



smart metering
systems plc

Interim Results for the half-year ended 30 June 2012

September 2012



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Alan Foy
Chief Executive Officer
Review of the Period

Financial highlights

Financial Highlights

- ▶ Revenue increased by 25% to £9.3m (H1 2011:£7.4m)
- ▶ Recurring meter rental increased by 39% to £4.2m (H1 2011: £3.0m)
- ▶ Gross Profit increased by 53% to £5.8m (H1 2011:£3.8m)
- ▶ EBITDA* increased by 66% to £4m (H1 2011:£2.4m)
- ▶ PBT* increased by 88% to £2.9m (H1 2011:£1.5m)
- ▶ Net Debt decreased to £6.3m (H1 2011:£10.1m)
- ▶ Net Debt/EBITDA ratio 0.78
- ▶ Cash balance of £4.2m (H1 2011: £1.3m)
- ▶ Basic earnings per share increased by 46% to 2.60p (H1 2011:1.78p)
- ▶ Gas meters owned of £26.4m with net debt of £6.3m (H1 2011: £16.5m and £10.1m)
- ▶ Maiden dividend of 0.5p per ordinary share
- ▶ New club banking arrangement for £45m announced on 2 August 2012

*Excluding exceptional items and fair value adjustments.

Operational highlights

Operational Highlights

- ▶ Total meter portfolio increased by 25% to 283,275 (H1 2011: 227,517)
- ▶ Increase of 51% in capital investment in meter assets to £5.9m, bringing the total to £26.4m (H1 2011: £3.9m)
- ▶ Increase in annualised recurring revenue of 38% to £9.1m (H1 2011: £6.6m)
- ▶ Significant new contracts announced
 - ▶ Gas Suppliers
 - ▶ SSE : c180,000 domestic meters
 - ▶ TGP : Initial Quantity of 15,000 I&C meters and ADM™ devices
 - ▶ CNG : Initial Quantity of 1475 I&C meters and ADM™ devices with exclusive arrangement to balance of their portfolio estimated at over 20,000 I&C meters
 - ▶ Energy Brokers; providers of brokerage and energy management services to small medium and large group consumers
 - ▶ BIU, Solis, Energi, Imserve and ISS contracted for ADM™ devices and meters
- ▶ Trials commenced in the Water and LPG markets in the UK for the ADM™ device

Operational highlights (cont'd)

Operational Highlights (Cont'd)

▶ **Post balance Sheet Events**

- ▶ New banking club arrangement announced on 2 August 2012 for £45m with Barclays Bank PLC (lead bank), Clydesdale Bank PLC and Lloyds Bank PLC replacing all existing facilities.
 - ▶ Interest 2.9% over 3 month rolling LIBOR on reducing balance
 - ▶ Repaid on a straight line basis over 10 years
 - ▶ 1.45% non utilisation fee paid on undrawn funds
 - ▶ 3 month rolling LIBOR; hedge entered into for c.70% of the facility at a fixed swap rate of 0.90-0.92% vs the current rate of c.0.7% over 4 years.
- ▶ Received Full European Patent Approval for the ADM™ device effective 15 August 2012
- ▶ New contract with Dong Energy Sales Limited (formerly Shell Gas Direct) announced on 30 August 2012. This contract includes the provision of ADM.
- ▶ Total portfolio increased to 296,000 at 31 Aug 2012 with corresponding annualised recurring rental increasing to £9.65m





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Glen Murray
Finance Director
Financial Review

Financial Highlights

	Period ended 30 June 2012	Period ended 30 June 2011	
	£'m	£'m	Increase
↑ Sales	9.3	7.4	25%
↑ Gross profit	5.8	3.8	53%
↑ Gross profit margin	62%	51%	
↑ EBITDA*	4.0	2.4	66%
↑ EBITDA Margin	43%	32%	
↑ PBT*	2.9	1.5	88%
↑ Basic Earnings per share	2.60p	1.78p	46%

