14 March 2023

Smart Metering Systems plc

Strong and resilient 2022 performance; solid foundation to deliver sustainable growth

Smart Metering Systems plc (AIM: SMS, "SMS", "the Group"), which installs and manages smart meters, energy data, grid-scale battery storage and other carbon reduction ("CaRe") assets, today publishes its full year results for the year ended 31 December 2022.

2022 financial performance

£'m (unless stated otherwise)	2022	2021	% Change
Alternative performance measures			
Index-linked annualised recurring revenue (ILARR)[1]	97.1	85.9	+13%
Pre-exceptional EBITDA[2]	63.8	52.8	+21%
Underlying profit before taxation[3]	24.5	18.3	+34%
Underlying basic EPS (p)[4]	16.06	9.60	+67%
Statutory performance measures			
Group revenue	135.5	108.5	+25%
EBITDA	57.1	46.3	+23%
Profit before taxation	16.0	8.3	+92%
Basic EPS (p)	11.16	3.20	+248%
Dividend per share (p)	30.25	27.50	+10%
Net (debt)/cash	(31.2)	117.7	

1 ILARR is the revenue generated from meter rental and data contracts at a point in time. Includes revenue from third-party managed meters.

2 Pre-exceptional EBITDA is statutory EBITDA excluding exceptional items.

3 Underlying profit before taxation is profit before taxation excluding exceptional items and amortisation of certain intangibles.

4 Underlying basic EPS is underlying profit after taxation divided by the weighted average number of ordinary shares for the purpose of basic EPS.

A reconciliation between statutory and underlying performance is detailed in the Financial Review section. Percentage changes are calculated based on unrounded amounts as shown in the Financial statements.

Highlights

Financial

- ILARR at 31 December 2022 up 13% to £97.1m (2021: £85.9m)
- Revenue up 25% to £135.5m (2021: £108.5m)
- Pre-exceptional EBITDA up 21% to £63.8m (2021: £52.8m)
- Underlying profit before taxation up 34% to £24.5m (2021: £18.3m)
- Net debt at 31 December 2022 of £31.2m (2021: net cash of £117.7m)
- Undrawn debt facility of £355m (2021: £420m)

Smart meters

- Smart meter portfolio increased to c.2.1m (2021: c.1.7m)
- Contracted smart meter order pipeline of c.2.17m (2021: c.2.55m) reflecting a contract win and net of 480,000 installations
- Continued growth in meter installation run rate, averaging c.45,000 per month in the second half of the year (H2 2021: c.30,000 per month)

Grid-scale batteries

- Grid-scale battery portfolio increased to 760MW at the year end (31 December 2021: 620MW), and since then by a further 100MW project under exclusivity to 860MW including:
    - 140MW operational which have performed ahead of management expectations
    - 470MW fully secured, including 150MW in construction due to be operational in H2 2023
    - 250MW under exclusivity

Other CaRe assets

- Strategic investments in Clenergy EV and n3rgy Data accelerate the Group's capabilities in electric vehicle (EV) charging infrastructure and energy data management
- The Group continued to build its delivery capability and commercial asset models for the provision of other 'Behind-the-Meter' CaRe assets such as solar and storage, domestic EV chargers and air sourced heat pumps
- The Group continue to see significant long term market opportunity in these sectors

Dividend

- 10% increase year-over-year, in line with policy until 2024; covered by long-term, sustainable cash flows generated from existing assets

Outlook

- The FY 2023 pre-exceptional EBITDA is expected to be marginally ahead of and underlying PBT to be in line with our previous expectations; confident in the medium term outlook
- The smart meter installation run-rate is expected to progressively improve throughout rest of the year
- Continued delivery and growth of the grid-scale battery pipeline, with EBITDA contribution expected to be at least within our guided range
- Confident in successfully developing offerings and building pipeline in other CaRe assets

Tim Mortlock, **Chief Executive Officer, commented:**

"We have delivered another year of strong performance across all our key metrics. This again highlights the attractiveness of our CaRe asset portfolio and the strong execution by our teams.

The strong momentum in our meter and grid-scale batteries businesses provides us with confidence in our 2023 and longer term outlook – we will continue to deliver on our sustainable promises.

We also see significant market opportunities to further accelerate our portfolio of CaRe assets, including EV charging infrastructure and Behind-the-meter solar and storage. Meeting the key challenges of energy security, affordability and sustainability - SMS is strongly positioned to provide the knowledge, engineering, data platforms and services behind the UK's move to net zero."

Analyst Webcast

There will be an analyst webcast at 9.00am today – please contact sms@instinctif.com for details. The full year results presentation will be published on the Group's website.

For further information:

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Notes to Editors

Smart Metering Systems plc (www.sms-plc.com) installs and manages smart meters, energy data, grid-scale battery storage and other carbon reduction ("CaRe") assets to facilitate effective energy management. The Group manages and optimises these assets through its in-house technology and data analytical platform.

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

SMS is leading the low carbon, smart energy revolution in the UK and is committed to reducing its own carbon emissions to net zero by 2030. Since 2019, SMS has been awarded the London Stock Exchange Green Economy Mark every year.

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

SMS shares are quoted on AIM.

Overview

The Group delivered another year of exceptional operational and financial performance in 2022, despite a challenging macro environment. This is evidence of the resilience of our business model and the consistent cash flows generated from our existing portfolio of CaRe assets. The momentum across all our CaRe assets and solutions continued to remain strong providing a solid foundation for growth and these assets will continue to facilitate the transformation to a smarter, low carbon and more flexible energy system.

The meter and data assets ILARR increased 13% to £97.1m, including the annual RPI adjustment. Pre-exceptional EBITDA, marginally upgraded in the FY 2022 trading statement issued on 26 January 2023, was up 21% to £63.8m and underlying PBT, materially upgraded, was up 34% to £24.5m.

The monthly installation run-rate continued to improve throughout the year, with SMS installing 480,000 smart meters in 2022, outperforming the Group's expectations. The Group have a contracted pipeline of c.2.17 million smart meters to install which will further increase ILARR by c.£50m.

The Group's first 50MW grid-scale battery site commenced trading in January 2022. Two further sites went live in December 2022 resulting in 140MW operational by end of the year. The financial performance of these sites has been considerably ahead of the Board's initial expectations. The Group's grid-scale battery pipeline currently stands at 860MW (31 December 2022: 760MW, 2021: 620MW), of which 140MW is operational and 470MW fully secured with the remaining 250MW under exclusivity.

SMS made two strategic investments in 2022 expanding its offering in energy data management and accelerating the Group's capabilities in EV charging infrastructure. The Board see significant market opportunity in these and other 'Behind-the-Meter' CaRe assets.

UK smart meter rollout

The Group increased the meter installation run rate from c.30,000 per month in H2 2021 to c.45,000 per month in H2 2022. This resulted in SMS installing 480,000 smart meters in 2022, exceeding our expectations and growing our smart meter portfolio to 2.1m as at 31 December 2022 (2021: 1.7m). The Group's strong supply chain, inventories, delivery capacity and installation run rate provides the Board confidence in the Group's ability to successfully deliver, and expand, SMS's smart meter pipeline.

Net of meters installed and including the benefit of a contract win during the year, the contracted smart meter order pipeline stood at c.2.17m at 31 December 2022 (31 December 2021: c.2.55m).

Grid-scale batteries

The Group's first 50MW grid-scale battery site at Burwell commenced trading in January 2022. Two further sites, 40MW at Barnsley and 50MW at Brook Farm, became operational in December 2022.

Performance of these sites has been significantly ahead of our initial expectations of £57,000-65,000 EBITDA per MW, generating an annualised EBITDA of c.£123,000 per MW. The majority of the revenue generated from these assets was from the provision of frequency services, such as Dynamic Containment, which we expect to soften over time towards our guided range as the volume of battery storage in the market grows.

We are also pleased with the record high pricing achieved by grid-scale battery storage assets during the recent Capacity Market auction in the UK.

As at 31 December 2022, the Group's portfolio of grid-scale battery storage assets totalled 760MW (31 December 2021: 620MW), and since then the pipeline has increased by a further 100MW to 860MW, split as follows:

- 140MW operational (31 December 2021: nil)
- 470MW fully secured (31 December 2021: 320MW), of which 150MW in construction
- 250MW under exclusivity (31 December 2021: 300MW)

Strategic Investments

SMS made two strategic investments in 2022 to accelerate the Group's EV charging infrastructure capabilities and further expanding its service offering in energy data management.

The investment in Clenergy EV, a software business with a Charge Point Operator (CPO) platform focused on EV charging infrastructure, complements the SMS EV installation capabilities and has enabled the Group to deliver a fully end-to-end integrated platform for EV charging infrastructure. The CPO platform is currently used in c.2,700 EV charge points across the UK. We are investing further in growing our pipeline of activity in this area over the coming years, addressing the destination, on-street and fleet market segments.

The acquisition of n3rgy, a data software company, enhances and accelerates the SMS existing capabilities in smart energy data solutions, providing the Group with a strong competitive position in a considerable addressable market as the electricity industry moves towards mandatory half-hourly settlement. We have integrated this capability with our existing FlexiGrid platform, enabling energy suppliers and other third parties to participate in the National Grid Demand Flexibility Scheme (DFS) over this Winter, which pays end consumers to use less energy at times of stress on the energy network.

