

Smart Metering Systems plc
Interim report 2016

smart approach
smart systems



Our highlights

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

SMS has recorded another six months of strong trading, marked by further milestones for the Company including three acquisitions and significant contract wins in the smart metering market.

FINANCIAL HIGHLIGHTS

- ▶ Revenue increased by 25% to £32.3m (H1 2015: £25.8m)
- ▶ Total annualised recurring income¹ increased by 23% to £37.4m (H1 2015: £30.5m)
- ▶ Underlying EBITDA² increased by 20% to £14.7m (H1 2015: £12.2m)
- ▶ Underlying EBITDA² margin at 45% (H1 2015: 47%)
- ▶ Underlying PBT³ increased by 15% to £9.2m (H1 2015: £8.0m)
- ▶ Underlying earnings per share⁴ increased by 23% to 8.45p (H1 2015: 6.90p)
- ▶ Interim dividend of 1.37p per ordinary share, an increase of 25%

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

2 Underlying EBITDA is before exceptional items and other operating income.

3 Underlying PBT is before exceptional items, other operating income and intangible amortisation.

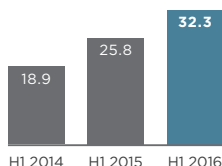
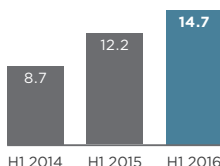
4 Underlying earnings per share is profit after taxation but before exceptional items, other operating income and intangible amortisation, divided by the weighted average number of ordinary shares in issue.

OPERATIONAL HIGHLIGHTS

- ▶ Completed the acquisition of CH4 Gas Utility and Maintenance Services Limited (CH4), Trojan Utilities Limited (Trojan), and Qton Solutions Limited (Qton), further strengthening the Group ahead of the UK's domestic smart meter rollout programme with full UK-wide direct installation and IT support capability
- ▶ The Group has initial order book of 300,000 dual fuel domestic smart meters from eight contracted energy suppliers who currently supply energy to circa 2 million homes
- ▶ The Group now manages over 1 million utility metering and data assets on behalf of energy suppliers in the industrial and commercial (I&C) and domestic markets and has increased its asset base in all business areas

	30 June 2016 units	31 Dec 2015 units	Percentage increase
Total gas and electricity metering and data assets	1,078,000	979,000	10%
Gas meter portfolio	785,000	723,000	9%
Gas data portfolio*	98,000	85,000	15%
Electricity meter portfolio	37,000	29,000	28%
Electricity data portfolio	158,000	142,000	11%

* Includes 84,000 ADM™ installations which is SMS' patented remote meter reading product.

Revenue (£m)**£32.3m****+25%****Underlying EBITDA² (£m)****£14.7m****+20%****MORE ONLINE**

Read more about SMS online at
our investor website sms-plc.com

**OVERVIEW****IFC** Our highlights**02** Chairman's statement**04** Chief Executive Officer's statement**05** Financial review**FINANCIAL INFORMATION****06** Consolidated interim statement of comprehensive income**07** Consolidated interim statement of financial position**08** Consolidated interim statement of changes in shareholders' equity**09** Consolidated interim statement of cash flows**10** Notes to the interim report**Alan Foy,****Chief Executive Officer, commented:**

"SMS is delighted to deliver another set of strong results for the first six months of 2016. The numbers exemplify how our integrated business model of developing and expanding recurring gas and electricity meter rental and data services income continues to deliver financial and operational growth.

The first six months have been marked by milestones for the Company including reaching over a million utility meter and data assets managed on behalf of a growing customer base of energy suppliers in the industrial and commercial and domestic markets. In the domestic smart meter market, we have an initial order book of 300,000 dual fuel domestic smart meters from eight contracted energy suppliers who currently supply energy to approximately 2 million homes."

Chairman's statement



Willie MacDiarmid
Non-executive Chairman

I am delighted to report another strong set of results for the first half of 2016.

SMS now manages over 1 million utility metering and data assets on behalf of an expanding customer base of energy suppliers in the industrial and commercial (I&C) and domestic markets, including the new domestic smart meter market, on long-term index-linked contracts.

During the first half of 2016, SMS signed new contract agreements for the ownership of domestic smart meters with a number of energy suppliers, including the UK's largest independent energy supplier, First Utility, as well as RHE, Green Energy, Flow Energy, Spark Energy, Our Power, Ecotricity, and Economy Energy, thereby firmly establishing SMS' position in the new and significant domestic smart meter market.

