

Smart Metering Systems plc
("SMS" or "the Company")

Interim Results for the six months ended 30 June 2017

Smart Metering Systems plc (AIM: SMS.L) is pleased to announce its interim results, which show continued growth in the six months to 30 June 2017.

Financial highlights

- Revenue increased by 14% to £36.8m (H1 2016: £32.3m)
- EBITDA increased by 17% to £18.1m (H1 2016: £15.5m)
- PBT increased by 2% to £9.3m (H1 2016: £9.1m)
- Total annualised recurring income* increased by 29% to £48.4m (H1 2016: £37.4m)
- Underlying EBITDA** increased by 10% to £16.2m (H1 2016: £14.7m)
- Underlying EBITDA** margin at 44% (H1 2016: 45%)
- Underlying PBT*** decreased by 9% to £8.4m (H1 2016: £9.2m)
- Underlying earnings per share **** decreased by 10% to 7.68p (H1 2016: 8.55p)
- Interim dividend of 1.74p per ordinary share, an increase of 27%

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

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

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

**** 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.

	30 June 2017	31 Dec 2016	Percentage
	units	units	Increase
Total gas and electricity metering and data assets	1,678,000	1,251,000	34%
Gas meter portfolio	1,064,000	881,000	21%
Gas data portfolio	118,000	108,000	9%
Electricity meter portfolio	166,000	77,000	116%
Electricity data portfolio	330,000	186,000	77%

99,000 ADM™ installations which is SMS' patented remote meter reading product

Alan Foy, Chief Executive Officer, commented:

"The first half of 2017 realised the start of the domestic smart meter roll out for SMS. Domestic smart metering is a clear focus of SMS whilst we continue to deliver our order book in the industrial and commercial metering space.

Key to delivery is full control of the installation workforce and the end to end ownership of the software required to deliver the smart metering programme. The acquisitions of our installation and software businesses in 2016 are now fully integrated and managing a month on month increasing run rate of meter installations for our energy supply customers.

I am delighted with the progress over the last 6 months and look forward to continued progress."

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Notes to editors

About Smart Metering Systems Plc

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

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

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

Chairman's statement

I am delighted to report another period of strong trading activity, maintaining a continued pattern of growth across the business.

Our business and review of the first half of 2017

Throughout the first half of 2017, we have seen strong growth across both our customer base and our meter portfolio. SMS now manages over 1.68 million metering and data assets on behalf of an expanding customer base of energy suppliers in the industrial and commercial (I&C) and domestic markets from 1.25 million at the end of 2016, an increase of 34%, which includes the domestic smart meter portfolio.

We continue to make good progress with the installation of domestic smart meters, which is part of the nationwide rollout that mandates UK energy suppliers to fit approximately 53 million new smart meters in more than 30 million premises by the end of 2020. Whilst the press have reported concerns around the programme completion timescales, energy suppliers have continued to place contracts to accelerate their rollout. SMS is currently partnering with suppliers to deliver for their customers through our end-to-end meter asset management and installation capability. SMS's business model has consistently demonstrated year-on-year growth with an established and growing market position in the UK smart metering market. The Group has delivered double-digit growth, increasing revenue by 14% and continuing growth in recurring revenue in our gas and electricity business.

Our strategy is to install and own meters with our existing customers and to continue to grow the meter asset portfolio beyond the 1.68 million assets currently under management. The domestic smart metering opportunity is our key target market.

In 2017 the Group's strategic priorities continue to be:

1. Continue to invest in our installation and own utility metering infrastructure and secure recurring rental and data income from SMS's contracted energy suppliers.
2. Build on our investment, strategic acquisitions and operational delivery model established in 2016 to take advantage of the significant domestic smart meter market opportunity in the UK based on SMS's proven end-to-end delivery capability, increased capacity and long-established market position.
3. Maintain a focus on customer delivery and innovation across all aspects of our business and in particular in our Energy Management division where opportunities exist to assist our partners in reducing their carbon emissions.