*Excluding exceptional items

Income Statement Segmental Analysis

	Asset Management			Asset Installation		
	Period ended 30 June 2012	Period ended 30 June 2011		Period ended 30 June 2012	Period ended 30 June 2011	
	£'m	£'m	Increase	£'m	£'m	Increase
Revenue	4.2	3.0	40%	5.1	4.4	16%
Operating Costs	1.0	1.0	0%	2.5	2.6	(4%)
Segment Profit	3.2	2.0	60%	2.6	1.8	44%

- ▶ Recurring revenue up 39% on 2011. Annualised recurring revenue at 30 June 2012 £9.1m (H1 2011: £6.6m) At 31 August 2012 increased further to £9.65m
- ▶ £5.9m invested in meter assets during first half of 2012 (H1 2011: £3.9m) with an increase in assets from 228,000 to 283,000, with first ADM linked I & C meters being installed.

Cashflow Highlights

	Period ended 30 June 2012		Period ended 30 June 2011	
	£'m		£'m	
Operating cash flow	4.0		2.0	
Investing activities				
- Meter assets	(5.9)		(3.9)	
- Others	(0.2)	(6.1)	(0.3)	(4.3)
Financing Activities				
- Net proceeds from new borrowings less capital repaid	(0.7)		2.1	
- Finance costs	(0.3)		(0.2)	
- Net proceeds from share issue	-		-	
- Others	-	(1.0)	(0.2)	1.7
Increase /(decrease) in cash & cash equivalents	(3.1)		(0.6)	
Cash & cash equivalents at the beg. of the period	7.3		1.8	
Cash & cash equivalents at the end of the period	4.2		1.3	

Balance Sheet

	HY 30 June 2012 £'m	HY 30 June 2011 £'m	FY 31 December 2011 £'m
Assets			
- Non-current	28.5	18.4	23.2
- Current	6.9	4.0	9.0
Total Assets	35.4	22.4	32.2
Liabilities			
- Current	9.5	8.5	8.0
- Non-current	11.2	11.4	11.7
Total Liabilities	20.7	19.9	19.8
Net Assets	14.7	2.5	1.5

Net debt as at 30 June 2012 - £6.3m (2011 - £10.1m)



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Alan Foy

Chief Executive Officer

Strategic Overview

Strategic Focus

- ▶ **Core focus is on gas meters in the UK where we aim to:**
 - ▶ be market leader in the independent ownership of industrial and commercial meters;
 - ▶ establish ADM™ as the industry standard smart metering solution for industrial and commercial clients; and
 - ▶ grow our domestic meters business organically and potentially through new contracts
- ▶ **Trials established in the UK's Water and LPG markets.**
 - ▶ Water market expected to be similar size to UK's gas market
 - ▶ LPG market size currently being established
- ▶ **Opportunity for Gas, Water and LPG markets internationally**
 - ▶ Opportunities and routes to market currently being investigated

Key Drivers

▶ **Meter Assets – predictable, visible recurring revenue**

- ▶ Excellent customer service and supplier relationships leading to increasing number of customers across the range of large industrial
- ▶ Robust in perpetuity contract framework
- ▶ Index linked termination payments
- ▶ Rental increases with RPI annually
- ▶ Bespoke design IT system with significant potential utilisation upside

▶ **Advanced Metering Solution - ADM**

- ▶ Designed using customer requirements
- ▶ Cost competitive with manual reads and therefore attractive to I & C customers
- ▶ Provides additional revenue in own right
- ▶ Provides greater incentive for customers to place metering contracts
- ▶ Potential application to water, LPG and internationally
- ▶ Securing gas meter ownership
- ▶ Full European Patent approval for ADM device effective 15 August 2012