The energy suppliers with whom SMS has contracted so far represent part of the fastest growing segment of the energy supply market and currently provide energy to circa 2 million of the circa 27 million homes in the UK which will be offered a new smart gas and electricity meter by 2020.

The first six months are also notable for SMS' strategic acquisitions of CH4, Trojan and Qton, who together provide the Group with the necessary in-house accreditation and capacity to install and adopt ownership of utility metering assets on behalf of the UK's licensed suppliers.

CH4 and Trojan, prior to acquisition by SMS, have installed over 400,000 domestic smart meters, which, we understand, accounts for nearly 20% of all domestic smart meters installed in the UK. These acquisitions significantly enhance SMS' capability to be one of the key participants in the ongoing domestic smart meter rollout.

Our business

SMS' business model continues to build strong recurring income in our gas and electricity business from its installed utility metering portfolio.

The UK market for ownership of domestic smart meters presents a significant market opportunity for rollout to some 27 million homes by 2020.

With the recent acquisitions, SMS has changed its operational delivery model from being wholly reliant on subcontractors for the installation of utility meters to gaining direct control of a large proportion of installation capacity, demonstrating and establishing the necessary credentials to utility supplier customers and potentially leading to increasing growth of a share in the UK's domestic smart meter rollout.

Furthermore, SMS continues to grow its ADM™ product and smart meter installations in the I&C market.

SMS' Asset Installation and Energy Management divisions continue to perform strongly for UK utility suppliers and blue chip UK and international customers by providing connections and infrastructure design consulting services. These include Energy Performance Certificates (EPC) and Energy Savings Opportunity Scheme (ESOS) consultancy services, for which SMS is fully accredited, which are ongoing requirements for large UK companies under the Energy Performance of Buildings Regulations 2007 and the ESOS Regulations 2014.

In 2016 the Group's strategic priorities continue to be:

1. Continue to install and own utility metering infrastructure and secure recurring rental and data income from SMS' contracted energy suppliers.
2. Target the significant domestic smart meter market opportunity in the UK based on SMS' proven business model and established market position.
3. Increase levels of business for the Asset Installation and Energy Management divisions with a focus on cross-selling the full range of services offered to all SMS' customers.

People

During the first half of 2016, we significantly expanded our installation field force with the acquisition of CH4 and Trojan. SMS now employs 660 staff across the UK, an increase from 340 staff prior to these acquisitions and this has enhanced our capability to provide full end-to-end services across connections, asset management and energy services across the UK. The acquisition of both CH4 and Trojan provides SMS with a dedicated workforce and two training academies ensuring the Group has the ability to conduct in-house training and increase its installation capacity, particularly for the domestic smart meter rollout. The acquisition of Qton enhanced Intellectual Property (IP) rights, but, importantly, added IT skills, in the form of 17 IT professionals, doubling our in-house IT resource.

During the six months to 30 June 2016, Paul Dollman stepped down from his position as Non-executive Chairman of SMS, and from the Board, in order to concentrate on his other business interests. We thank Paul for all the work he has done for SMS during his three years as Non-executive Chairman. I have now assumed the role of Non-executive Chairman from my previous role as Non-executive Director, which I had undertaken since 2014.

Furthermore, Graeme Bissett was appointed as a Non-executive Director of the Company. Graeme was appointed as Chair of the Company's Audit Committee and Miriam Greenwood was appointed as the Company's Senior Independent Non-executive Director and Chair of the Company's Remuneration Committee.

Dividend

SMS is pleased to announce a proposed interim cash dividend to shareholders of 1.37p per ordinary share for the half year ended 30 June 2016, marking a 25% increase. The interim dividend will be paid on 25 November 2016 to those shareholders on the register (record date) on 21 October 2016 with an ex-dividend date of 20 October 2016.

Outlook

SMS has continued to deliver on its strategy and operational plans during the first six months of 2016 and is very well positioned to continue making progress in its core markets. We have seen a strong first half of 2016 and have signed eight new framework agreements with energy suppliers in the domestic smart meter market. We have also made important strategic acquisitions to directly employ our engineering workforce for the delivery of I&C and domestic smart meter installations. We remain confident on the outlook for the remainder of 2016.

