



smart metering
systems plc

Final Results for the year ended 31 December 2011

April 2012

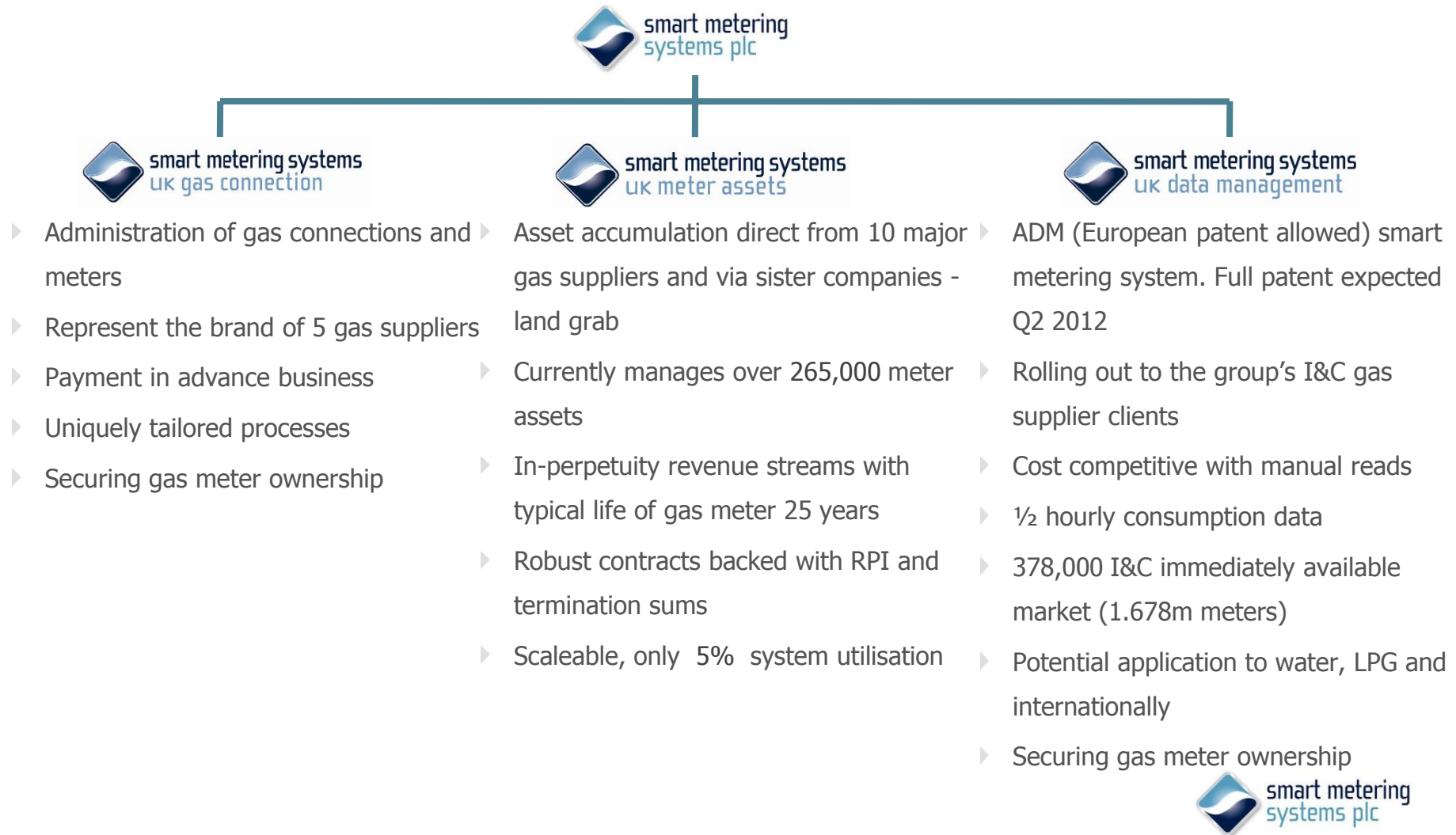


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Alan Foy
Chief Executive Officer
Review of the Year

Group Overview

Strong Synergies Between Subsidiaries



Contracted Clients



- ▶ Long standing multi-level relationships with suppliers who are responsible for the roll out of smart metering
- ▶ Current clients provide potential access to:
 - ▶ Over 30% of UK residential gas meters
 - ▶ Over 80% of UK industrial & commercial gas meters*
- ▶ Clients are globally recognised brands with international presence
- ▶ Business processes and IT systems uniquely tailored to each individual gas supplier (significant barrier to entry)