ESG progress and sustainability

During 2022, SMS continued to make progress in executing on its 2030 net zero roadmap. Our 'handprint' (carbon emissions mitigated through our customers using our products and services) during the year was 14.5 times higher when compared to our total Scope 1 and Scope 2 'footprint' (carbon emissions generated through our operations for the reasons explained below).

MSCI upgraded SMS's ESG ratings from A to AA rating in January 2023.

Details on SMS's Scope 1 and Scope 2 emissions over the last three years are summarised below:

Scope 1 and 2 emissions (TCO2e)	2022	2021	2020
Scope 1 – Company owned vehicles	3,054.9	1,988.0	1,690.0
Scope 1 – Building related	87.6	136.2	106.8
Scope 2 - Building electricity	122.0	137.5	152.4
Scope 2 – Grid-scale batteries electricity	1,111.2	53.1	-

Total Scope 1 and Scope 2 emissions in 2022 were higher than the prior year. The increase was due to emissions from operating our new grid-scale battery assets and from our vehicle fleets. Both 2020 and 2021 were also distorted by the effect of the COVID-19 pandemic.

Whilst our fleet related emissions increased because we added vehicles to service the increase in smart meter installations, we improved the overall fuel efficiency with the amount of carbon emissions emitted per vehicle reducing by 5% since 2019. We are now beginning our fleet transition and will introduce 100 mild hybrid vans to the fleet in 2023.

Our Scope 2 emissions from grid-scale batteries reflects the electricity used to operate the cooling and communication systems at our grid-scale battery sites. Grid-scale battery storage plays an essential role in enabling the UK to accelerate the adoption of renewables and so, whilst within the scope of our reporting, we report these emissions separately due to the positive contribution these assets make to the net zero transition.

Emissions related to our buildings fell 23% from 2021 levels as we continued to introduce solar panels and battery storage across our sites.

Dividend
The Board is proposing a 30.25p per share dividend (FY 2021: 27.5p) in line with our stated policy of increasing the dividend +10% year-on-year until 2024. The dividend demonstrates the sustainable growth delivered by our strategy and is covered by long-term, sustainable cash flows generated from our existing portfolio of CaRe assets.

Current trading and outlook
Meters:

- The Group's ILARR at the end of February 2023 stood at £98.5m (31 December 2022: £97.1m).
- The smart meter installation run-rate is expected to progressively improve throughout rest of the year and we aim to install c.600,000 meters in 2023.

Grid-scale battery storage:

- The grid-scale battery storage assets continued to perform well during the first two months of 2023.
- EBITDA contribution expected to be at least within guided range of £57,000 to £65,000 per MW.
- 150MW of assets are under construction, which we expect to become operational in FY 2023.

FY 2023 outlook:

- The Board expects pre-exceptional EBITDA to be marginally ahead of its previous expectations and underlying PBT to remain in line with its previous expectations.

Operational review by division

Asset management:
During 2022, total meter and data asset ILARR grew 13% to £97.1m (2021: £85.9m). The increase includes an annual RPI adjustment which came into effect on 1 April 2022.

A breakdown on ILARR at 31 December 2022 and the % change compared to 31 December 2021 is shown below:

Category	**% change**	**ILARR**	**Portfolio**
Domestic smart meters	+ 22.0%	£61.1m	2.1 million
Data assets	+ 15.5%	£16.0m	0.4 million
Industrial & Commercial meters	+ 14.0%	£5.3m	0.1 million
Traditional domestic meters	- 5.3%	£11.2m	0.3 million
Third party assets	- 36.1%	£3.5m	1.6 million
Total		**£97.1m**	**4.5 million**

In 2022, we added a new contract for c.100,000 meters to our pipeline. Following the installation of c.480,000 meters during the year, we ended the year with a contracted smart meter order pipeline of c.2.17 million meters (2021: c.2.55 million)

SMS has continued to support the enrolment and adoption of first generation ('SMETS1') smart meters into the Data Communications Company (DCC) platform. The migration of the Group's own SMETS1 portfolio is progressing ahead of the industry with c.80% of our portfolio of SMETS1 meters now enrolled onto the DCC platform. This enrolment and adoption programme has now been extended to the end of 2023.

SMS made the decision through 2021 and 2022 to diversify further our supply chain to four meter manufacturing partners, which provided assurance in the near term future cost for a large proportion of our meter purchases and we increased the level of buffer stock we hold in our UK warehouses. Whilst not without some impact on working capital, these decisions have reduced the impact of inflationary cost increases and ensured that stock availability has not been an impediment to delivering our pipeline.

The index-linked nature of our meter rentals provides significant protection against the current high levels of inflation. Over time, the installed cost of meters may rise but we expect to at least maintain our initial guided yield on these assets.

Looking forward, the acquisition of n3rgy enhances SMS capabilities in smart energy data solutions enabling us to take advantage of the significant new addressable market opportunity created by the move to market-wide half hourly settlement which is mandated from 2026. We are already using this capability in conjunction with our Flexigrid platform by enabling end consumers to get paid to use less energy at times of stress on the energy network, through National Grid's Demand Flexibility service.

Asset installation:
We continued to grow our nationwide engineering services business over 2022, increasing our total engineering workforce capacity to over 600 engineers. Our in-house engineers are supplemented by contractors, and we continue to maintain an appropriate balance to meet our installation targets while maximising installation efficiency. We will continue to invest incrementally in our engineering capacity to further increase our installation run-rate in the future.

Safety remains our first priority and we again reported zero injuries under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations. We also maintained industry-leading performance across our other health and safety metrics.

Our engineering resource is supported by our in-house accredited training academy which we see as essential to promoting health and safety standards across our business. The training academy also allows us to extend our capabilities into new sectors, such as the installation of EV charging infrastructure.

Energy management:
The strong growth in our portfolio of grid-scale battery storage assets has transformed the Energy management division. The trading performance and the growth in these assets are detailed in the grid-scale battery storage section above.

The roll-out of site-based energy efficiency measures accelerated during the year following the relaxation of COVID-19 restrictions. Our traditional consultancy and energy management services therefore grew significantly compared to prior year. The substantial increase in energy costs in 2022 makes the case for our energy management and efficiency services even more compelling, and we see significant opportunities to help our Industrial & Commercial customers reduce costs and support them on their path to net-zero.

We continued to develop further our capability in the EV charging space, with particular focus on the destination, on-street and fleet market segments. Our partnership with Clenergy EV provides us access to a Charge Point Operator technology platform that allows us to control both the charge of EV's from any chargepoint type and the collection of revenue for use of the chargepoint. With this end-to-end capability in place, we are well positioned to develop a pipeline of activity in these areas over the coming years.

We also commenced developing integrated funded-energy solutions that aggregate the individual CaRe asset classes, such as distributed solar generation and storage. Applying these to commercial properties, we are able to reduce reliance on energy from the grid and optimise the use of energy on-site. We see a significant growth opportunity for asset deployment in this sector.

Financial review

Revenue

	31 December 2022 £m	31 December 2021 £m	Percentage change
Asset management	**92.8**	82.9	12%
Asset installation	**30.5**	22.0	38%
Energy management	**12.2**	3.6	237%
Group revenue	**135.5**	108.5	25%

Asset management revenues of £92.8m are 12% up on the prior year. This growth reflects the flow-through effect of progressively increasing the rate of meter installations at the end of 2021 and into 2022 and the annual RPI uplift which took effect on 1 April 2022.

Asset installation revenues of £30.5m increased 38% on the prior year as a result of increased volume in transactional meter works and increased activity in our connections business.

Energy management revenues of £12.2m were up 237% on the prior year. This includes £7.2m revenue from our grid-scale battery sites which began operating in the year. Our first grid-scale battery site became operational in January 2022 and two further sites went live in December 2022. Revenue from Energy management excluding grid-scale batteries was £5.0m, up 38% on prior year as a key customer project in the hospitality sector picked up momentum with the continued recovery from the effect of COVID-19 and sector focus turning to energy efficiency.

Gross margins

SMS includes depreciation on revenue-generating assets within cost of sales for statutory reporting purposes. Removing this from the gross margin provides a better comparison of the Group's underlying trading performance year-on-year.

Depreciation-adjusted gross margin for the asset management segment is 92% which is in line with prior year (2021: 92%).

The asset installation segment gross margin was 23% (2021: 32%). In H1 2022 the Group continued to grow its engineering workforce in order to support the planned increase in meter installations. Costs associated with this investment in the workforce such as recruitment and training led to additional one-off costs which depressed the margin in the first half. As expected, the margin recovered in the second half of 2022.

The energy management segment depreciation-adjusted gross margin has increased to 57% (2021: 24%). This is due to the addition of our grid-scale battery sites which generated an 80% depreciation-adjusted gross margin over the year. Grid-scale batteries delivered revenue of £7.2m and depreciation adjusted gross profit of £5.8m in the year. The gross margin on the segment's other activities remained constant at 24% (2021: 24%).

Overall, the depreciation-adjusted gross margin at the Group level fell by 4% to 73% (2021: 77%) due to the investment in our engineer base in H1 2022 in our asset installation division coupled with the increase in battery revenues during 2022.

Pre-exceptional EBITDA

Pre-exceptional EBITDA provides a measure of underlying performance that is comparable over time. Pre-exceptional EBITDA of £63.8m was 21% higher than in the prior year (2021: £52.8m).