Funding

- ▶ **New banking club arrangement announced on 2 August for £45m with Barclays Bank PLC (lead bank), Clydesdale Bank PLC and Lloyds Bank PLC replacing all existing facilities.**
 - ▶ Interest 2.9% over 3 month rolling LIBOR on reducing balance
 - ▶ Repaid on a straight line basis over 10 years
 - ▶ 1.45% non utilisation fee paid on un drawn funds
 - ▶ LIBOR hedge entered into for c.70% of the facility at 0.90-0.92%
- ▶ **All debt taken on is to fund meter asset investment.**
 - ▶ At 30 June 2012 the Net debt/EBITDA ratio was 0.78 (H1 2011: 2.1)
 - ▶ In the year since June 2011 the meter portfolio has increased in value by £11.2m and net debt has reduced by £3.8m.
 - ▶ The meter portfolio has increased by 55,758 with an investment of £11.2m including the first I & C meters relating to ADM installations.

Summary

- Initial Order book from SSE, CNG and TGP equivalent to 430,000 domestic meters (at 30 June 2012 283,275)
- Initial Order from CNG and TGP representing 20% of their portfolio potentially available to SMS
- Establishing run rates with 6 recently signed contracts with DONG Energy and 5 Energy Brokers
- Trials continuing with SMS' existing I & C contracted metering gas suppliers
- Objective to increase run rates in installed I & C meter with ADM and extend to all I & C gas suppliers and energy brokers making ADM industry standard. An estimated c.>300,000 immediately addressable large I & C gas meter market whilst continuing to promote the ADM solution to the small I&C market estimated at c.>1.2million meters.
- Staff and supply chain capacity in place.
- £45m facility in place with further appetite within the current club of banks and other banks showing interest to participate in club structure.
- Dividend policy established
 - Maiden interim dividend of 0.5p per ordinary share will be paid 22 November 2012
 - Intention to pay final dividend for the current year to be announced at the time of the preliminary results in April 2013