**Premises consuming more than 73,200kWh*



Highlights for 2011

- ▶ **Revenues increase by 29% to £16m**
- ▶ **Profit from operations after exceptionals and finance costs increased by 286% to £3.3m**
- ▶ **Available resources at year end £14.8m**
- ▶ **Gas connections**
 - ▶ 1,333 in 2011 (2010: 1,275)
- ▶ **Meter Asset Management**
 - ▶ Total meter portfolio increased by 19% to 254,000
 - ▶ Increase of 77% in capital investment to £9.2m
 - ▶ Increase in recurring revenue of 51% to £6.6m
 - ▶ Client base grew from 12 to 15 representing 80% of the I&C market
- ▶ **Data Management**
 - ▶ ADM device received preliminary EU patent approval
 - ▶ Successful ADM trials with three suppliers

Historical Trends And Earnings Quality

- ▶ **Rapid Growth – the business has delivered substantial CAGR over the 4 years to December 2011**

▶ Revenues:	20.6%
▶ EBITDA:	92.1%
▶ Net Assets:	317.6%

- ▶ **Earnings Quality – the business has developed excellent visibility**

- ▶ **Recurring income** was 41.4% of turnover in 2011
- ▶ Recurring income is **predictable** – it has a **high degree of visibility**
- ▶ **Robust in perpetuity contract** framework and **IT system** support meter rental income
- ▶ **Index linked termination payments** provide adequate cover for the outstanding debt
- ▶ Meter rental income is not dependent on gas consumed through the meter - it is a **100% capacity and not a commodity based rental** (no exposure to commodity prices)
- ▶ Rental increases with **RPI annually**



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Glen Murray
Finance Director
Financial Review

Financial Highlights

	Y/E 31 December 2011 £'000	Y/E 31 December 2010 £'000	Increase
↑ Sales	15,964	12,368	29%
↑ Gross profit	8,855	5,492	61%
↑ Gross profit margin	55%	44%	25%
↑ EBITDA*	5,672	2,889	96%
↑ EBITDA Margin	36%	23%	52%
↑ PBT*	3,988	1,792	123%
↑ Basic Earnings per share	2.93p	0.73p	301%

*Excluding exceptional items

Income Statement Segmental Analysis

for the year ended 31 December 2011

	Asset Management			Asset Installation		
	Y/E	Y/E	Increase	Y/E	Y/E	Increase
	31 Dec	31 Dec		31 Dec	31 Dec	
	2011	2010		2011	2010	
	£'000	£'000		£'000	£'000	
Revenue	6,614	4,372	51%	9,350	7,996	17%
Operating Costs	1,973	1,850	7%	5,136	5,026	2%
Segment Profit	4,641	2,522	84%	4,214	2,970	42%

- ▶ Recurring revenue up 51% on 2010. Current annual equivalent recurring at 31 March 2012 revenue is £8.106m
- ▶ £9.2m spent on invested meter assets during 2011 and over £2m to date in 2012, with corresponding increase in assets from 214,000 to over 265,000.

Cashflow Highlights

for the year ended 31 December 2011

	Y/E 31 Dec 2011 £'000		Y/E 31 Dec 2010 £'000	
Operating cash flow		4,950		3,591
Investing activities				
- Meter assets	(9,168)		(5,246)	
- Others	(331)	(9,499)	(103)	(5,349)
Financing Activities				
- Net proceeds from new borrowings less capital repaid	1,937		4,304	
- Finance costs	(535)		(250)	
- Net proceeds from share issue	8,820		-	
- Others	(180)	10,042	(1,054)	3,000
Increase /(decrease) in cash & cash equivalents		5,493		1,242
Cash & cash equivalents at the beg. of the period		1,824		582
Cash & cash equivalents at the end of the period		7,317		1,824

Balance Sheet

as at 31 December 2011

	FY 31 December 2011 £'000	FY 31 December 2010 £'000
Assets		
- Non-current	23,212	14,682
- Current	9,024	3,333
Total Assets	32,236	18,015
Liabilities		
- Current	8,049	7,271
- Non-current	11,731	9,217
Total Liabilities	19,780	16,488
Net Assets	12,456	1,527