Chief Executive Officer's statement



Alan Foy
Chief Executive Officer

During the first half of 2016 our utility meter and data portfolio increased to 1.08 million, an increase of 99,000 since the end of December 2015.

Operational review

Our integrated business model of developing and expanding recurring gas and electricity meter rental and data services income continues to ensure strong visibility of revenues. We continue to fulfil our order book in the I&C market.

These recurring revenues are derived from our long-term index-linked contracts, and support the long-term growth of our business. The lifetime of SMS' metering assets is expected to be over 20 years.

The acquisitions announced in the first half of 2016 provide SMS with extra capacity to provide meter installation services to our UK licensed energy supplier customers from a number of locations around the UK, including Glasgow, Livingston, Cardiff, Cambridge, Bolton, Doncaster, Rugby and Normanton.

UK domestic smart meter market

SMS is providing domestic smart meters as part of the UK government's domestic smart meter programme. This initiative requires every home in the UK to have smart meter functionality by 2020. To date, over 2 million have already been installed in the UK. This will require significant investment for rolling out and replacing gas and/or electricity meters in approximately 27 million homes in the UK.

We are very well positioned for this new market, given our business model, our proven track record in the I&C market and the increased capacity we have secured through our most recent acquisitions in 2016.

Acquisitions

The acquisitions of CH4 and Trojan have enhanced SMS' capability to be a key participant in the substantial domestic smart meter market.

The acquisition of CH4 has added approximately 100 engineers and 60 contractors to the Group, of whom approximately 40 are domestic smart gas and electricity installation engineers, alongside the approximately 180 domestic smart gas and electricity

installation engineers from Trojan. Together they have installed approximately 400,000 domestic smart meters in the UK, independent of SMS.

The acquisition of IT systems specialist Qton has given SMS direct control and ownership of all software applications used by SMS and indeed other installation contractors in the domestic smart meter market. Together, these acquisitions streamline our processes and provide confidence to energy suppliers throughout the domestic smart meter rollout.

ADM™

SMS' patented "plug and play" ADM™ device is deployed to 84,000 I&C meters in the UK, delivering remote meter reading and half-hourly consumption analysis from installed gas meters, with accreditation secured for potential application to water meters.

SMS installed 10,235 units in the first half of 2016, an increase of 13.8% since December 2015.

Asset installation and energy management

The Asset Installation division continues to provide services to new retail, residential, commercial, industrial and energy generation projects on a nationwide basis, with an increasing focus on the design and planning of heat networks. These projects include one-off minor and major commercial connections and some of the largest long-term masterplan mixed-use residential and commercial projects in the UK, as well as supporting a number of major national infrastructure projects.

The Energy Management division provides a full range of energy management services, including comprehensive bureau, energy efficiency, performance management, procurement and environmental compliance. It processed and analysed 322,000 billing points and performed 100 energy audits and compliance surveys, identifying over £20m p.a. of potential energy savings for customers with an investment requirement of over £63m.

SMS works with some of the largest corporate multi-site energy users in the country and is increasingly focused on the turnkey funding and implementation of energy reduction measures, often identified through SMS' own auditing services.



Glen Murray
Finance Director

Results for the period

During the first half of 2016, SMS increased revenue by 25% to £32.3m (H1 2015: £25.8m) as a result of increases in Asset Management (recurring) revenue and Asset Installation revenue, predominantly through turnover from acquired companies.

Annualised recurring meter rental and data revenue grew by 22.6% to £37.4m compared with £30.5m during the first half of 2015. In gas, meter recurring rent increased by 7% to £29.7m and data recurring income increased by 9% to £2.4m, while in electricity, meter recurring rent increased by 78% to £1.6m and data recurring income increased by 16% to £3.7m.

Underlying EBITDA grew by 20% to £14.7m (H1 2015: £12.2m), with an underlying EBITDA margin of 45% (H1 2015: 47%).

Asset Management recurring revenue grew 27% to £17.9m (H1 2015: £14.1m), while Asset Installation revenue increased 33% to £12.8m (H1 2015: £9.6m). Energy Management revenue fell by 10% to £1.8m (H1 2015: £2.0m) due to a one-off capital project in the prior year. The underlying recurring Energy Management revenue this year is marginally ahead of last year. Asset Management revenue increased as a result of continued investment in our meter asset portfolio whilst Asset Installation revenue increased predominantly through the acquisitions of CH4, Trojan and Qton.