Health and safety

The health and safety of our employees and the public is the Group's key priority and our health and safety policies reflect this. The Group promotes a positive in-house health and safety culture through regular internal safety audits and extensive employee training, which leads to continuous improvement. The number of training hours delivered to our engineers for the first six months of 2017 has already doubled compared to the training hours completed throughout 2016, illustrating our commitment to health and safety.

People

Last year we significantly expanded our installation field force with the acquisition of CH4 and Trojan, which enhanced our capability to provide full end-to-end services across connections, asset management and energy

services across the UK. This year we have continued to invest in the business, growing our installation field engineers and increasing our installation capacity, particularly for the domestic smart meter rollout. SMS now employs over 750 staff across the UK and each of these individuals has a key role to play in the successful operation of our business. We have a dedicated and talented management team which will continue to steer the business through a period of growth.

During the six months to 30 June 2017, Glen Murray stepped down from his position as Chief Financial Officer of SMS, and from the Board, in order to concentrate on his other business interests. We thank Glen for all the work he has done for SMS. In March 2017 David Harris was appointed as CFO; however, for health reasons David had to step down from the Board in August 2017. Following his departure, we were delighted to appoint David Thompson as Chief Financial Officer. David has extensive experience of the SMS business and also the wider metering and utility markets.

Dividend

SMS is pleased to announce a proposed interim cash dividend to shareholders of 1.74p per ordinary share for the half year ended 30 June 2017, a 27% increase. The interim dividend will be paid on 24 November 2017 to those shareholders on the register (record date) on 19 October 2017 with an ex-dividend date of 20 October 2017.

Outlook

The first half of 2017 has seen us continue the significant progress across the business further investing in our delivery capacity and, with the business reporting another period of strong trading activity and maintaining a continued pattern of growth across the asset portfolio. We remain confident in our ability to continue to grow the business for the remainder of 2017.

Chief Executive Officer's statement

The first half of 2017 saw the start of the domestic smart meter rollout for SMS, built upon the successful systems integration and trial installations conducted in Q4 2016 with our energy supplier customers. SMS now owns 186,000 smart meters, to increase our overall portfolio of meters and data assets to c.1.68 million, generating annualised recurring rentals of c. £48.4m to 30 June 2017.

One external constraint on SMS in the smart meter rollout has been the availability of smart meters from the manufacturers. However, in June meters became more freely available and resulted in an increased run rate now taking the smart meter portfolio to 257,000, the overall portfolio of meters and data assets to 1.82 million and total annualised recurring rental income to c. £51.3m by 31 August 2017 with our existing long-term index-linked rental contracts.

Domestic smart metering is a clear focus for the business whilst it continues to deliver its order book, converting industrial and commercial meters to remotely read meters and benefiting from the associated data contracts/assets. The industry, as a whole, has made major strides in delivering the smart rollout, with 7.7 million smart meters installed thus far, i.e. c.14% of the market. The government continues to reinforce the programme's expected completion date of 2020, and this, coupled with increased availability of meters and progress of the central Data Communications Company (DCC), means we are seeing increasing demand for installations from our energy supplier customers and the consequent increase in installation run rates and contract wins.

Smart meters serve end consumers with the best opportunity to reduce their energy consumption, with further savings expected with "time of use" tariffs which may become the norm. In time, this will allow, for example, people to charge vehicles outside of peak times and make other behavioural changes to reduce the peak consumption during the day, hence reducing the power and network investment needed to support the electrification of heat and transport and delivering additional savings.

Meter operational delivery

SMS has been installing meters since 1995, changing its business model to meter asset ownership with associated long-term recurring rental income in 2004. The strategic acquisitions in early 2016 of CH4 and Trojan to provide installation, and Qton to provide the IT, have enabled the Group to provide a full end-to-end solution for the rollout of domestic smart meters.

SMS has focused the first six months of 2017 on increasing our smart installation capacity, having nearly doubled our installation workforce capability since June 2016 with a proportionate increase in our meter asset ownership capability/capacity. Continued growth is expected over the second half of 2017 and beyond, with the objective of SMS to have one of the largest independent installation capabilities in the UK.