The £14.5m increase in depreciation-adjusted gross profit (excluding exceptional cost of sales in 2021 arising from the result of COVID-19) was partly offset by a £3.5m increase in net operating costs, excluding depreciation and amortisation. This is being driven by a cost-of-living payment made to our employees in H2 2022 in response to inflationary and other pressures experienced in the wider economic environment, further investment in our IT and support systems and small increases across our cost base to support growth in other CaRe assets.

Underlying profit before tax
Depreciation costs on meter assets increased 15% to £28.3m (2021: £24.7m) due to the increase in the meter asset portfolio.

Depreciation cost on grid-scale battery sites increased to £1.0m (2021: nil) due to the commencement of depreciation on operational grid-scale battery sites in the year.

Depreciation costs on general property, plant and equipment, excluding meter assets and grid-scale battery sites, has reduced by £0.5m to £3.5m (2021: £4.0m) due to some computer equipment and fixtures and fittings now being fully depreciated.

Amortisation costs on our intangible assets of £4.1m (2021: £4.1m) mainly consist of software amortisation and were in line with prior year.

Net finance costs increased £0.4m to £3.9m (2021: £3.5m). Finance costs relating to our loan facility increased £0.7m as we started drawing on the facility in the second half, and interest on leases also increased £0.5m as we leased land for our new grid-scale battery sites. The impact was however partly offset by £0.3m interest income earned.

As a result, underlying profit before taxation increased by 34% to £24.5m (2021: £18.3m).

Exceptional items
Exceptional items of £6.6m (2021: £8.2m) mainly comprise a £5.7m loss on the traditional and first-generation smart meter ('SMETS1') portfolio (2021: £5.9m). In line with the Group's established policy, these losses are shown separately as exceptional items in order to enhance disclosure of underlying continuing profitability. Acquisition-related costs and other exceptional operating items amounted to £0.9m (2021: £0.6m). Exceptional items in 2021 also included £1.7m exceptional finance costs comprising the acceleration of unamortised arrangement fees relating to the Group's previous loan facility which was refinanced in 2021.

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

The effective tax rate on pre-exceptional profits for the year is 11.3% (2021: 39%). This represents the announced rate of UK corporation tax of 25% from 1 April 2023, which is the rate that will apply when the deferred tax liability generated by the capital allowances unwinds, less the impact of c.£2.5m benefit of the tax super-deduction that has been assessed on our qualifying meter assets and grid scale battery capital expenditure during 2022. The super-deduction is only available on qualifying capital expenditure until 31 March 2023, therefore it is expected that our effective tax rate will increase to a more normalised level in 2023.

It should also be noted that the effective rate on pre-exceptional profits in 2021 was high, due to a change in the deferred tax rate, following the UK Government's enactment of the Finance Bill 2021 in May, which confirmed the increase in the rate of corporation tax from 19% to 25% from 1 April 2023. This was applied to the Group's brought-forward deferred tax liabilities on its portfolio of meter assets increasing the charge in 2021. The full-year effective tax rate on 2021 pre-exceptional profits excluding the impact of this rate change, was 18.5%.

Earnings per share
Underlying basic earnings per share (EPS), which excludes exceptional items, amortisation of certain intangibles and their associated tax effect, was 16.06p (2021: 9.60p), reflecting the underlying profitability of the Group. Statutory earnings per share increased to 11.16p (2021: 3.20p). As noted above our 2022 tax charge also includes the benefit of the tax super-deduction available on qualifying capital expenditure since April 2021. Our effective tax rate for 2022 is therefore abnormally low, and this has resulted in a particularly high growth in our earnings per share.

Dividend
A 27.5p per share dividend in respect of FY 2021 was approved at the Group's Annual General Meeting in May, and the fourth and final instalment of this was paid in July 2022.

In line with the Group's policy to grow dividends at 10% per annum, a 30.25p per share dividend is proposed in respect of FY 2022. This is expected to be settled in four equal quarterly instalments. Two instalments have already been paid, in October 2022 and January 2023 with the following provisional timetable for the remaining instalments:

Instalment	Ex-dividend date	Record date	Payment date
3	06 April 2023	11 April 2023	27 April 2023
4	06 July 2023	07 July 2023	27 July 2023

The Board remains comfortable that future dividend payment amounts are sufficiently secured by long-term, sustainable cash flows generated from our existing portfolio of metering, data and grid-scale battery assets.

Cash flow and capex investment
Operating cash inflow in 2022 was £63.8m (2021: £61.8m). The cash inflow reflects £63.8m pre-exceptional EBITDA, £5.5m of non-cash costs included in EBITDA and a £4.3m cash outflow on working capital net of tax receipts, largely due to a deliberate build-up of inventory levels to mitigate the risk of delays in the supply chain and ensure that meters are available to grow our installation run rate.

The Group also drew down £65.0m under its loan facility.

The cash generated from operations and from our borrowing has been used to continue investment in our revenue generating meter and grid-scale battery assets.

Capital expenditure on property, plant and equipment was £143.4m (2021: £108.2m). Of this, £105.0m was invested in meter and data assets, £36.3m in developing grid-scale battery sites and £1.1m relates to the purchase of land at one of our grid-scale sites.

Investing activities also include payments of £14.6m to acquire battery sites (2021: £4.7m) and a further £12.3m of instalment payments made for grid-scale batteries which have not yet been delivered (2021: £nil). On the balance sheet, the sites under development are classified as assets under construction within property, plant and equipment and the instalment payments for batteries are classified as other non-current receivables.

A further £2.2m (2021: £2.8m) investment has been made in intangible assets, mainly relating to the development of software to support the metering and installations business.

Investing cash outflows also include a £1.4m payment to acquire n3rgy and a £2.1m investment (including transaction costs) to acquire a 25% stake in Clenergy EV Ltd. See note 24 and note 12 to the consolidated financial statements for further details.

Financial resources
Net debt at 31 December 2022 was £31.2m (31 December 2021: Net cash £117.7m). This excludes restricted cash and lease liabilities accounted for under IFRS 16.

The Group has in place a £420m debt facility which matures in December 2025 and was fully compliant with all its bank covenants throughout the year. The Group has £32.8m available in cash and £355m in unutilised facilities (31 December 2021: £420m) and therefore continues to have the financial flexibility required to maximise growth potential in a capital-efficient way.

Definitions of alternative performance measures

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

1 Amortisation of the Group's Enterprise Resource Planning system, which went live in full in 2020, remains within the underlying cost base of the business and is therefore a part of the Group's underlying profit measures.

Reconciliation of statutory to underlying results

SMS uses alternative performance measures, defined above, to present a clear view of what the Group considers to be the results of its underlying, sustainable business operations. Excluding certain items enables consistent year-on-year comparisons and aids a better understanding of business performance. A reconciliation of these performance measures is disclosed below:

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m	Percentage change
Index-linked annualised recurring revenue	97.1	85.9	13%
Group revenue	135.5	108.5	25%
Statutory profit from operations	20.1	13.5	
Amortisation of intangibles	4.2	4.1	
Depreciation	32.9	28.7	
Statutory EBITDA	57.1	46.3	23%
Exceptional items[1] (EBITDA-related)	6.6	6.5	
Pre-exceptional EBITDA	63.8	52.8	21%
Share of loss of associate	(0.2)	–	
Net interest (excluding exceptional)	(3.9)	(3.5)	
Depreciation	(32.9)	(28.7)	
Amortisation of intangibles included in underlying profit before taxation[2]	(2.3)	(2.3)	
Underlying profit before taxation	24.5	18.3	34%
Exceptional items[1] (EBITDA)	(6.6)	(6.5)	
Exceptional items[1] (interest)	–	(1.7)	
Amortisation of intangibles excluded in underlying profit before taxation	(1.8)	(1.8)	
Statutory profit before taxation	16.0	8.3	92%
Taxation	(1.1)	(4.5)	
Statutory profit after taxation	14.9	3.8	292%
Amortisation of intangibles excluded in underlying profit after taxation	1.8	1.8	
Exceptional items[1] (EBITDA and interest)	6.6	8.2	
Tax effect of adjustments	(2.0)	(2.4)	
Underlying profit after taxation	21.4	11.4	88%
Weighted average number of ordinary shares (basic)	133,241,113	118,330,817	
Underlying basic EPS (pence)	16.06	9.60	67%
Weighted average number of ordinary shares (diluted)	133,857,082	118,972,527	
Underlying diluted EPS (pence)	15.98	9.55	67%

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

2 Amortisation of the Group's Enterprise Resource Planning system remains within the underlying cost base of the business and is therefore a part of the Group's underlying profit measures.