Cash and borrowings

SMS was delighted to announce in March 2016 a new £150m revolving credit facility, provided by a club of banks: Barclays PLC (lead bank), Bank of Scotland PLC and Santander UK PLC. This facility will fund the purchase of meter assets as part of a phased installation programme in line with recent substantial contract wins and under this facility we can fund 100% of the value of meter assets purchased.

As at 30 June 2016, the Company had net debt of £80.5m (31 December 2015: £79.0m) with a net debt to annualised underlying EBITDA ratio of 2.74. The Company's available cash and unutilised debt facility stood at £69.5m at 30 June 2016.

Capital investment in meter assets and ADM™ installations was £14.8m compared to £21.1m in the first half of 2015. In the six months to 30 June 2016, the I&C market segment's change to smart metering is nearing completion, and domestic smart market is commencing.

Treasury policies

The Company uses interest rate swaps to manage its exposure to movements in interest rates.

£24.6m of borrowings as at 30 June 2016 (31 December 2015: £26.4m) were subject to a fixed rate.

	Six months ended 30 June 2016 Unaudited £m	Six months ended 30 June 2015 Unaudited £m	Percentage increase
Revenue	32.3	25.8	25.3%
Annualised recurring income*	37.4	30.5	22.6%
Statutory profit from operations	10.3	8.5	
Amortisation of intangibles	0.9	0.6	
Depreciation	4.3	3.1	
Statutory EBITDA	15.5	12.2	26.8%
Other operating income	(1.2)	—	
Exceptional items	0.4	—	
Underlying EBITDA	14.7	12.2	20.3%
Net Interest	(1.2)	(1.1)	
Depreciation	(4.3)	(3.1)	
Underlying Profit before taxation	9.2	8.0	15.0%
Exceptional items	(0.4)	—	
Other operating income	1.2	—	
Amortisation of intangibles	(0.9)	(0.6)	
Statutory profit before tax	9.1	7.4	22.9%

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

Consolidated interim statement of comprehensive income

For the period ended 30 June 2016

	Six months ended 30 June 2016 Unaudited £'000	Six months ended 30 June 2015 Unaudited £'000	Year ended 31 December 2015 Audited £'000
Revenue	32,312	25,789	53,945
Cost of sales	(9,962)	(8,547)	(17,427)
Gross profit	22,350	17,242	36,518
Administrative expenses	(13,201)	(8,789)	(18,484)
Other operating income	1,155	—	1,546
Profit from operations	10,304	8,453	19,580
Finance costs	(1,182)	(1,030)	(2,118)
Finance income	—	1	3
Profit before taxation	9,122	7,424	17,465
Taxation	(1,793)	(1,507)	(2,463)
Profit for the period attributable to equity holders	7,329	5,917	15,002
Other comprehensive income	—	—	—
Total comprehensive income	7,329	5,917	15,002

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

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

	Six months ended 30 June 2016 Unaudited	Six months ended 30 June 2015 Unaudited	Year ended 31 December 2015 Audited
Basic earnings per share (pence)	8.45	6.90	17.46
Diluted earnings per share (pence)	8.29	6.65	16.78

Consolidated interim statement of financial position

As at 30 June 2016

	30 June 2016 Unaudited £'000	30 June 2015 Restated Unaudited £'000	31 December 2015 Audited £'000
Assets			
Non-current assets			
Intangible assets	14,956	10,445	10,028
Property, plant and equipment	137,818	109,715	125,700
Investments	118	83	83
Trade and other receivables	764	1,046	901
	153,656	121,289	136,712
Current assets			
Inventories	2,705	838	1,099
Trade and other receivables	14,909	9,277	10,205
Income tax recoverable	—	—	—
Cash and cash equivalents	9,280	2,667	5,711
Other current financial assets	—	—	—
	26,894	12,782	17,015
Total assets	180,550	134,071	153,727
Liabilities			
Current liabilities			
Trade and other payables	23,114	16,649	14,919
Income tax payable	635	118	445
Bank loans and overdrafts	12,439	9,438	8,496
Commitments under hire purchase agreements	537	70	64
Other current financial liabilities	18	51	46
	36,743	26,326	23,970
Non-current liabilities			
Bank loans	77,382	63,114	76,219
Commitments under hire purchase agreements	337	36	14
Deferred tax liabilities	7,999	5,399	6,139
	85,718	68,549	82,372
Total liabilities	122,461	94,875	106,342
Net assets	58,089	39,196	47,385
Equity			
Share capital	887	861	861
Share premium	10,564	9,614	9,650
Other reserves	8,447	4,258	4,258
Treasury shares	(191)	(138)	(231)
Retained earnings	38,382	24,601	32,847
Total equity attributable to equity holders of the parent company	58,089	39,196	47,385

