed to be a modification. There has been no impact to the consolidated income statement in the period ended 30 June 2020 as a result of the modification.

Following a drawdown in May 2020, the Group had a total outstanding principal of £15m at 30 June 2020. Accrued interest of £0.05m has been recognised as part of the carrying value of bank loans at 30 June 2020 together with a deduction of £2.25m for unamortised transaction costs.

Unamortised transaction costs from the initial establishment of the revolving credit facility in December 2018 continue to be amortised over the remaining duration of the facility to 2023, together with additional transaction costs of £0.1m directly attributable to the modification of the loan on 22 April 2020. At 30 June 2020, £0.3m of transaction costs had been recognised within the consolidated income statement.

£0.1m of break costs incurred as a result of the voluntary prepayment have been recognised as an exceptional finance cost in the period ended 30 June 2020.

The Group has complied with the financial covenants of its borrowing facility during the current and prior reporting periods.

10 The half-yearly financial report was approved by the Board of Directors on 15 September 2020.

11 A copy of this half-yearly financial report is available by visiting our website at www.sms-plc.com.