	Year ended 31 December 2022 £m	Year ended 31 December 2021 £m	Percentage change
Statutory gross profit	70.0	59.4	18%
Depreciation included in cost of sales	29.3	24.7	
Depreciation-adjusted gross profit	99.4	84.1	18%
Depreciation-adjusted gross margin	73%	77%	

Financial tables and notes

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2022

	Notes	**2022 Before exceptional items £'000**	**2022 Exceptional items[1] £'000**	**2022 Total £'000**	2021 Before exceptional items £'000	2021 Exceptional items £'000	2021 Total £'000
Revenue	2	**135,520**	**–**	**135,520**	108,480	–	108,480
Cost of sales	3	**(65,498)**	**–**	**(65,498)**	(48,316)	(829)	(49,145)
Gross profit		**70,022**	**–**	**70,022**	60,164	(829)	59,335
Administrative expenses	3	**(45,222)**	**(6,646)**	**(51,868)**	(41,866)	(5,649)	(47,515)
Other operating income	3	**1,936**	**–**	**1,936**	1,696	–	1,696
Profit from operations	3	**26,736**	**(6,646)**	**20,090**	19,994	(6,478)	13,516
Share of loss of associate	12	**(186)**	**–**	**(186)**	–	–	–
Finance costs	5	**(4,273)**	**–**	**(4,273)**	(3,488)	(1,742)	(5,230)
Finance income	5	**324**	**–**	**324**	7	–	7
Profit before taxation		**22,601**	**(6,646)**	**15,955**	16,513	(8,220)	8,293
Taxation	6	**(2,557)**	**1,473**	**(1,084)**	(6,479)	1,978	(4,501)
Profit for the year attributable to owners of the parent		**20,044**	**(5,173)**	**14,871**	10,034	(6,242)	3,792

1 Refer to note 3 for details of exceptional items.

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

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

	Notes	**2022**	2021
Basic earnings per share (pence)	7	**11.16**	3.20
Diluted earnings per share (pence)	7	**11.11**	3.19

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2022

	2022 Before exceptional items £'000	**2022 Exceptional items £'000**	**2022 Total £'000**	2021 Before exceptional items £'000	2021 Exceptional items £'000	2021 Total £'000
Profit for the year	**20,044**	**(5,173)**	**14,871**	10,034	(6,242)	3,792
Other comprehensive income[1]						
Exchange differences on translation of foreign operations	**9**	**–**	**9**	(46)	–	(46)
Other comprehensive income for the year, net of tax	**9**	**–**	**9**	(46)	–	(46)
Total comprehensive income for the year attributable to owners of the parent	**20,053**	**(5,173)**	**14,880**	9,988	(6,242)	3,746

1 May be reclassified to profit or loss.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2022

	Notes	**2022 £'000**	2021 £'000
Assets			
Non-current assets			
Intangible assets	9, 10	**25,832**	25,463
Property, plant and equipment	11	**533,240**	415,901
Investments		**40**	75
Investment in associate	12	**1,940**	–
Other assets		**–**	1,651
Trade and other receivables	14	**12,347**	–
Total non-current assets		**573,399**	443,090
Current assets			
Inventories	13	**37,438**	22,980
Other assets		**–**	550
Trade and other receivables	14	**52,935**	47,631
Cash and cash equivalents	15	**32,770**	117,687
Cash and cash equivalents - restricted	15	**307**	1,299
Total current assets		**123,450**	190,147
Assets held for sale	16	**513**	–
Total assets		**697,362**	633,237
Liabilities			
Current liabilities			
Trade and other payables	17	**69,378**	56,489
Bank loans and overdrafts	18	**591**	–
Lease liabilities	19	**885**	999
Other liabilities	21	**1,388**	638
Total current liabilities		**72,242**	58,126
Non-current liabilities			
Bank loans	18	**63,349**	–
Lease liabilities	19	**11,476**	7,574
Provisions	20	**2,033**	798
Other liabilities	21	**1,280**	750
Deferred tax liabilities	22	**13,496**	12,199
Total non-current liabilities		**91,634**	21,321
Total liabilities		**163,876**	79,447
Net assets		**533,486**	553,790
Equity			
Share capital	27	**1,334**	1,333
Share premium		**332,332**	332,048
Other reserve	29	**9,562**	9,562
Own share reserve	27	**(955)**	(825)
Foreign currency translation reserve		**(36)**	(45)
Retained earnings		**191,249**	211,717
Total equity attributable to owners of the parent		**533,486**	553,790

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2022

Attributable to the owners of the parent company:	Share capital £'000	Share premium £'000	Other reserve £'000	Own share reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Total £'000
As at 1 January 2021	1,129	160,471	9,562	(749)	1	236,028	406,442
Total profit for the year	–	–	–	–	–	3,792	3,792
Total other comprehensive income for the year	–	–	–	–	(46)	–	(46)
Transactions with owners in their capacity as owners							
Dividends (note 8)	–	–	–	–	–	(29,060)	(29,060)
Shares issued (note 27)	204	171,577	–	–	–	–	171,781
Movement in own shares (note 27)	–	–	–	(76)	–	(203)	(279)
Share-based payments (note 28)	–	–	–	–	–	841	841
Income tax effect of share options	–	–	–	–	–	319	319
As at 31 December 2021	**1,333**	**332,048**	**9,562**	**(825)**	**(45)**	**211,717**	**553,790**
Total profit for the year	**–**	**–**	**–**	**–**	**–**	**14,871**	**14,871**
Total other comprehensive income for the year	**–**	**–**	**–**	**–**	**9**	**–**	**9**
Transactions with owners in their capacity as owners							
Dividends (note 8)	**–**	**–**	**–**	**–**	**–**	**(37,592)**	**(37,592)**
Shares issued (note 27)	**1**	**284**	**–**	**–**	**–**	**–**	**285**
Movement in own shares (note 27)	**–**	**–**	**–**	**(130)**	**–**	**(265)**	**(395)**
Share-based payments (note 28)	**–**	**–**	**–**	**–**	**–**	**2,611**	**2,611**
Income tax effect of share options	**–**	**–**	**–**	**–**	**–**	**(93)**	**(93)**
As at 31 December 2022	**1,334**	**332,332**	**9,562**	**(955)**	**(36)**	**191,249**	**533,486**

See notes 27 and 29 for details of the Own share reserve and Other reserve.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	2022 £'000	2021 (restated) £'000
Operating activities		
Profit before taxation	**15,955**	8,293
Share of loss of associate	**186**	–
Finance costs	**4,273**	3,488
Finance income	**(324)**	(7)
Foreign exchange loss	**–**	29
Exceptional items: other[1]	**5,716**	7,288
Depreciation	**32,876**	28,712
Amortisation of intangibles	**4,152**	4,060
Share-based payment expense	**2,612**	841
RDEC income	**(280)**	(489)
Loss on disposal of property, plant and equipment	**2,937**	2,457
Movement in inventories	**(12,481)**	3,359
Movement in trade and other receivables	**(5,369)**	(7,671)
Movement in trade and other payables	**13,009**	11,078
Movement in provisions	**(5)**	–
Cash generated from operations	**63,257**	61,438
Income tax received	**568**	403
Net cash generated from operations	**63,825**	61,841
Investing activities		
Payments for asset acquisitions	**(14,627)**	(4,749)
Payment for acquisition of new business, net of cash acquired	**(1,346)**	(8,433)
Payment for acquisition of associate	**(2,126)**	–
Payments to acquire property, plant and equipment	**(143,399)**	(108,214)
Payments on account to acquire grid-scale battery assets	**(12,347)**	–
Proceeds on disposal of property, plant and equipment	**3,131**	2,508
Payments to acquire intangible assets	**(2,172)**	(2,831)
Finance income received	**324**	7
Net cash used in investing activities	**(172,562)**	(121,712)
Financing activities		
New borrowings	**65,000**	53,250
Borrowings repaid	**–**	(53,250)
Principal elements of lease payments	**(1,500)**	(1,247)
Finance costs paid	**(2,975)**	(4,200)
Net proceeds from share issue	**285**	171,781
Purchase of own shares	**(395)**	(279)
Dividends paid	**(37,592)**	(29,060)
Net cash generated from financing activities	**22,823**	136,995
Net increase/(decrease) in cash and cash equivalents	**(85,914)**	77,124
Exchange (gain)/loss on cash and cash equivalents	**5**	(1)
Cash and cash equivalents at the beginning of the financial year	**118,986**	41,863
Cash and cash equivalents at the end of the financial year (note 15)[2]	**33,077**	118,986

1 Other exceptional items comprise £5,716,000 for losses on our meter portfolio. In 2021, non-cash exceptional items included £5,546,000 for losses on our meter portfolio and the £1,742,000 exceptional finance cost.

2 Cash and cash equivalents includes restricted cash following an IFRIC agenda decision in March 2022. Amounts shown for 2021 have been restated on a comparable basis.

Cash and cash equivalents comprise:

	2022 £'000	2021 £'000
Cash and cash equivalents	**32,770**	117,687
Cash and cash equivalents – restricted cash	**307**	1,299
Total cash and cash equivalents	**33,077**	118,986

ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements of the Group for the year ended 31 December 2022 were approved and authorised for issue in accordance with a resolution of the Directors on 14 March 2023. Smart Metering Systems plc (SMS) is a public limited company limited by shares and incorporated in Scotland, with its registered office at 2nd Floor, 48 St. Vincent Street, Glasgow G2 5TS. The Company's ordinary shares are traded on AIM.

Basis of preparation

The consolidated financial statements have been prepared in accordance with UK-adopted international accounting standards.

The consolidated financial statements have been prepared on a historical cost basis, modified by the revaluation of certain financial assets and financial liabilities that have been measured at fair value.

The consolidated financial statements are presented in British Pounds Sterling (£), which is Smart Metering System plc's functional and presentation currency, and all values are rounded to the nearest thousand (£'000) except where otherwise indicated.

Following an IFRIC agenda decision in March 2022 cash and cash equivalents now include restricted cash. Amounts shown for 2021 have been restated on a comparable basis.