Consolidated interim statement of changes in shareholders' equity

For the period ended 30 June 2016

	Share capital £'000	Share premium £'000	Other reserve £'000	Treasury shares £'000	Retained earnings £'000	Total £'000
Attributable to owners of the parent company:						
As at 1 July 2015	861	9,614	4,258	(138)	26,146	40,741
Prior period adjustment	—	—	—	—	(1,545)	(1,545)
As at 1 July 2015 (restated)	861	9,614	4,258	(138)	24,601	39,196
Total comprehensive income for the period	—	—	—	—	9,085	9,085
Transactions with owners in their capacity as owners:						
Dividends (note 6)	—	—	—	—	(947)	(947)
Shares issued	—	36	—	—	—	36
Shares held by Share Incentive Plan (SIP)	—	—	—	(93)	—	(93)
Share options	—	—	—	—	205	205
Income tax effect of share options	—	—	—	—	(97)	(97)
As at 31 December 2015	861	9,650	4,258	(231)	32,847	47,385
Total comprehensive income for the period	—	—	—	—	7,329	7,329
Transactions with owners in their capacity as owners:						
Dividends (note 6)	—	—	—	—	(1,919)	(1,919)
Shares issued	26	914	4,189	—	—	5,129
Shares held by SIP	—	—	—	40	—	40
Share options	—	—	—	—	163	163
Income tax effect of share options	—	—	—	—	(38)	(38)
As at 30 June 2016	887	10,564	8,447	(191)	38,382	58,089

Consolidated interim statement of cash flows

For the period ended 30 June 2016

	Six months ended 30 June 2016 Unaudited £'000	Six months ended 30 June 2015 Unaudited £'000	Year ended 31 December 2015 Audited £'000
Operating activities			
Profit before taxation	9,122	7,424	17,465
Finance costs	1,182	1,030	2,118
Finance income	—	(1)	(3)
Fair value movements on derivatives	(28)	(19)	(24)
Depreciation	4,266	3,146	6,816
Amortisation	896	601	1,459
Share-based payment expense	202	204	271
(Increase)/decrease in inventories	(1,357)	373	112
Increase in trade and other receivables	(2,065)	(905)	(1,689)
Increase/(decrease) in trade and other payables	3,406	(328)	(1,776)
Cash generated from operations	15,624	11,525	24,749
Taxation	(287)	(110)	(304)
Net cash generated from operations	15,337	11,415	24,445
Investing activities			
Payments to acquire property, plant and equipment	(14,811)	(21,553)	(41,474)
Disposal of property, plant and equipment	290	—	235
Payment to acquire intangible assets	(392)	(115)	(555)
Cash acquired with subsidiaries	452	—	—
Finance income	—	—	3
Net cash used in investing activities	(14,461)	(21,668)	(41,791)
Financing activities			
New borrowings	11,417	15,511	33,059
Borrowings repaid	(6,374)	(4,508)	(9,893)
Hire purchase repayments	(218)	(49)	(76)
Finance costs	(1,141)	(1,030)	(2,118)
Net proceeds from share issue	928	328	364
Dividends paid	(1,919)	(1,617)	(2,564)
Net cash generated from financing activities	2,693	8,635	18,772
Net increase/(decrease) in cash and cash equivalents	3,569	(1,618)	1,426
Cash and cash equivalents at the beginning of the period	5,711	4,285	4,285
Cash and cash equivalents at the end of the period	9,280	2,667	5,711

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OVERVIEW

2

FINANCIAL INFORMATION

Notes to the interim report

For the period ended 30 June 2016

1 Basis of preparation and accounting policies

The Group's half-yearly financial report consolidates the results of the Company and its subsidiary undertakings made up to 30 June 2016. The Company is a limited liability company incorporated and domiciled in Scotland whose shares are quoted on AIM, a market operated by the London Stock Exchange.

The financial information contained in this half-yearly financial report does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. It does not therefore include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2015.