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Appendices

Contracted Clients

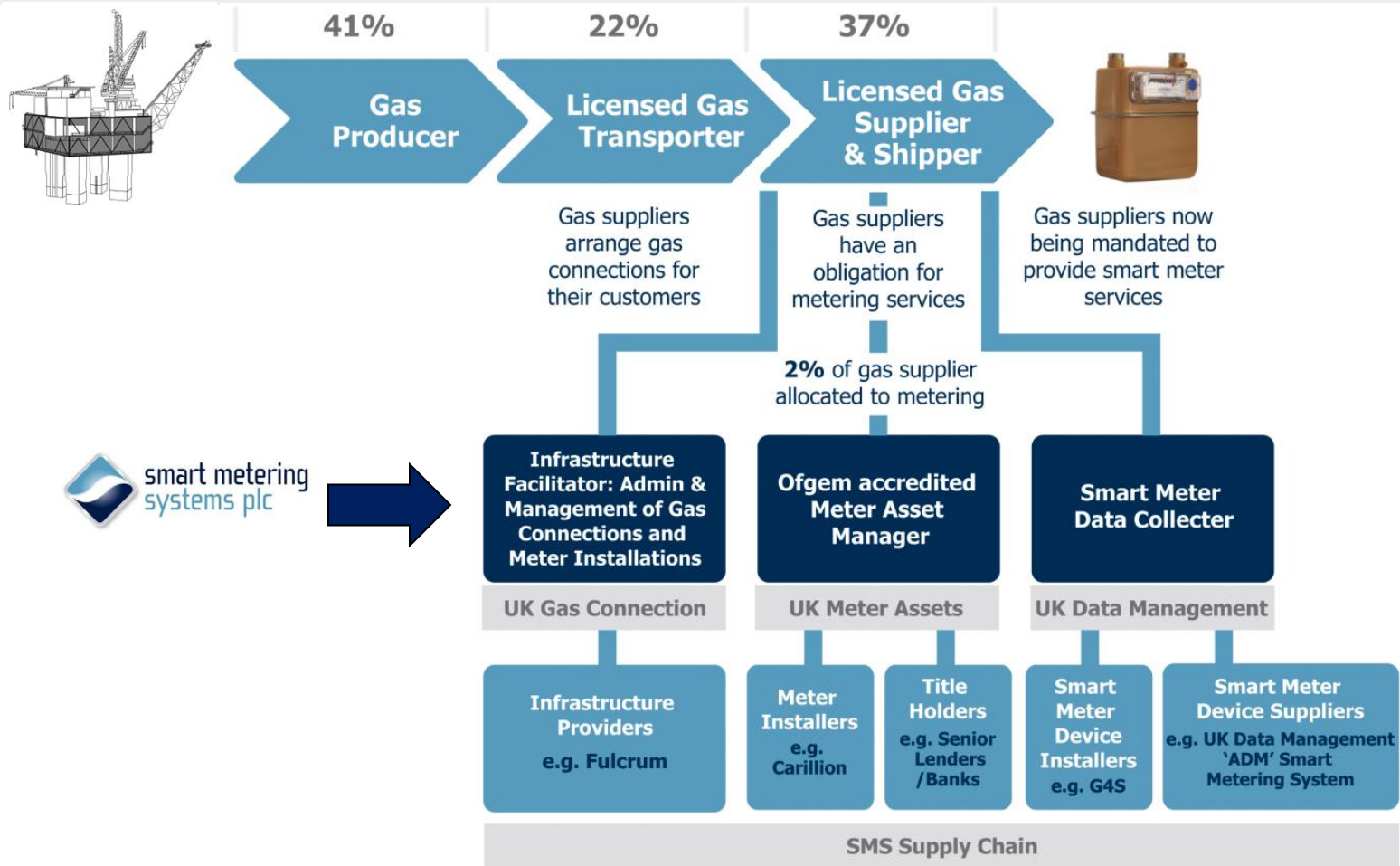
Gas Supplier Customers



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

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 13,000 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 130,000 owned and 153,000 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 and DONG Energy
 - ▶ There is one signed exclusive contract with Contract Natural Gas (CNG) who supply gas to over 20,000 consumers
 - ▶ 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 and Utilita
 - ▶ There are currently signed non exclusive contracts with energy brokers; BIU, Solis, Energi, Imserve and ISS

**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
 - ▶ 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 full patent granted effective from 15 August 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 68%+ savings on the cost of monthly manual service – a significant milestone within the industry
 - ▶ An estimated 75% less expensive than alternative smart metering solutions



UK Data Management

ADM Smart Metering Solution Markets

Gas UK Markets

- ▶ Established I&C market opportunity
- ▶ Fully Ofgem compliant advanced metering solution
- ▶ Immediately addressable large meter market segment c>300,000 meter points
- ▶ Small meter points estimated at >1.2million have opportunity to opt for an advanced solution such as ADM or alternatively be included in the governments domestic roll out of smart meters. ADM solution is attractive to this segment due to its competitive price and ease of installation.



Water and LPG UK Markets

- ▶ Potential I&C market opportunity
 - ▶ Water market similar size to UK gas market
 - ▶ LPG market size currently being established
- ▶ Small scale trials commenced



International Markets

- ▶ There is demand for smart metering worldwide with ADM in gas, water and LPG.



Competition

UK Gas Connection

- ▶ No significant competition
- ▶ Alternative is gas supplier 'in-house' operation
- ▶ Energy Assets plc (c.47% owned by Macquarie)

UK Meter Assets

I&C market:

- ▶ Incumbent monopoly providers (National Grid and independent gas transporters)
- ▶ Energy Assets plc (c.47% owned by Macquarie)
- ▶ OnStream – owned by Macquarie

Domestic market:

- ▶ Incumbent monopoly providers (National Grid and independent gas transporters)
- ▶ Meterfit – owned by Prudential
- ▶ Capital Meters – owned by Macquarie
- ▶ OnStream – owned by Macquarie
- ▶ 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 Macquarie
- ▶ Energy Assets – c.47% owned by Macquarie



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.