In preparing the consolidated financial statements management has considered the impact of climate change, particularly in the context of the disclosures included in the Strategic report and the Group's net-zero carbon target. Our net-zero plans are to electrify our vehicle fleet and carry out sustainability upgrades to our building estate. The fleet will be replaced at the end of the useful life. These considerations did not have a material impact on the financial reporting judgements and estimates, consistent with the assessment that climate change is not expected to have a significant impact on the Group's going concern assessment to December 2024. Qualitative explorations of potential areas of concern, including an evaluation of climate exposure on our physical assets such as offices, warehouses and vehicles, has been carried out and we have identified areas of potential climate-related risk, such as extreme weather events which could affect our physical locations and road-based employees. Overall, the risk of climate-related change on the Group is considered low.

Going concern

Management prepares budgets and forecasts on a five-year forward-looking basis. These forecasts cover operational cash flows and investment capital expenditure and are prepared based on management's estimation of installation run rates through the UK smart meter rollout. The Directors have performed their assessment of the entity's ability to continue as a going concern, from the date of issue of these financial statements to 31 December 2024.

Management has modelled several different meter installation and grid-scale battery storage scenarios, including a downside scenario which assumed a reduced rollout of new meter installations over the five-year period and delayed the energisation of grid-scale battery storage sites. The scenario proved that the business would still have sufficient cash flow to continue to operate, banking covenants would remain satisfied with adequate headroom, and adequate cash would be available to cover liabilities and operating costs. This modelling provides confidence to management that, even in adverse circumstances, the business will still have sufficient resources to continue to operate.

In September 2021, the Group completed the refinancing of its revolving credit facility in order to support ongoing investment in its established carbon reduction ('CaRe') assets. The total available funding under the new loan facility is £420m and the maturity date is December 2025. In October 2021, the Group completed a successful equity placing, raising proceeds of c.£175m. These proceeds were used to make a voluntary prepayment under the Group's refinanced loan facility of the full outstanding principal of c.£53m. At 31 December 2022, the Group had a drawn-down amount of £65m (31 December 2021: £nil).

The Group was compliant with all its debt covenants at 31 December 2022. The financial covenants attached to the facility are that EBITDA should be no less than 4.00x interest and net debt should be no more than 4.75x EBITDA. At 31 December 2022 these stood at 18.84x and 0.45x respectively, demonstrating significant headroom. The Group does not expect to breach these covenants in the period from the date of release of these financial statements to 31 December 2024, being the period for the going concern assessment.

The Group balance sheet shows consolidated net assets of £533.5m (31 December 2021: £553.8m), of which £429.7m (31 December 2021: £366.7m) relates to revenue-generating meter and data assets. The liquidity of the Group thus remains strong and continues to provide the financial flexibility required to support the Group's long-term growth prospects.

With significant coverage provided by existing long-term, inflation-linked and recurring cash flows, the Group remains committed to its enhanced dividend policy. It proposes a 30.25p per share annualised dividend in respect of FY 2022. The first of four cash instalments, a total of £10.1m, was paid in October 2022.

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

Basis of consolidation

The consolidated accounts of the Group include the assets, liabilities and results of the Company and subsidiary undertakings in which Smart Metering Systems plc has a controlling interest. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has all the following: power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee); exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect its returns. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Foreign currency translation

Group companies
The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- non-monetary assets at the date of acquisition are translated at the historical rate and are not subsequently revalued;
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in Other comprehensive income and accumulated in a separate reserve within equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates, are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within Finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within Administrative expenses.

Use of estimates and judgements

The Directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. These estimates and associated assumptions are based on historical experience and other factors considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting judgements
The following are the critical judgements that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

- capitalisation of internal installation costs:
  - a significant level of in-house installation of meter assets is carried out by the Group, certain costs of which are capitalised (2022: £51.8m, 2021: £38.2m) and depreciated as part of property, plant and equipment depreciation. Judgement is required by management to ascertain the appropriate categories and proportion of overheads and other expenses that are directly attributable to installation of meter assets. Typically, capitalised costs will include staff costs, and a systematic allocation of any production overheads deemed to be directly attributable to the process of installing a meter owned by the Group. Other general and administrative overheads, such as sales, marketing and training costs, are expensed directly to profit and loss;
- presentation of losses on disposal of certain meter assets as exceptional items:
  - as a result of the inherent volatility associated with the UK smart meter rollout, and removal of traditional meter assets as part of this, management has taken the decision to show losses arising on disposal of these meters – being the net book value less the associated termination income received representing proceeds on disposal – as exceptional administrative expenses. By disclosing these amounts separately, the traditional meter asset portfolio can be better tracked to assist users of the financial statements to better understand the premature retirement of these revenue-generating assets that is outside the Group's control. On disposal, the receipt of termination income which is recognised as a component of the net gain or loss on the disposal of these meter assets, will vary depending on the energy supplier and is therefore not within our control. As the receipt of proceeds from disposal is inherently volatile, a loss on disposal can still arise in certain circumstances; and
  - the Group has continued to see a small proportion of SMETS1 meters removed from the wall. As these removals are attributable to the temporary industry transition period, management has made the judgement to recognise losses arising on the disposal of these meters as exceptional until resolution by the Enrolment and Adoption programme is complete.; and
- identification of indicators of impairment of the meter asset portfolio in accordance with IAS 36 and assumptions applied in determining the carrying value of the portfolio of meter assets:
  - due to the uncertainties associated with the timing of the UK domestic smart meter rollout, the expected useful life and carrying value of traditional meters requires significant judgement, as does the level of recoverability of termination income. These assumptions are used in deriving the depreciation rates applied and the impairment calculation performed on carrying value. For the traditional meters, as the UK smart meter rollout progresses, our portfolio of traditional meter assets is diminishing. It is therefore crucial that the recoverability of the carrying value of these meter assets, recognised in Property, plant and equipment, be assessed. The two main drivers for assessing this recoverability are:
    1) the timing of the removals of these meters – this decision lies with the end consumer and removals are largely undertaken by third parties, which means we have little control over the timing and quantity of these removals; and
    2) the estimated future cash flows from termination income – these are derived using historical data and analysis around the risk of churn between contracted and non-contracted customers. The assessment includes consideration of the extent to which termination income and future rental income are received as traditional meters continue to be removed from the wall.

  In 2022, this assessment has identified that the carrying value of the traditional meter assets portfolio is recoverable and, therefore, no impairment charge has been recognised (2021: £nil).
  - potential indicators of impairment have also been assessed in relation to our smart and I&C meters, including consideration of the temporary industry transitional issues experienced with some SMETS1 assets as detailed above. Management has concluded that there is no significant risk of impairment with regards to the Group's smart and I&C meters at 31 December 2022, consistent with the prior year.

Key sources of estimation uncertainty
The Group has no key sources of estimation uncertainty at the reporting date that may have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Revenue recognition

(i) Metering
Meter rental
The Group acts as a gas and electricity Meter Asset Provider (MAP), providing and installing meters to energy suppliers on behalf of the end consumer.

As a result of the Group's assessment of contracts on implementation of IFRS 16, and any potential interaction with IFRS 15, it was determined that the arrangements the Group has in place to act as MAP do not constitute a lease of the meter asset to the energy supplier. Therefore, the related income for the service of providing a fitted meter is recognised in accordance with IFRS 15.

The provision of meter assets to energy suppliers ('MAP services'), together with the initial installation, is considered a distinct and single performance obligation on the basis that, as MAP, the Group has an obligation to its customers to provide a fitted meter. This is a separately identifiable service to which a stand alone selling price is typically allocated. Over the course of the contract term, which runs in perpetuity, the Group delivers a series of monthly services for which benefits are simultaneously received and consumed by the customer.

Charges for MAP services are calculated daily based on the number of installed meters and invoiced to customers monthly once validation checks have been completed. As revenue from MAP charges is attributed to services provided daily, revenue is always based on the actual level of service provided and, therefore, any uncertainty at the end of each reporting period is limited to the extent that validation checks are still being completed. Revenue is thus recognised over time based on our right to invoice and includes contract Retail Price Index (RPI) uplifts.

As a result of industry regulations, and subject to specific contract terms with a customer, the Group may be required to make payments to customers for shortfalls in the level of service provided. These charges are directly related to the service being provided to the customer and thus are recognised as a reduction to revenue in the month in which the service failure occurred. Where service levels are set based on annual targets, charges are estimated monthly and subsequently finalised at the end of the year. Uncertainty, as it pertains to these payments to customers, is thus typically resolved by the end of the reporting period.

If a MAP contract is cancelled, termination fees may be levied on the energy supplier. There has been no change in the accounting for these termination fees and they continue to be classified within Other operating income unless they have arisen on the loss of the meter assets, in which case they are reported within Administrative expenses as a component of net gain or loss on disposal.

If the services rendered by the Group exceed the payment received, then accrued income is recognised. This is subsequently reclassified to receivables at the point at which the Group has an unconditional right to payment.

Asset management services
The Group provides meter asset management and operations services to energy suppliers. These services are considered a distinct performance obligation from the meter rental on the basis that these are separately identifiable services to which a stand-alone selling price is allocated, and they are not necessary to bring the meter asset into use.

Over the course of the contract term, which can either be fixed or in perpetuity, the Group delivers a series of monthly services for which the benefits are simultaneously received and consumed by a customer. Therefore, these are accounted for as a single performance obligation.