The financial information for the six months ended 30 June 2016 is also unaudited.

The comparative information for the year ended 31 December 2015 has been extracted from the Group's published financial statements for that year, which were prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union and have been delivered to the Registrar of Companies. The report of the auditor on these accounts was unqualified and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

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

The Directors have prepared cash flow forecasts which show the Group expects to meet its liabilities as they fall due for a period in excess of twelve months from the date of these financial statements. Our forecasts show continued capital investment which is funded from retained profits and external finance, with strong support from our banking group, together with the ability to raise additional capital from the equity market. At 30 June 2016, the Group had cash of £9.3m and available facilities of £60.2m and continued to be cash generative through trading operations.

Significant accounting policies

As required in AIM Rule 18, the interim financial information for the six months ended 30 June 2016 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 2016 and having regard to the IFRS applicable to such annual accounts.

2 Prior period restatement

The annual financial statements for the year ended 31 December 2015 included a prior period restatement to correctly recognise revenue on gas connection services and the related subcontractor costs upon delivery of the underlying services rather than when paid. The impact on revenue for the period ended 30 June 2015 was not material and so no adjustment was required.

In addition, income tax receivable and payable and long-term trade and other receivables were reclassified to be shown on the face of the Consolidated statement of financial position. Accordingly, the comparative amounts for the period ended 30 June 2015 have been restated.

3 Business combinations

On 18 March 2016, the Group acquired 100% of the issued share capital of CH4 Gas Utility and Maintenance Services Limited (CH4), 100% of the issued share capital of Trojan Utilities Limited (Trojan) and 100% of the issued share capital of Qton Solutions Limited (Qton).

CH4 and Trojan are meter suppliers and they will enhance SMS' capability to be a key participant in the substantial new domestic smart meter market for homes and small businesses in the UK.

Alongside these installation businesses, Qton will help to serve SMS' existing and future contractors, most of whom use its systems already. This will ensure full confidence to energy suppliers throughout the domestic smart meter rollout.

3 Business combinations continued

CH4 is a specialist in traditional and smart gas and electricity metering installations to the domestic and I&C sectors. It operates throughout the UK and is a current service provider to SMS.

Trojan is a leading installation service provider to energy suppliers in the UK and delivers domestic smart gas and electricity trained and accredited installation services.

Qton has a team of IT professionals specialising in the provision of work and field management IT systems applications for gas and electricity metering installations. The customers for the company's solutions are energy suppliers, installation contractors, and meter asset managers and owners in the UK with specific applications tailored for domestic dual fuel smart installations.

The acquisitions have each been accounted for using the acquisition method. The fair value of the identifiable assets and liabilities of each company as at the date of acquisition was as follows:

	CH4 £'000	Trojan £'000	Qton £'000	Total £'000
Recognised amounts of identifiable assets acquired and liabilities assumed:				
Property, plant and equipment	366	1,459	18	1,843
Software	—	500	1,500	2,000
Customer contracts	—	—	—	—
Other financial assets	—	109	—	109
Inventories	175	73	—	248
Trade and other receivables	1,622	673	228	2,523
Cash and cash equivalents	167	88	197	452
Total assets	2,330	2,902	1,943	7,175
Trade and other payables	(551)	(516)	(38)	(1,105)
Accruals and deferred income	(1,046)	(1,624)	(564)	(3,234)
Commitments under hire purchase agreements	(92)	(923)	—	(1,015)
Total liabilities	(1,689)	(3,063)	(602)	(5,354)
Total identifiable net assets/(liabilities)	641	(161)	1,341	1,821
Acquisition date fair value of the net assets	641	(161)	1,341	1,821
Goodwill arising on acquisition	1,359	579	1,559	3,497
Total consideration transferred (as equity instruments)	2,000	418	2,900	5,318

The fair value of the acquired identifiable intangible assets is provisional pending receipt of the final valuations for those assets.

The fair value of the equity instruments (ordinary shares) issued as consideration paid was determined on the basis of the closing market price of SMS plc's ordinary shares on the date of acquisition.

There are no contingent consideration arrangements in any of the acquisitions.