Safety with all parties with whom we interact with is a key priority for the business. SMS has invested heavily in our internal training centre and will continue to do so in the coming years. The internal training centre provides us with the controls required to ensure safe and quality working practices are adopted by our engineers, whilst

providing the ability to increase our own direct workforce and allowing us to meet and exceed the service delivery needs of our clients.

Our training centres continue to seek out new sources for engineers, and as a result we have established new relationships with third parties such as the Armed Forces. Having control over our in-house training centre means we are able to provide resettlement training programmes specifically for our servicemen and women.

Alongside our training centre recruits, we continue to recruit via traditional methods to ensure SMS has the capability and capacity to deliver to its energy supplier customers. This direct control over the engineering resource and the quality it produces was a key strategic consideration in the acquisitions we made last year.

The business is focused on controlled growth and operational delivery, and consequently direct control over training, compliance, standards, supervision and health and safety places SMS at the forefront of domestic smart metering. We have the ability to increase our capacity to meet our clients' needs, which allows SMS to cater for a variety of service provision.

The industry-leading software solutions we own underpins this and supported by our in-house software developers and cyber security teams, we are able to produce a bespoke software service to each customer which provides us with a significant competitive advantage.

SMS is also able to provide the comfort and assurance sought by our customers because of specialised and dedicated compliance departments and dedicated health, safety, environmental and quality teams. These departments monitor and ensure delivery of our end-to-end processes, ultimately providing confidence to our energy supplier customers and to their customers.

SMS is now on course to become one of the largest independent domestic smart meter installation workforces in the UK and the partner of choice to the energy suppliers, as they embark on their domestic smart programmes and future requirements.

Energy management services

The Energy Management division continues to provide energy cost, carbon and consumption reduction services, identifying and delivering measures which manage and reduce our customer costs through our strategic engagement. In the first half of 2017, it has processed and analysed 308,924 billing points and performed over 91 energy audits and compliance surveys, identifying potential energy savings for customers and generating ongoing service requirements. We have been pleased by the excellent response from our customers to the launch of our new energy monitoring and analytics software platform which, combined with our data collection services, provides a unique proposition to the market and significant opportunity for growth.

Business summary

SMS continues to deliver operational and financial growth and, along with the significant opportunities in the domestic smart metering market, we remain confident in the outlook for the business and market development for the second half of 2017 and beyond.

Chief Financial Officer's review

Results for the period

The Group has seen continued growth in the period in revenue, EBITDA and PBT with progressive performance across each of the divisions.

For the period ended 30 June 2017, at a Group level, SMS increased revenue by 14% to £36.8m (H1 2016: £32.3m). The key driver was the continued growth in our recurring revenue from our installed asset base, which is our primary focus. At a divisional level, Asset Management revenue grew 24.9% to £22.1m (H1 2016: £17.7m), while Asset Installation revenue increased 2% to £13.1m (H1 2016: £12.8m). Energy Management revenue fell by 11% to £1.6m (H1 2016: £1.8m) due to a one-off capital project in the prior period.

Annualised recurring income as at 30 June 2017 grew by 29% to £48.4m, compared with £37.4m at 30 June 2016. In gas, meter recurring income increased by 13% to £33.7m and data recurring income increased by 17% to £2.8m, while in electricity, meter recurring income increased by 281% to £6.1m and data recurring income increased by 57% to £5.8m. The rise in electricity meter recurring income is driven by the installation of our smart portfolio; historically the business has had a gas-based portfolio. The smart meter rollout provides us with access to the dual fuel domestic market.

As expected, our termination income has increased to £2.5m (H1 2016: £1.2m) as we see more of the traditional meter portfolio switch to smart meters.

Profit margins within all divisions have seen a slight decrease against the prior year reflecting the investment we are making in the business in control systems and future capacity. Overall, Group profit margins have decreased by 6% to 51% (H1 2016: 57%) and the margin of profit before tax has decreased by 3% to 25% (H1 2016: 28%). At a divisional level, asset management has seen a margin reduction from the increased depreciation charge on our growing installed portfolio of smart meters. We took a decision to show depreciation within cost of sales in the Asset Management division during the previous financial year and accordingly we now restate the H1 2016 comparatives. We also revised the useful life of our traditional meter portfolio to reflect the smart meter exchange programme. Asset installation has seen the largest area of investment in capacity and the margin is accordingly affected by these costs. Energy Management has seen the effects of a one-off project in the prior year return to a normalised level.