Service charges are calculated based on the number of meters appointed and are accrued monthly. As revenue from service charges is attributed to services provided periodically, revenue is always based on the actual level of service provided and, therefore, there is no uncertainty at the end of each reporting period. For charges invoiced to customers monthly revenue is thus recognised over time based on our right to invoice and includes contract RPI uplifts. For charges invoiced to customers annually in advance, including contract RPI uplifts, a contract liability is recognised and subsequently released to the income statement over the year on a straight-line basis. The Group uses the practical expedient under IFRS 15 from adjusting revenue for any significant financial components of one year or less.

The Group's meter asset management contracts also include the provision of transactional meter works. These are considered further in section (iv) below.

If the services rendered by the Group exceed the payment received, then a contract asset is recognised. This is subsequently reclassified to receivables at the point at which the Group has an unconditional right to payment.

Third-party management services
The Group provides management services to a third party to whom it sold a minority of its meter asset portfolio in April 2020. These services include accounting and treasury, portfolio asset management and other administrative tasks.

The various activities that make up these management services are provided to the third party on an integrated basis. Over the course of the contract term, which runs for as long as there are meters within the scope of the services, the Group delivers a series of monthly services for which the benefits are simultaneously received and consumed by the customer. Therefore, these are accounted for as a single performance obligation.

Service charges are currently based on a fixed annual fee, subject to contract RPI uplifts, and are invoiced to the customer monthly. Revenue is thus recognised over time based on our right to invoice.

If the services rendered by the Group exceed the payment received, then a contract asset is recognised. This is subsequently reclassified to receivables at the point at which the Group has an unconditional right to payment.

(ii) Data services
The Group provides data collection and aggregation services to Industrial & Commercial (I&C) electricity customers and, through use of the ADM™ unit, to I&C gas customers. Over the course of the contract term, which can either be fixed or in perpetuity, the Group delivers a series of monthly services for which the benefits are simultaneously received and consumed by a customer. Therefore, these are accounted for as a single performance obligation.

Service charges are calculated based on the number of meters/ADM™ units appointed and are accrued monthly. As revenue from service charges is attributed to services provided periodically, revenue is always based on the actual level of service provided and, therefore, there is no uncertainty at the end of each reporting period. Service charges, including contract RPI uplifts, are billed to clients annually in advance and therefore a contract liability is recognised and subsequently released to the income statement over the year on a straight-line basis. The Group uses the practical expedient under IFRS 15 from adjusting revenue for any significant financial components of one year or less.

The ADM™ device is a proprietary product for the Group and there are no other market providers of this device. A customer cannot therefore benefit from the data services without installation, and the installation is not separately identifiable as it is integral to the subsequent data services. This is therefore accounted for along with the data services as a single performance obligation and any corresponding charges are recognised over the term of the contract.

(iii) Utility connections services (gas and electricity)
Gas and electricity connections services are provided under fixed-price contracts with I&C customers and can be delivered to a single site or multiple sites. Whilst each service consists of multiple activities, the Group's promise in the contract is to deliver an integrated end-to-end service to which the underlying activities are inputs. Where services are delivered to multiple sites, and these are substantially the same, a series of services is being provided. In all cases, therefore, these contracts give rise to a single performance obligation to which the fixed price is allocated. Subsequent variations to this price, due to changes in the inputs required, are accounted for as contract modifications and recognised on a cumulative catch-up basis.

Services are transferred over time on the basis that these are customised services with no alternative use and the Group has an enforceable right to payment for work completed to date.

Revenue is recognised on the stage of completion with reference to the actual services provided as a proportion of the total service expected to be provided under the contract, as the services can enhance a work-in-progress asset for the customer and have no alternative use. This is determined on a contract-by-contract basis using a milestone approach with reference to the milestones set out in the contract or otherwise agreed. Where relevant, consideration is also given to material services provided between milestones. Estimates of revenues, costs or extent of progress towards completion are revised if circumstances change and any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known to management.

The customer pays the fixed amount based on a payment schedule. In certain circumstances the customer pays in advance and therefore a contract liability is recognised and subsequently released to the income statement based on the measure of progress detailed above. As the contract is cancellable at the customer's discretion, subject to settlement for services provided to the date of cancellation, a contract liability is not recognised until the cash has been received.

If the services rendered by the Group exceed the payment received, then a contract asset is recognised. This is subsequently reclassified to receivables at the point at which the Group has an unconditional right to payment.

The Group utilises the practical expedient available under IFRS 15 for costs to obtain a contract. Commissions paid as part of obtaining a contract are expensed as incurred on the basis that the contract term is typically less than twelve months.

(iv) Transactional meter works
Transactional works, which include emergency, adversarial and other maintenance services, and are typically short term in nature, are accounted for as a separate performance obligation to asset management services (see section (i) above) on the basis that these works are separately identifiable and can be performed by another party. A customer, being the energy supplier, is legally obligated to appoint a meter asset manager and can therefore benefit from this service in isolation, without the subsequent transactional works which are initiated on an ad-hoc basis upon demand by the customer.

In 2020, the Group also started to provide transactional meter works to the third party to whom the Group sold a minority of its meter asset portfolio in April 2020.

The transaction price allocated to transactional works is based on stand-alone selling prices (per unit, where relevant) and revenue is recognised at a point in time when the transaction has been completed and accepted by the customer. This is the point at which the customer is charged for the service and a receivable is recognised by the Group as we have an unconditional right to payment. The customer will settle the transaction price for these services as part of the regular monthly billing cycle for metering and asset management services.

The customer pays the fixed amount based on the transactional services provided and this is charged once the service has been completed and accepted by the customer.

For segmental purposes, this transactional, non-recurring revenue is recognised within asset installation.

(v) Grid-scale batteries
Grid-scale battery assets generate revenue by providing several services.

Capacity market
SMS enters into longer term contracts with the National Grid. During the contract period, which may last from one to 15 years, SMS's only obligation is to make itself available to provide the capacity agreed in the contract when notification is received from National Grid. Pricing is fixed at an auction.

There is a single performance obligation to be available to provide capacity to the National Grid. Revenue is recognised over time.

Wholesale market
SMS trades power with a counterparty on an exchange on the EPEX GB Day Ahead and Intraday markets, with the intention of buying power at a low off-peak price and selling at a high peak price. All trades take place at spot price and there are no forward or future contracts. All trades are settled daily.

There is a single performance obligation for SMS to buy or sell power on the exchange. Revenue is recognised for each transaction at a point in time.

Balancing mechanism
SMS enters into short-term contracts with Elexon BSC to help balance the demands of the National Grid by increasing or decreasing generation (or consumption). Contracts range for a length of one to 60 minutes and prices are fixed when a bid is submitted. Elexon accepts only the cheapest bids needed to balance the grid.

There is a single performance obligation for SMS to increase or decrease its battery asset output. Revenue is recognised over time. However, due to the short-term nature of the contracts, there would be no material difference between recognition over time or at a point in time.

Ancillary services market
SMS enters into contracts with the National Grid to help maintain frequency on the grid. During the contract period SMS is required to use the grid-scale battery asset following the Grid's instructions. The price is fixed at auction.

Revenue is recognised over time. However, due to the short-term nature of the contracts, there would be no material difference between recognition over time or at a point in time.

Embedded benefits
SMS enters into contracts with the National Grid and the Distribution Network Operator under which SMS is paid based on the amount of electricity exported during Triad or peak periods.

There is a single performance obligation to export capacity during Triad or peak periods. Revenue is recognised over time. However, due to the short-term nature of the contracts, there would be no material difference between recognition over time or at a point in time.

Imbalance
Elexon BSC is obliged to purchase or sell electricity generated or sold in any half-hour period which is not otherwise contracted for. SMS buys or sells power to meet its requirements for the other revenue streams. The purchase and selling prices are at a spot price set by a formula.

There is a single performance obligation for SMS to export or import power. Revenue is recognised for each transaction at a point in time.

(vi) Energy management services
Energy management services provided mainly to I&C customers include utility bureau and bill validation services, risk management and procurement services and energy reduction and environmental management services.

Certain services, such as utility bureau and bill validation, are delivered through a series of monthly services over the course of the contract term, for which the benefits are simultaneously received and consumed by a customer. These are accounted for as a single performance obligation. The transaction price allocated includes a fixed monthly service charge together with a variable component for specific activities that may not be carried out every month. As revenue from charges is attributed to services provided monthly, revenue is always based on the actual level of service provided and, therefore, there is no uncertainty at the end of each reporting period. Revenue is thus recognised over time based on our right to invoice.

Contracts for specialist consultancy services may include multiple projects. Where these projects are separately identifiable within the contract and are not interrelated, they are accounted for as separate performance obligations. The transaction price is allocated based on the stand-alone charges for each project.

Other energy reduction and environmental management services are typically longer-term, multi-site contracts and, therefore, the revenue recognition is consistent with that detailed above for utility connections – see details in section (iii) above.

(vii) Assets and liabilities arising from contracts with customers
Costs to fulfil a contract
In certain circumstances, the Group may incur costs to fulfil its obligations under a contract once it is obtained, but before transferring goods or services to the customer. These costs are assessed on a contract-by-contract basis and, where they are considered to meet the definition of fulfilment costs under IFRS 15, they are recognised as an asset and amortised on a systematic basis consistent with the pattern of transfer of the services to which the asset relates.

Contract assets and liabilities
We receive payments from customers based on a billing schedule, as established in our contracts.