	CH4 £'000	Trojan £'000	Qton £'000	Total £'000
Fair value of acquired trade and other receivables	1,622	673	228	2,523
Gross amount due under the contract	1,622	673	228	2,523
Of which the following is expected to be uncollectable	—	—	—	—

Notes to the interim report continued

For the period ended 30 June 2016

3 Business combinations continued

The interim financial information includes the results of CH4, Trojan and Qton for the period 18 March 2016 to 30 June 2016, during which time:

	CH4 £'000	Trojan £'000	Qton £'000	Total £'000
The contribution to revenue by each company was:	740	2,089	329	3,158
And to Group profit for the period was:	(47)	(338)	(28)	(414)

If the combinations had each taken place at the beginning of the period:

	CH4 £'000	Trojan £'000	Qton £'000	Total £'000
The contribution to Group profit from each would have been:	(344)	(534)	(90)	(968)
And the contribution to revenue from continuing operations from each would have been:	1,685	3,551	571	5,807

The acquisitions of CH4 and Trojan are part of the Group's strategy to gain direct control of a large proportion of our installation capacity for ongoing delivery of our customer contracts in the I&C and domestic meter markets. This will provide confidence to our customers in our delivery model for the new domestic smart metering market. In addition, the acquisition of Qton allows the Group to gain direct control and ownership of all software applications used by SMS for asset installation and ongoing management.

The goodwill recognised above is attributed to the expected benefits of securing our installation capacity and controlling our software applications.

None of the goodwill recognised is expected to be deductible for income tax purposes.

The primary components of this residual goodwill comprise:

- ▶ the workforce;
- ▶ the software capability;
- ▶ revenue synergies from dual fuel; and
- ▶ new opportunities available to each company as part of the larger AIM-listed group.

The identifiable intangible assets will be amortised as follows:

- ▶ Software – 20%
- ▶ Customer contracts – 20%

Transaction costs of £369k incurred on these acquisitions have been disclosed as exceptional items in the Consolidated interim statement of comprehensive income and are included within administrative expenses.

4 Segmental reporting

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

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

Asset Installation comprises the installation of domestic and I&C gas and electricity meters throughout the UK.

Energy Management comprises the provision of advice on energy usage and control.

4 Segmental reporting continued

Management monitors the operating results of its divisions separately for the purpose of making decisions about resource allocation and performance assessment. The operating segments disclosed in the financial statements are the same as those reported to the Board. Segment performance is evaluated based on revenue generation and gross profit.

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

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

	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Unallocated £'000	Total operations £'000
30 June 2016					
Segment/Group revenue	17,699	12,791	1,822	—	32,312
Cost of sales	(2,388)	(6,529)	(1,045)	—	(9,962)
Segment profit – Group gross profit	15,311	6,262	777	—	22,350
Items not reported by segment:					
Other operating costs	—	—	—	(6,517)	(6,517)
Depreciation	(3,933)	—	—	(332)	(4,265)
Amortisation	(896)	—	—	—	(896)
Exceptional items and fair value adjustments	—	—	—	(369)	(369)
Profit from operations	10,482	6,262	777	(7,217)	10,304
Net finance costs	(1,182)	—	—	—	(1,182)
Profit before tax	9,300	6,262	777	(7,217)	9,122
Tax expense	—	—	—	—	(1,793)
Profit for the period					7,329
	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Unallocated £'000	Total operations £'000
30 June 2015					
Segment/Group revenue	14,143	9,604	2,042	—	25,789
Cost of sales	(1,990)	(5,307)	(1,250)	—	(8,547)
Segment profit – Group gross profit	12,153	4,297	792	—	17,242
Items not reported by segment:					
Other operating costs	—	—	—	(5,074)	(5,074)
Depreciation	(2,928)	—	—	(186)	(3,114)
Amortisation	(601)	—	—	—	(601)
Exceptional items and fair value adjustments	—	—	—	—	—
Profit from operations	8,624	4,297	792	(5,260)	8,453
Net finance costs	(1,029)	—	—	—	(1,029)
Profit before tax	7,595	4,297	792	(5,260)	7,424
Tax expense	—	—	—	—	(1,507)
Profit for the period					5,917