The current reported period has the full costs of the installation business compared with prior half year period which only contained the post-acquisition results. In addition, we have seen our cost base increase due to a continued investment in our operational capacity to deliver the rollout plans of our customers. We have invested significantly in quality people across the business, from our engineering workforce to the operational support departments, and across all our important central functions.

We have trained around 100 engineers in the first half of 2017 to the required dual fuel smart meter standard. Whilst we capitalise certain internal costs relating to meters that we both fit and subsequently own, training costs are not capitalised. This is a clear investment in capacity that we will continue to see over the next twelve months as we mobilise our workforce to a size that delivers our customers' rollout requirements.

We have further invested in our infrastructure with the opening of a new Installation HQ in Doncaster to house our customer service teams, and have taken additional warehouse storage capacity for our growing meter inventory. We have also transferred certain operational costs from the Trojan business to CH4 and, as a result, have incurred some exceptional costs. The continued investment in our infrastructure and delivery capability outlined above, combined with the slower than anticipated mobilisation due to the constraints seen in the smart meter supply chain at the start of the year is expected to impact PBT growth in the current year. Accordingly, we currently expect underlying PBT for the full year to remain in line with, or marginally below, the level reported for the 12 months to 31 December 2016.

Our inventory has grown to £12.9m at 30 June 2017 (H1 2016: £2.7m; YE 2016: £6.1m). This level of investment in inventory is required to ensure the installation workforce is served by sufficient capacity in the supply chain to ensure a steady availability of meters to drive an efficient rollout plan. To ensure greater control over our inventory we have moved from a completely consignment-based approach to a mixed ownership approach.

EBITDA on an underlying basis has increased by 10% to £16.2m (H1 2016: £14.7m). The 10% increase (compared to 17% on a statutory basis) reflects the underlying additional investment in people and infrastructure without having the benefit of termination income included in the result.

Exceptional costs have been incurred in both the current and prior year. In the prior year, exceptional costs of £0.4m were largely costs associated with acquisitions during 2016. Exceptional costs in the current year predominantly relate to costs associated with reorganisation within the installation business as we transferred the operational oversight and control of the domestic smart function from Trojan to CH4 to gain cost synergies moving forwards.

Cash and borrowings

We were delighted to announce in March 2017 a new £280m revolving credit facility with a syndicate of banks: Barclays Bank plc, Santander UK Plc, HSBC UK, Clydesdale Bank plc and Bank of Scotland 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. We continue to maintain good relationships with all our banking partners who have expressed a keen interest to work with us and provide sufficient funds to facilitate our growth plans.

As at 30 June 2017, the Company had net debt of £122.0m (H1 2016: £80.5m) with a net debt to annualised underlying EBITDA ratio of 3.76 times. The Company's available cash and unutilised debt facility stood at £158m at 30 June 2017.

Capital investment in meter assets and ADM™ installations was £48.9m compared to £14.8m in the first half of 2016. We have seen an increase in our interest cost to £1.8m (H1 2016: £1.2m) as a result of this additional capital expenditure and subsequent increase in our borrowings.

	Six months ended 30 June 2017 Unaudited £m	Six months ended 30 June 2016 Unaudited £m	Percentage increase
Revenue	36.8	32.3	14%
<i>Annualised recurring income¹</i>	48.4	37.4	29%
Statutory profit from operations	11.1	10.3	
Amortisation of intangibles	1.0	0.9	
Depreciation	6.0	4.3	
Statutory EBITDA	18.1	15.5	17%
Other operating income	(2.5)	(1.2)	
Exceptional items	0.6	0.4	
Underlying EBITDA	16.2	14.7	10%
Net interest	(1.8)	(1.2)	
Depreciation	(6.0)	(4.3)	
Underlying profit before taxation	8.4	9.2	(9)%
Exceptional items	(0.6)	(0.4)	
Other operating income	2.5	1.2	
Amortisation of intangibles	(1.0)	(0.9)	
Statutory profit before taxation	9.3	9.1	2%