The timing of revenue recognition, billing and cash collections results in:

- billed and unbilled accounts receivable, which are recognised when our right to consideration becomes unconditional, and classified as trade receivables and accrued income respectively;
- unbilled amounts, where we have a conditional right to consideration based on future performance, recognised as contract assets. These amounts will be billed in accordance with the agreed-upon contractual terms; and
- payments received in advance of performance under a contract, recognised as contract liabilities. Contract liabilities are recognised as revenue as (or when) we perform under a contract.

For project-based services, work in progress is billed in accordance with the agreed-upon contractual terms with the customer. We typically receive interim payments as work progresses, which can give rise to a billed or unbilled accounts receivable, where our right to payment is unconditional, or a contract asset, where revenue has been recognised based on progress completed but our right to payment is still conditional on future performance. For some contracts, we may be entitled to receive advance payments. We recognise a contract liability for these advance payments in excess of revenue recognised.

Cancellation terms can vary but typically include provisions that allow the customer to terminate the contract at their discretion subject to a penalty or settlement of amounts for work completed prior to termination. Contracts allow both parties to cancel without penalty in the case of a material breach of contract.

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

Termination fee income is reported as part of Other operating income in the consolidated statement of comprehensive income given its materiality and nature. Any termination fee income arising on the loss of meter assets is reported within Administrative expenses as a component of net gain or loss on disposal. Termination fee income does not arise from the principal activities of the Group. Any such gain or loss on disposal relating to traditional meter assets and SMETS1 meter assets is disclosed as an exceptional item.

Government grants

Grants from governments are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions, usually on submission of a valid claim for payment. Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to capital expenditure are included in liabilities as deferred income and they are credited to profit or loss on a straight-line basis over the expected lives of the related assets. Amounts credited to profit or loss are recognised as part of Other operating income in the consolidated statement of comprehensive income.

The R&D expenditure credit (RDEC) scheme is a UK Government tax incentive which allows qualifying companies to claim R&D expenditure credits (RDECs) equal to 12% of their qualifying research and development expenditure. The credit is taxable at the corporation tax rate and is included in the company's taxable trading profits. RDECs are accounted for by the Group in accordance with IAS 20 Government Grants and recognised within Other operating income in the consolidated statement of comprehensive income. Outstanding amounts receivable are recognised in the consolidated balance sheet within Trade and other receivables.

Financial assets

The Group's financial assets include cash and cash equivalents and trade and other receivables. Investments consist of an immaterial debt investment held at amortised cost.

Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value, either through other comprehensive income (FVOCI) or through profit or loss (FVPL); and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI. The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Recognition and derecognition

Financial assets are initially recognised on trade date. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Trade and other receivables

Trade and other receivables are recognised initially at the IFRS 15 transaction price and subsequently measured at amortised cost. They are generally due for settlement within 30 days and are therefore all classified as current. Due to their short-term nature, carrying value is considered to approximate fair value.

Cash and cash equivalents

Refer to accounting policy on Cash and cash equivalents.

Impairment

The Group assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables and accrued income, which include contract assets and billed and unbilled receivables arising from contracts with customers, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Trade receivables and accrued income are written off, and derecognised, where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the customer ceasing trading and entering administration with no expected recovery from the Supplier of Last Resort process, or a failure by the customer to make contractual payments for a period of greater than or equal to 365 days past due. Indicators are assessed on an individual customer basis. Impairment losses, including the loss allowance, on trade receivables and accrued income are presented within Administrative expenses. Subsequent recoveries of amounts previously written off are credited against the same line item.

Further information about the impairment of trade receivables and accrued income, and the Group's exposure to credit risks, can be found in note 23.

Financial liabilities

The Group's financial liabilities include trade and other payables, bank loans and overdrafts, and leases.

Classification

Financial liabilities are classified as financial liabilities at fair value through profit or loss or loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

Recognition

All financial liabilities are recognised initially at fair value and, in the case of bank loans, net of directly attributable transaction costs.

Measurement

Trade and other payables and bank overdrafts

Trade and other payables, and overdrafts, are subsequently measured at amortised cost using the effective interest rate method. Trade and other payables are presented as current liabilities unless payment is not due within twelve months after the reporting period. Due to their short-term nature, carrying value is considered to approximate fair value.

Bank loans
Bank loans are subsequently measured at amortised cost. Interest expense on bank loans is recognised in the consolidated income statement using the effective interest rate method.

Transaction costs on revolving credit facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all the facility will be drawn down. In this case, the fee is deferred within Other assets until the drawdown occurs. Upon drawdown of the first loan, these costs are reclassified from Other assets to Bank loans and subsequently amortised over the term of the facility.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged or cancelled or has expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred, or liabilities assumed, is recognised in profit or loss as Other income or Finance costs.

If a facility is modified, then it is assessed whether the modification is significant enough to constitute an extinguishment either qualitatively or quantitatively (defined as a change in the present value of cash flows, including any transaction costs paid, exceeding 10%). If a modification is considered an extinguishment of the initial loan, the new modified loan is recorded at fair value and a gain/loss is recognised immediately in the consolidated income statement for the difference between the carrying amount of the old loan and the new loan. Any costs incurred are recognised in profit or loss. Where a modification is not significant enough to be an extinguishment, the cash flows under the modified loan are rediscounted at the original effective interest rate and an immediate gain or loss is recognised accordingly in the consolidated income statement on the date of modification. Any costs incurred are recognised over the remaining period of the modified debt, within the effective interest rate.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the consolidated statement of financial position, if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Leases

Group as lessor

The arrangements the Group has in place to act as Meter Asset Provider do not constitute a lease of the meter asset to the energy supplier. SMS controls the meter as the Group retains legal title and obtains substantially all the economic benefit. The assets are recognised as property, plant and equipment when in use under contract with an energy supplier and the related income for the service of providing a fitted meter is recognised in accordance with IFRS 15. Further information about the Group's accounting policy for revenue recognition is given above, and for property, plant and equipment in note 11.

Group as lessee

The Group leases land, offices, warehouses and motor vehicles. For offices, warehouses and motor vehicles rental contracts are typically made for fixed periods of three to ten years. For land, rental contracts are typically made for fixed periods of 20 to 40 years. Contracts may have extension or early termination options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. The weighted average lessee's incremental borrowing rate applied to the lease liabilities at 31 December 2022 was 5% (31 December 2021: 4.7%).

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;

- any initial direct costs; and
- restoration costs.

The Group is required to restore the land leased as part of its grid-scale battery storage business, and certain leased warehouses, to the condition required by the terms and conditions of the lease at the end of the respective lease terms. Under IFRS 16, the estimated liability for such restoration costs is recognised as a provision under IAS 37 at initial recognition and is not included as part of the lease liability. As right-of-use assets are measured subsequent to initial recognition using a cost model, any change in the estimate of such costs after initial recognition is added to, or deducted from, the cost of the right-of-use asset.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term, on a straight-line basis.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of twelve months or less. Low-value assets comprise IT equipment and small items of office furniture, where the value of the asset on inception is less than c.US$5,000.

Payments for services are separated from the lease components of a contract and accounted for as an administrative expense.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a discount rate that reflects the current market assessments of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognised within finance costs.

Provisions are split between amounts expected to be settled within 12 months of the balance sheet date (current) and amounts expected to be settled later (non-current).

Decommissioning and restoration provisions

Provisions for decommissioning and restoration costs arise in connection with the Group's grid-scale battery storage business, and with certain leased warehouses.

The Group is required to restore the land leased as part of its grid-scale battery storage sites, and certain leased warehouses, to the condition required by the terms and conditions of the lease at the end of the respective lease terms (which range between three to ten years for warehouses, and 20 to 40 years for land).

The amount recognised is the present value of the estimated future expenditure determined in accordance with current conditions, requirements, and price levels, discounted over the useful economic life of the asset where appropriate.

The effects of changes resulting from revisions to the timing or amount of the original estimate of the provision are reflected on a prospective basis, generally by adjustment to the carrying amount of the related right-of-use asset recorded within property, plant and equipment.
An amount equivalent to the decommissioning provision is recognised as part of the corresponding right-of-use asset, which is subsequently depreciated at the same rate as the rest of the asset. Other than the unwinding of discount on or utilisation of the provision, any change in present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding asset.

Provisions also include the estimated cost to de-commission grid-scale battery assets at the end of their life. These costs have been capitalised as part of the related asset within property, plant and equipment, and are depreciated over the life of the asset. Changes in the provision arising from revised estimates that relate to the asset are recorded as adjustments to the carrying value of the asset.

Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the:
- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase. Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value, with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

Investments in associates
An associate is an entity in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the associated undertakings, until the date on which significant influence ceases.

Asset acquisitions
Asset acquisitions include the acquisition of a group of assets that does not constitute a business.

The relevant IFRS is applied when accounting for the acquisition of an individual asset.

Where the acquisition involves a group of assets and liabilities, the individual assets and liabilities acquired are identified and recognised. The cost of the transaction is allocated to the assets acquired, and liabilities assumed, based on their relative fair values at the date of purchase. No goodwill arises on the transaction.

The cost of the transaction is measured at the fair value of the consideration transferred at the acquisition date. This can include cash payments, financial liabilities incurred, equity interests issued by the Group and the fair value of any asset or liability arising from a contingent or deferred consideration arrangement. Non-monetary assets might be exchanged as part of the consideration for the transaction. The cost of an item acquired in exchange for a non-monetary asset or assets is generally measured at fair value.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value, with changes in fair value recognised in profit or loss.