Net debt as at 31 December 2011 - £3.9m (2010 - £7.4m)





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Alan Foy

Chief Executive Officer

Strategic Overview

Delivering Growth

Strategy

- ▶ **Increase growth rates in meter asset ownership** with gas supplier customers
 - ▶ Over 80% of the I&C market is potentially available through contracted arrangements with gas suppliers
 - ▶ Current IT platform operates at 5% capacity
- ▶ Up sell the ADM smart metering solution to existing contracted gas suppliers to **accelerate meter asset ownership in the I&C market**
- ▶ **Increase levels of business** with, and services provided to, key gas suppliers

Future Prospects

- ▶ Explore future prospects to **expand the range of solutions** and services to all utility markets within the UK and potentially internationally

Summary

- ▶ A well established and **highly profitable** business with a **Strong market position** , **high barriers to entry** and **track record** in delivering growth
- ▶ **High yield, low risk asset class** giving **highly attractive risk / reward** proposition. 60% growth in assets in 2011 secured.
- ▶ New product (ADM) – a **catalyst for accelerating growth** and **enhancing yield** of owned meter assets. **Trials complete**, rolling out to Group's I&C client base. Full Zone zero accreditation gained. Patent at "Allowed" status. Full European patent expected Q2 2012.
- ▶ **Progressive dividend policy**: Maiden interim **dividend planned November 2012** subject to performance
- ▶ Contracts with **gas suppliers** provide **recurring revenues** and **visibility of earnings** backed by robust termination payment arrangements
- ▶ **Scalable business** operating at 5% IT capacity. Powerful **government, gas supplier and I&C consumer initiatives** driving demand in smart metering