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

Consolidated interim statement of comprehensive income

For the period ended 30 June 2017

	Six months ended 30 June 2017 Unaudited £'000	Six months ended 30 June 2016 Unaudited restated £'000	Year ended 31 December 2016 Audited £'000
Revenue	36,842	32,312	67,188
Cost of sales	(17,869)	(13,895)	(30,257)
Gross profit	18,973	18,417	36,931
Administrative expenses	(10,371)	(9,268)	(17,438)
Other operating income	2,473	1,155	1,075
Profit from operations	11,075	10,304	20,568
Operating profit before exceptional items, other operating income and amortisation of intangibles	10,206	10,414	21,939
Amortisation of intangibles	(1,048)	(896)	(1,991)
Other operating income	2,473	1,155	1,075
Exceptional items and fair value adjustments	(556)	(369)	(455)
Finance costs	(1,805)	(1,182)	(2,327)
Finance income	—	—	2
Profit before taxation	9,270	9,122	18,243
Taxation	(1,603)	(1,793)	(2,998)
Profit for the period attributable to equity holders	7,667	7,329	15,245
Other comprehensive income	—	—	—
Total comprehensive income	7,667	7,329	15,245

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 2017 Unaudited	Six months ended 30 June 2016 Unaudited	Year ended 31 December 2016 Audited
Basic earnings per share (pence)	8.59	8.45	17.33
Diluted earnings per share (pence)	8.56	8.29	17.02

Consolidated interim statement of financial position

As at 30 June 2017

	30 June 2017 Unaudited £'000	30 June 2016 Unaudited £'000	31 December 2016 Audited £'000
Assets			
Non-current assets			
Intangible assets	13,999	14,956	14,611
Property, plant and equipment	199,808	137,818	157,977
Investments	118	118	118
Trade and other receivables	734	764	628
	214,659	153,656	173,334
Current assets			
Inventories	12,895	2,705	6,121
Trade and other receivables	20,451	14,909	15,736
Income tax recoverable	224	—	58
Cash and cash equivalents	7,816	9,280	7,999
	41,386	26,894	29,914
Total assets	256,045	180,550	203,248
Liabilities			
Current liabilities			
Trade and other payables	42,656	23,114	26,017
Income tax payable	—	635	725
Bank loans and overdrafts	17,012	12,439	14,530
Commitments under hire purchase agreements	6	537	28
Other current financial liabilities	—	18	—
	59,674	36,743	41,300
Non-current liabilities			
Bank loans	112,807	77,382	87,646
Commitments under hire purchase agreements	—	337	1
Deferred tax liabilities	9,466	7,999	7,885
	122,273	85,718	95,532
Total liabilities	181,947	122,461	136,832
Net assets	74,098	58,089	66,416
Equity			
Share capital	900	887	892
Share premium	12,023	10,564	10,861
Other reserves	9,562	8,447	8,447
Treasury shares	(518)	(191)	(327)
Retained earnings	52,131	38,382	46,543
Total equity attributable to equity holders of the parent company	74,098	58,089	66,416

Consolidated interim statement of changes in shareholders' equity

For the period ended 30 June 2017

	Share capital £'000	Share premium £'000	Other reserve £'000	Treasury shares £'000	Retained earnings £'000	Total £'000
As at 1 January 2016	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 4)	—	—	—	—	(1,919)	(1,919)
Shares issued	26	914	4,189	—	—	5,129
Shares held by Share Incentive Plan (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
Total comprehensive income for the period	—	—	—	—	7,916	7,916
Transactions with owners in their capacity as owners:						
Dividends	—	—	—	—	(1,226)	(1,226)
Shares issued	5	297	—	—	—	302
Shares held by Share Incentive Plan (SIP)	—	—	—	(136)	—	(136)
Share options	—	—	—	—	281	281
Income tax effect of share options	—	—	—	—	1,190	1,190
As at 31 December 2016	892	10,861	8,447	(327)	46,543	66,416
Total comprehensive income for the period	—	—	—	—	7,667	7,667
Transactions with owners in their capacity as owners:						
Dividends (note 4)	—	—	—	—	(2,452)	(2,452)
Shares issued	8	1,162	1,115	—	—	2,285
Shares held by SIP	—	—	—	(191)	—	(191)
Share options	—	—	—	—	352	352
Income tax effect of share options	—	—	—	—	21	21
As at 30 June 2017	900	12,023	9,562	(518)	52,131	74,098