Notes to the interim report continued

For the period ended 30 June 2016

4 Segmental reporting continued

31 December 2015	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Unallocated £'000	Total operations £'000
Segment/Group revenue	30,233	19,535	4,177	—	53,945
Cost of sales	(4,148)	(10,891)	(2,388)	—	(17,427)
Segment profit – Group gross profit	26,085	8,644	1,789	—	36,518
Items not reported by segment:					
Other operating costs	—	—	—	(8,663)	(8,663)
Depreciation	(6,366)	—	—	(450)	(6,816)
Amortisation	(121)	—	—	(1,338)	(1,459)
Exceptional items and fair value adjustments	—	—	—	—	—
Profit from operations	19,598	8,644	1,789	(10,451)	19,580
Net finance costs	(2,127)	—	4	8	(2,115)
Profit before tax	17,471	8,644	1,793	(10,443)	17,465
Tax expense					(2,463)
Profit for the year					15,002

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

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

30 June 2016	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Total operations £'000
Assets by segment				
Intangible assets	14,956	—	—	14,956
Property, plant and equipment	128,541	—	5,454	133,995
Inventories	2,597	—	108	2,705
	146,094	—	5,562	151,656
Assets not by segment				28,894
Total assets				180,550
Liabilities by segment				
Bank loans	89,821	—	—	89,821
Commitments under hire purchase agreements	871	—	4	875
	90,692	—	4	90,696
Liabilities not by segment				31,765
Total liabilities				122,461

4 Segmental reporting continued

30 June 2015	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Total operations £'000
Assets by segment				
Intangible assets	10,445	—	—	10,445
Property, plant and equipment	102,252	—	4,744	106,996
Inventories	730	—	108	838
	113,426	—	4,852	118,279
Assets not by segment				15,792
Total assets				134,701
Liabilities by segment				
Bank loans	72,552	—	—	72,552
Commitments under hire purchase agreements	64	—	42	106
	72,616	—	42	72,658
Liabilities not by segment				22,217
Total liabilities				94,875
31 December 2015				
Assets by segment				
Intangible assets	10,028	—	—	10,028
Property, plant and equipment	119,435	—	6,265	125,700
Inventories	996	—	103	1,099
	130,459	—	6,368	136,827
Assets not by segment				16,900
Total assets				153,727
Liabilities by segment				
Bank loans	84,715	—	—	84,715
Commitments under hire purchase agreements	63	—	15	78
	84,778	—	15	84,793
Liabilities not by segment				21,549
Total liabilities				106,342

Notes to the interim report continued

For the period ended 30 June 2016

5 Earnings per share

The calculation of Earnings Per Share (EPS) is based on the following data and number of shares:

	Six months ended 30 June 2016 Unaudited £'000	Six months ended 30 June 2015 Unaudited £'000	Year ended 31 December 2015 Audited £'000
Profit for the period used for calculation of basic EPS	7,329	5,917	15,002
Amortisation of intangible assets	896	601	1,459
Other operating income	(1,155)	—	(1,546)
Exceptional costs	369	—	—
Tax effect of adjustments	(22)	(120)	19
Earnings for the purpose of adjusted EPS	7,417	6,398	14,934
Number of shares:			
Weighted average number of shares for the purpose of calculating basic EPS	86,721,630	85,801,235	85,928,114
Effect of potentially dilutive ordinary shares:			
Share options	1,717,399	3,107,955	3,463,275
Weighted average number of ordinary shares for the purpose of diluted EPS	88,439,029	88,909,190	89,391,389
Earnings per share:			
Basic (pence)	8.45	6.90	17.46
Diluted (pence)	8.29	6.65	16.78
Adjusted earnings per share:			
Basic (pence)	8.55	7.46	17.38
Diluted (pence)	8.39	7.20	16.70

The Directors consider that the adjusted earnings per share calculation gives a better understanding of the Group's earnings per share. Adjusted earnings per share removes the effects of exceptional items, other operating income and amortisation of intangibles (being items of both income and expense which are sufficiently large, volatile or one-off in nature) to assist the reader of the financial statements to get a better understanding of the underlying performance of the Group.

6 Dividend

	Six months ended 30 June 2016 Unaudited £'000	Six months ended 30 June 2015 Unaudited £'000	Year ended 31 December 2015 Audited £'000
Dividend on equity shares	1,919	1,617	2,564

After 30 June the Directors have approved an interim dividend of 1.37p per share for 2016, which has not been accrued as a liability as at 30 June 2016 in accordance with IAS 8. The dividend will be paid on 25 November 2016 with an ex-dividend date of 20 October 2016 and a record date of 21 October 2016.

7 The half-yearly financial report was approved by the Board of Directors on 19 September 2016.

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

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