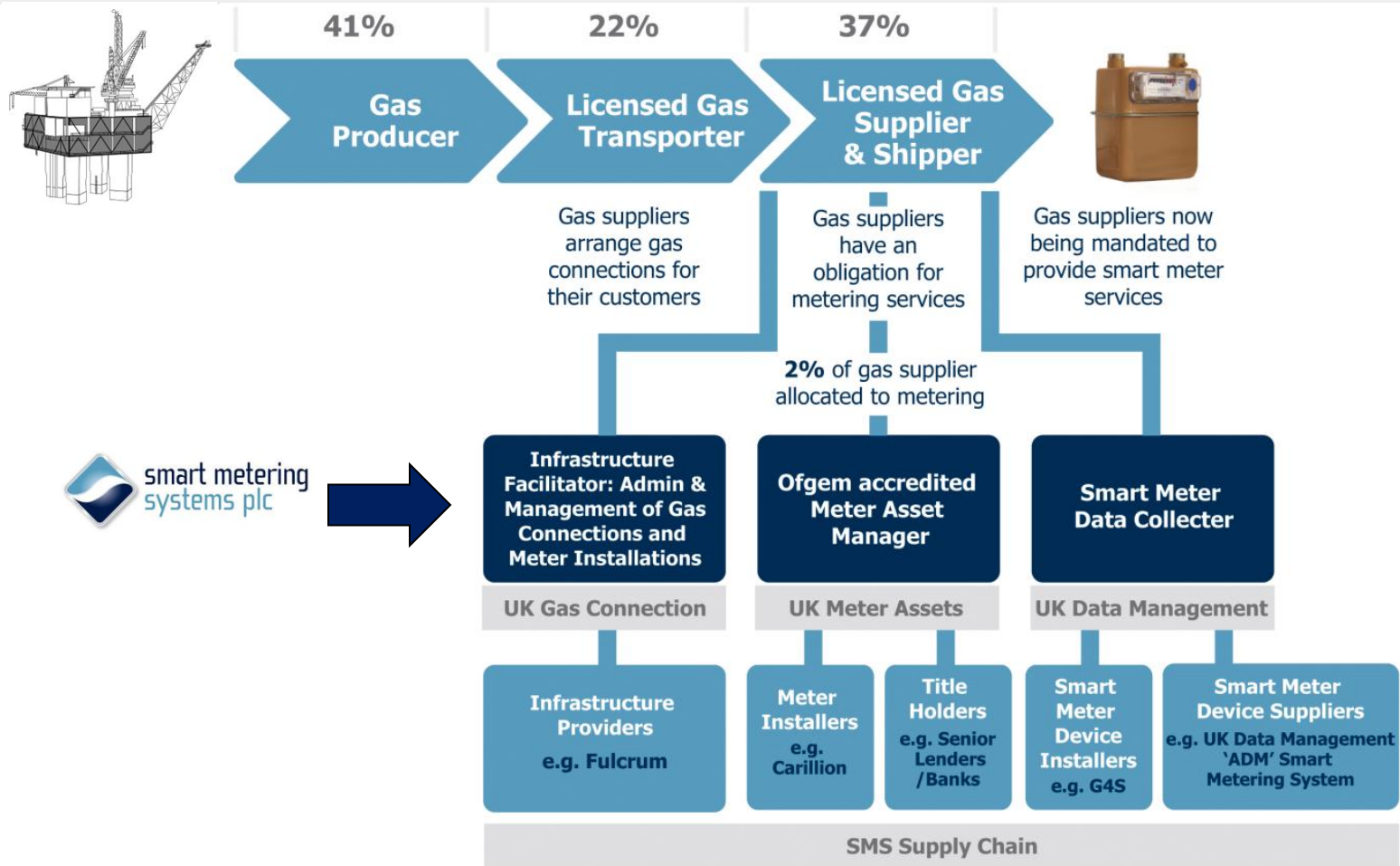


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Appendices

UK Gas Market

Gas Supply Chain



Gas Industry Deregulation

1989

- Deregulation of I&C gas supply market begins

1995

- Deregulation of gas connections and gas transportation

1995

- Establishment of **UK Gas Connection** in the gas connections market



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2004

- Deregulation of the gas metering market begins

2004/5

- Establishment of **UK Meter Assets** into the gas metering market
- OFGEM begin investigation into National Grids metering business



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2009

- First mandate for smart metering in I&C market
- Group holding company established - **Smart Metering Systems**

2010

- Establishment of **UK Data Management** into the smart metering market
- Supreme Court refuse NG appeal and £15m fine imposed



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UK Gas Connection

- ▶ Gas suppliers must supply gas to end consumers through meters*. Gas suppliers employ UK Gas Connection on a non exclusive basis to install meters and provide gas connections direct to their end consumers
- ▶ A transactional support services business which manages the administration of gas connections and meters for gas suppliers' end consumers, directly representing their brands (from initial contact through to project conclusion)
- ▶ A contributor to the growth of the owned portfolio of meter assets under management
- ▶ Highly cash generative business with advance payment terms for most clients
- ▶ Independence from gas suppliers ensures continuity of service when an end consumer switches gas supplier
- ▶ Long established gas supplier relationships and successful brand representation have created significant barriers to entry

**Gas Act 1986 – schedule 2B*



UK Meter Assets

Commercial

- ▶ Manages third party and owned high yielding (increasing by RPI) gas meter assets charging rental to gas suppliers over the useful life of the meters (typically 25 years)
- ▶ Substantial market opportunity
 - ▶ A large proportion of an estimated 1.678m ** Industrial & Commercial meters in the UK will be exchanged by 2019* - UKMA current market share is over 10,000 owned I&C meter assets
 - ▶ An estimated 21.28 million** domestic meters may require to be exchanged by 2019 - UKMA current market share is over 98,000 owned and 155,000 managed (third party owned) domestic meter assets
- ▶ Contractual terms providing in-perpetuity annuity income (subject to termination rights) and backed by robust termination arrangements
 - ▶ There are current signed non exclusive contracts with gas suppliers who supply over 80% of the I&C market: Centrica ,Total, Gazprom, GDF Suez, Scottish & Southern Energy, Contract Natural Gas and Scottish Power, D-ENERGI, Vayu Limited and Axis Telecom Limited
 - ▶ There are current signed non exclusive contracts with gas suppliers who supply over 30% of domestic market: Scottish and Southern, Scottish Power, OVO, First Utility, Utilita

**DECC - Smart Metering Implementation Programme – Response To Prospectus, 30th March 2011*

***2007 DECC - Market Research & 2011 British Gas Home Energy Report*

UK Meter Assets

Operational

- ▶ IT system interfaces seamlessly with every gas supplier in the UK
 - ▶ No increased cost of trading with UK Meter Assets
 - ▶ Electronic billing & validation designed to ensure quick payment and strong cash flow (current average 28 debtor days vs. contracted 30 days)
 - ▶ Operating at 5% capacity
 - ▶ Produces one gas meter rental invoice to each gas supplier (26 invoices in total)
 - ▶ Visibility of asset portfolios for gas suppliers and asset finance providers
 - ▶ Data storage and disaster recovery managed through ISO27001 accreditation
 - ▶ Accredited 12 July 2004 (date of effective competition in gas metering in UK)
- ▶ Robust supply chain for delivery, installation and adoption of gas meters UK wide
 - ▶ Fully outsourced supply and installation using a network of service providers
 - ▶ In-house control of work management
 - ▶ In-house control of meter asset registration services
- ▶ Accelerating run rate in meter installations