Consolidated interim statement of cash flows

For the period ended 30 June 2017

	Six months ended 30 June 2017 Unaudited £'000	Six months ended 30 June 2016 Unaudited £'000	Year ended 31 December 2016 Audited £'000
Operating activities			
Profit before taxation	9,270	9,122	18,243
Finance costs	1,805	1,182	2,327
Finance income	—	—	(2)
Fair value movements on derivatives	—	(28)	(46)
Depreciation	6,015	4,266	9,977
Amortisation	1,048	896	1,991
Share-based payment expense	161	202	348
Increase in inventories	(6,774)	(1,357)	(4,773)
Increase in trade and other receivables	(4,659)	(2,065)	(2,646)
Increase in trade and other payables	16,154	3,406	6,330
Cash generated from operations	23,020	15,624	31,749
Taxation	(891)	(287)	(401)
Net cash generated from operations	22,129	15,337	31,348
Investing activities			
Payments to acquire property, plant and equipment	(48,968)	(14,811)	(42,904)
Disposal of property, plant and equipment	1,700	290	2,499
Payment to acquire intangible assets	—	(392)	(1,084)
Acquisition of subsidiary	—	—	(35)
Cash acquired with subsidiaries	—	452	452
Finance income	—	—	2
Net cash used in investing activities	(47,268)	(14,461)	(41,070)
Financing activities			
New borrowings	36,111	11,417	30,442
Borrowings repaid	(8,127)	(6,374)	(12,845)
Hire purchase repayments	(22)	(218)	(1,028)
Finance costs	(1,724)	(1,141)	(2,646)
Net proceeds from share issue	1,170	928	1,232
Dividends paid	(2,452)	(1,919)	(3,145)
Net cash generated from financing activities	24,956	2,693	12,010
Net (decrease)/increase in cash and cash equivalents	(183)	3,569	2,288
Cash and cash equivalents at the beginning of the period	7,999	5,711	5,711
Cash and cash equivalents at the end of the period	7,816	9,280	7,999

Notes to the interim report

For the period ended 30 June 2017

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 2017. 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 2016.

The financial information for the six months ended 30 June 2017 is also unaudited.

The comparative information for the year ended 31 December 2016 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 2017, the Group had cash of £7.8m and available facilities of £150.2m 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 2017 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 2017 and having regard to the IFRS applicable to such annual accounts.

2 Segmental reporting

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

Asset Management comprises 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.

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.

30 June 2017	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Unallocated £'000	Total operations £'000
Segment/Group revenue	22,132	13,083	1,627	—	36,842
Cost of sales	(8,442)	(8,431)	(996)	—	(17,869)
Segment profit – Group gross profit	13,690	4,652	631	—	18,973
Items not reported by segment:					
Other operating costs	—	—	—	(5,962)	(5,962)
Depreciation	—	—	—	(332)	(332)
Amortisation	(1,048)	—	—	—	(1,048)
Exceptional items and fair value adjustments	—	—	—	(556)	(556)
Profit from operations	12,642	4,652	631	(6,850)	11,075
Net finance costs	(1,805)	—	—	—	(1,805)
Profit before tax	10,837	4,652	631	(6,850)	9,270
Tax expense					(1,603)
Profit for the period					7,667

30 June 2016	Asset Management restated £'000	Asset Installation £'000	Energy Management £'000	Unallocated restated £'000	Total operations £'000
Segment/Group revenue	17,699	12,791	1,822	—	32,312
Cost of sales	(6,321)	(6,529)	(1,045)	—	(13,895)
Segment profit – Group gross profit	11,378	6,262	777	—	18,417
Items not reported by segment:					
Other operating costs	—	—	—	(6,516)	(6,516)
Depreciation	—	—	—	(332)	(332)
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

June 2016 has been restated to show depreciation of £3.9m associated with meter assets within cost of sales as the meter assets directly drive revenue.