UK Data Management

ADM Smart Metering Solution

Background

- ▶ R&D commenced in 2008 resulting in the introduction of the ADM solution in December 2010
 - ▶ Simple plug & play
 - ▶ No skilled labour required to install
 - ▶ Prevents human error during set up
 - ▶ European patent at "Allowed" status
 - ▶ European full patent Q2 2012
- ▶ Compliant with OFGEM specification for I&C Market
- ▶ Significant commercial driver as route to I&C meter ownership as gas suppliers and consumers commence initiatives in smart metering. ADM solution delivers savings at the outset
 - ▶ An estimated 20%+ savings on the cost of monthly manual service – a significant milestone within the industry
 - ▶ An estimated 40% less expensive than alternative smart metering solutions



UK Data Management

ADM Smart Metering Solution Markets

I&C Gas Market

- ▶ Targeted at I&C market
 - ▶ An estimated total of 1.678m* meters required to be made smart by 2019** of which;
 - ▶ 920,000 are domestic sized meters****
 - ▶ 380,000 are meters supplying small individual premises*****
 - ▶ Leaving a market of 378,000 meters
 - ▶ Over 70,000 estimated are already smart enabled
 - ▶ The immediately available market is therefore approximately 308,000 meters containing large*** ,monthly read and group customer sites
- ▶ Leveraging UK Meter Assets' market relationships
- ▶ Trials completed; rolling out to the group's I&C gas supplier client base.



**2007 DECC - Market Research & 2011 British Gas Home Energy Report*

***DECC - Smart Metering Implementation Programme – Response To Prospectus, 30th March 2011*

****license condition 12 of Gas Supplier Licence introduced 6th April 2009*

*****British Gas Home Energy Report*

******BERR Energy Metering Consultation on Advanced Metering July 2008*



UK Data Management

ADM Smart Metering Solution Markets

Domestic Gas Market

- ▶ Potential for application in the domestic meter market (an estimated 21.28m meters*)
- ▶ ADM would need to meet the industry specification for domestic smart metering which is yet undecided
- ▶ The smart metering roll out in the domestic market is anticipated to commence in the next few years to be complete by 2019**

Water Market

- ▶ Potential I&C market opportunity

International Markets

- ▶ There is demand for smart metering worldwide



**2007 DECC - Market Research & 2011 British Gas Home Energy Report*

***DECC - Smart Metering Implementation Programme – Response To Prospectus, 30th March 2011*



Competition

UK Gas Connection

- ▶ No significant competition
- ▶ Alternative is gas supplier 'in-house' operation

UK Meter Assets

I&C market:

- ▶ Incumbent monopoly providers (National Grid and independent gas transporters)
- ▶ Energy Assets plc (47% owned by Corona Energy/MacQuarrie)
- ▶ Onstream – owned by MacQuarrie

Domestic market:

- ▶ Incumbent monopoly providers (National Grid and independent gas transporters)
- ▶ Meterfit – owned by Prudential
- ▶ Capital Meters – owned by MacQuarrie
- ▶ OnStream – owned by MacQuarrie
- ▶ Meterplus – owned by nPower
- ▶ G4S – owned by Rentokil

UK Data Management

Product:

- ▶ Cello Unit – owned by Roper Industries
- ▶ P2G – owned by Iskraemeco

Data collection services:

- ▶ TruRead – owned by Gazprom
- ▶ Stark Software – independently owned
- ▶ Technolog – owned by Roper Industries
- ▶ G4S – owned by Rentokil
- ▶ Onstream - owned by MacQuarrie
- ▶ Energy Assets - owned by MacQuarrie



Management Team & Board

Kevin Lyon, Non Executive Chairman

A qualified chartered accountant, Kevin spent two years in merchant banking before joining the UK's leading private equity business, 3i plc. In a 17 year career with 3i, Kevin built and developed several successful investment teams across the UK and led transactions in a wide range of sectors, many leading to profitable exits or successful stock exchange listings. He also held a number of leadership and management positions including latterly managing director, UK Private Equity. He left in 2004 and, in the last eight years, he has served as an independent chairman or non-executive director on 16 boards. Of these, he has taken three to a public listing to raise capital or deliver an exit for shareholders, has sold ten in line with shareholder strategy and orchestrated a secondary MBO of two. Kevin is currently chairman of each of AIM-quoted Valiant Petroleum plc, and of Mono Global Group. He also currently serves as an independent director of Adelie Food Group. He was chair of the audit committee and senior independent director of Booker plc, a £4 billion revenue wholesale cash and carry business, when it floated on AIM in June 2007. He graduated from Edinburgh University in 1982 and has attended Management and Business Development courses at INSEAD, IESE and Ashridge.



Steve Timoney, Deputy Chairman

Steve founded the Group in 1995. Prior to starting the business, he spent 14 years with British Gas Transco (now NGT) working within the engineering function with specific responsibility for gas pipelines and meter assets. He then moved on to work for Shell UK as Commercial Manager (Scotland) responsible for all commercial aspects of the marketing of natural gas to consumers. Steve became the recognised expert on contract development under the Network Code regime and was also responsible for setting up systems and procedures for the management of gas connection projects. Steve is a professional engineer and also has a Masters Degree in Corporate Leadership, studying both at Emory University, Atlanta and Napier University, Edinburgh, graduating with distinction in 2006.



Management Team (cont.)

Alan Foy, Chief Executive

Alan has responsibility for business growth, client management and business operations. Prior to joining SMS in 2004, Alan worked for Scottish Power and in 1997, gained approval to establish its regulated gas transportation and metering business, SP Gas Ltd, which under his management grew to become a major iGT in the UK. He gained considerable experience in utility asset ownership, as well as supply and shipping activities. Working within very complex and regulated frameworks, his position required a full understanding of utility business activities such as customer recruitment, licensing, regulation, safety, commercial, IT, investment and financial policies. Prior to this Alan was a director of an international energy consultancy practice specialising in energy utilisation and design.



In addition to adding valuable experience to the overall business, during his tenure with SMS Group Alan has successfully implemented a restructuring and systemising of the Group's activities, as well as successfully gaining and retaining new customers and contracts. A professionally qualified engineer, Alan places strong emphasis on safety, operational performance and financial accountability. He also places great importance on training of staff members to ensure they are receptive and adaptable to business needs and operate to a high level of efficiency and customer satisfaction

Glen Murray, Finance Director

Glen joined the SMS Group in 2009 as a business accountant prior to assuming his current role as Finance Director. A qualified Accountant and experienced financier, he provides the business with the structure and controls to diligently manage and report on all business activities. Glen has key responsibility for financial reporting, business plan modelling and business performance monitoring and reporting against the plan. Glen is also responsible for ensuring compliance with statute during the formation of the group structure and will manage the migration of resources throughout the Group. Glen qualified with French Duncan in 1995 and in 1997 joined Shin-Etsu Handotia Europe as an accountant, with responsibilities including treasury management, budgetary control, monthly branch accounts and management accounting. He later joined Gilchrist & Company (which merged with Baker Tilly in May 2009) as a senior manager responsible for a team of five delivering accountancy, audit, corporate finance and VAT services.



Management Team (cont.)

Nigel Christie, Non-executive Director

Nigel has served in various management positions within corporate finance departments of investment banking firms. He began his career in 1976 at Kleinwort Benson, working in both London and New York. From 1985 to 1989, he was a managing director in the corporate finance department of S.G. Warburg, New York. Between 1989 and 1991, Nigel served as managing director of the corporate finance department of Kidder, Peabody International where he was responsible for overseeing European mergers and acquisitions. From 1991 to 1995, Nigel was a director of MacArthur & Co. Limited, following which he worked for Columbus Asset Management between 1995 and 1999 and Value Investing Partners, Inc. between 1999 and 2000. From 2000 to the present day, he has been a director of RP&C International, an investment banking firm providing specialist advisory services to public and private companies. Amongst other directorships, Nigel currently serves as chairman of AIM - quoted Maple Energy plc and is a member of Maple Energy plc's audit committee on which he acts as chairman. He graduated from the University of St. Andrews in Scotland and attended the Program for Management Development at Harvard Business School.



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