31 December 2016	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Unallocated £'000	Total operations £'000
Segment/Group revenue	37,359	26,115	3,714	—	67,188
Cost of sales	(14,441)	(13,735)	(2,081)	—	(30,257)
Segment profit – Group gross profit	22,918	12,380	1,633	—	36,931
Items not reported by segment:					
Other operating costs	—	—	—	(13,174)	(13,174)
Depreciation	—	(22)	—	(721)	(743)
Amortisation	(1,991)	—	—	—	(1,991)
Exceptional items	—	—	—	(455)	(455)
Profit/(loss) from operations	20,927	12,358	1,633	(14,350)	20,568
Net finance costs	(2,325)	—	—	—	(2,325)
Profit/(loss) before tax	18,602	12,358	1,633	(14,350)	18,243
Tax expense					(2,998)
Profit for the year					15,245

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

30 June 2016	Asset Management restated £'000	Asset Installation £'000	Energy Management restated £'000	Unallocated £'000	Total operations £'000
Assets by segment					
Intangible assets	11,459	3,497	—	—	14,956
Property, plant and equipment	129,690	67	—	4,238	133,995
Inventories	2,597	—	108	—	2,705
	143,746	3,564	108	4,238	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

The prior year assets by segment have been restated to show a reallocation of £5.5m of property, plant and equipment from Energy Management to Asset Management as these assets are attributable to the operations of Asset Management.

31 December 2016	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Unallocated £'000	Total operations £'000
Assets reported by segment					
Intangible assets	11,114	3,497	—	—	14,611
Property, plant and equipment	155,131	66	—	2,780	157,977
Inventories	5,569	446	106	—	6,121
	171,814	4,009	106	2,780	178,709
Assets not by segment					24,539
Total assets					203,248
Liabilities by segment					
Bank loans	102,176	—	—	—	102,176
Commitments under hire purchase agreements	—	29	—	—	29
	102,176	29	—	—	102,205
Liabilities not by segment					34,627
Total liabilities					136,832

3 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 2017 Unaudited £'000	Six months ended 30 June 2016 Unaudited £'000	Year ended 31 December 2016 Audited £'000
Profit for the period used for calculation of basic EPS	7,667	7,329	15,245
Amortisation of intangible assets	1,048	896	1,991
Other operating income	(2,473)	(1,155)	(1,075)
Exceptional costs	556	369	455
Tax effect of adjustments	51	(22)	274
Earnings for the purpose of underlying EPS	6,849	7,417	16,890
Number of shares:			
Weighted average number of shares for the purpose of calculating basic EPS	89,209,169	86,721,630	87,955,744
Effect of potentially dilutive ordinary shares:			
Share options	389,907	1,717,399	1,604,623
Weighted average number of ordinary shares for the purpose of diluted EPS	89,599,076	88,439,029	89,560,367
Earnings per share:			
Basic (pence)	8.59	8.45	17.33
Diluted (pence)	8.56	8.29	17.02
Underlying earnings per share:			
Basic (pence)	7.68	8.55	19.20
Diluted (pence)	7.64	8.39	18.86

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

4 Dividend

	Six months ended 30 June 2017 Unaudited £'000	Six months ended 30 June 2016 Unaudited £'000	Year ended 31 December 2016 Audited £'000
Dividend on equity shares	2,452	1,919	3,145

After 30 June the Directors have approved an interim dividend of 1.74p per share for 2017, which has not been accrued as a liability as at 30 June 2017 in accordance with IAS 8. The dividend will be paid on 24 November 2017 with an ex-dividend date of 19 October 2017 and a record date of 20 October 2017.

5 The half-yearly financial report was approved by the Board of Directors on 29 August 2017.

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