Transaction costs are capitalised as a component of the cost of the assets acquired.

Research and development
Expenditure on pure and applied research activities is recognised in the consolidated statement of comprehensive income as an expense as incurred.

Expenditure on product and system development activities is capitalised if the product or process is technically and commercially feasible and the Group intends and has the technical ability and sufficient resources to complete development; if future economic benefits are probable; and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads.

Capitalised development expenditure is stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is calculated when the asset is available for use, so as to write off its cost, less its estimated residual value, over the useful economic life of that asset as follows:

- Development of ADM™ units — 10% on cost, straight line
- Development of internally generated information technology systems ('IT development') — 20% and 50% on cost, straight line

Capitalised development expenditure on ADM™ units is disclosed within Property, plant and equipment as part of Meter assets and amortised over the same useful economic life as that applied to the tangible ADM™ unit.

Capitalised IT development expenditure is disclosed within Intangible assets as part of IT development and software. All costs capitalised within this category relate to information technology and, in general, are amortised over an economic life of five years. A new system was integrated and brought into use during 2020 and associated development costs are amortised over the remaining contract term of two years.

Intangible assets
Intangible assets acquired separately from third parties consist of software costs, including licence fees. These are recognised as assets, measured at cost and classified as part of IT development and software.

Internally generated intangible assets relate to IT development and are recognised as part of IT development and software. Refer to further details in the research and development accounting policy above.

Intangible assets acquired as part of a business combination are recognised outside goodwill if the asset is separable or arises from contractual or other legal rights. They are recognised at their fair value at the date of acquisition and are subsequently amortised on a straight line basis over their estimated useful lives.
Following initial recognition, intangible assets are measured at cost at the date of acquisition less any amortisation and any impairment losses. Amortisation costs are included within Administrative expenses disclosed in the consolidated statement of comprehensive income.

Intangible assets are amortised over their useful lives as follows:

- IT development and software — 20% and 50% on cost, straight line
- Intangibles recognised upon acquisition:
  - Customer contracts — 20% on cost, straight line
  - Trademarks — 33% on cost, straight line

Useful lives are examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Goodwill

Goodwill represents the excess of the consideration transferred over the fair value of the identifiable assets and liabilities of the acquiree at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but is tested annually for impairment, or if there is an indication of impairment, and is carried at cost less accumulated impairment losses. Impairment losses are not subsequently reversed.

Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised as income immediately.

Contingent consideration is recorded initially at fair value and classified as equity or a financial liability. Contingent consideration classified as equity is not remeasured, but contingent consideration classified as a financial liability is subsequently remeasured at fair value through profit or loss.

Adjustments to provisional fair values of identifiable assets and liabilities (and to estimates of contingent consideration) arising from additional information, obtained within the measurement period (no more than one year from the acquisition date), about facts and circumstances existing at the acquisition date, are adjusted against goodwill. Other adjustments to provisional fair values or changes in contingent consideration are recognised through profit or loss.

Impairment of tangible and intangible assets other than goodwill

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangibles to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have been adjusted.

An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and any accumulated impairment losses.

Property, plant and equipment is initially recorded at cost. Such cost includes the cost of replacing part of the property, plant and equipment. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation. Pursuant to the acquisition of the meter installation businesses on 18 March 2016 certain internal costs to the Group are also capitalised where they are demonstrated as being directly attributable to bringing the meter assets into their usable condition.

Acquired development and construction rights together with directly attributable costs incurred in relation to the construction of the grid-scale battery storage sites are accounted for under IAS 16: Property, plant and equipment. These are recorded at cost and classified as part of Assets under construction within Property, plant and equipment. Whilst under construction no depreciation is recorded.

All other repair and maintenance costs are recognised in the consolidated statement of comprehensive income as incurred.

For each asset depreciation is calculated using the straight-line method to allocate its cost, net of its residual value if applicable, over its estimated useful life as follows:

• Freehold property	2%
• Short-leasehold property	Shorter of the lease term or 15% and 20%
• Meter assets	Smart meters and Industrial & Commercial meters 5% ADM™ units 10% Traditional meters to 1 July 2025
• Plant and machinery	33%
• Fixtures, fittings and equipment	20% and 33%
• Motor vehicles	25%
• Grid-scale assets	Shorter of the lease term or 2.5% to 10% Battery assets 10%
• Right-of-use assets	Shorter of the asset’s useful life and the lease term

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income when the asset is derecognised. The asset’s residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

See the Leases accounting policy for further details on the recognition and measurement of right-of-use assets under IFRS 16.

Inventories
Finished goods and consumables are stated at the lower of cost and net realisable value. Cost comprises direct materials and purchases of meter assets and ADM™ units at cost. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value represents the estimated selling price for inventories in the ordinary course of business less the estimated costs necessary to make the sale.

Cash and cash equivalents
Cash and cash equivalents in the consolidated statement of financial position comprises cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consists of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

Restricted cash
Restricted cash in the consolidated statement of financial position comprises amounts collected from customers on behalf of a third party, as part of a services arrangement, that have not yet been allocated. These monies are held in a trust account whilst awaiting allocation and, per the terms of the account, cannot be used by the Group to meet other short-term cash commitments. They have thus been disclosed separately on the statement of financial position.

Pension costs
The Group operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Group. The annual contributions payable are charged to the consolidated statement of comprehensive income.

Share-based payments
IFRS 2 Share-based Payment has been applied to all grants of equity instruments. The Group issues equity-settled share-based payments to certain employees under the terms of the Group’s various employee share and option schemes. Equity-settled share-based payments are measured at fair value at the date of the grant. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on an estimate of the shares that will ultimately vest.

Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction from the proceeds.

Own share reserve
The Group offers a Share Incentive Plan for all employees and has established a trust to facilitate the delivery of SMS shares under this plan. The holdings of this trust include shares that have not vested unconditionally to employees of the Group. These shares are recorded at cost and are classified as own shares. The cost to the Company of acquiring these own shares held in trust is shown as a deduction from shareholders’ equity.

Dividends
Dividend distributions to the Company’s shareholders are recognised in the accounting period in which the dividends are paid.

Taxation
Tax currently payable is based on the taxable profit for the year and any adjustment to tax payable in respect of prior years. Taxable profit differs from accounting profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is measured using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the asset or liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. It is recognised in the income statement except when it relates to items recognised in other comprehensive income or directly in equity, such as share-based payments. In this case, the deferred tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised. Their carrying amount is reviewed at each balance sheet date on the same basis.

Deferred tax liabilities are recognised for all temporary differences, except in respect of:

- temporary differences arising from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither the accounting profit nor taxable profit or loss; and
- temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Standards and interpretations

New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for its annual reporting period commencing 1 January 2022:

Standard or interpretation		Effective date
IFRS 3 (amendment)	Business Combinations Reference to the Conceptual Framework	1 January 2022
IAS 16 (amendment)	Property, Plant and Equipment – Proceeds Before Intended Use	1 January 2022
IAS 37 (amendment)	Provisions, Contingent Liabilities, Contingent Assets, Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022

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

New standards and interpretations not yet adopted:

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting periods and have not been early-adopted by the Group. The amendments to IAS 12 Income Taxes, regarding deferred tax related to assets and liabilities arising from a single transaction, will apply to the Group as a lessee under IFRS 16. These amendments are effective for periods beginning on or after 1 January 2023 and their potential effects are under consideration. All other standards are not expected to have a material impact on the entity in the current or future reporting periods, or on foreseeable future transactions.

1 Segmental reporting

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

- Asset management, which comprises regulated management of gas and electric meters, ADM™ units and energy data assets within the UK;
- Asset installation, which comprises installation of domestic and I&C gas meters and electricity meters throughout the UK; and
- Energy management, which comprises the building and operation of grid-scale batteries, the provision of energy consultancy services and the management of distributed energy resources (DER).

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

Segment performance is mainly evaluated based on gross profit.

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

31 December 2022	Asset management £'000	Asset installation £'000	Energy management £'000	Unallocated £'000	Total operations £'000
Segment revenue	**92,815**	**83,752**	**12,213**	**–**	**188,780**
Inter-segment revenue	**–**	**(53,260)**	**–**	**–**	**(53,260)**
Revenue from external customers	**92,815**	**30,492**	**12,213**	**–**	**135,520**
Cost of sales	**(35,698)**	**(23,530)**	**(6,270)**	**–**	**(65,498)**
Segment gross profit	**57,117**	**6,962**	**5,943**	**–**	**70,022**
Other operating costs/income	**–**	**–**	**611**	**(36,204)**	**(35,593)**
Depreciation	**–**	**(69)**	**(240)**	**(3,232)**	**(3,541)**
Amortisation of intangibles	**(1,828)**	**–**	**(20)**	**(2,304)**	**(4,152)**
Profit/(loss) from operations – pre-exceptional operating items	**55,289**	**6,893**	**6,294**	**(41,740)**	**26,736**
Exceptional items (operating)	**(5,789)**	**(30)**	**–**	**(827)**	**(6,646)**
Profit/(loss) from operations	**49,500**	**6,863**	**6,294**	**(42,567)**	**20,090**
Share of loss of associate					**(186)**
Net finance costs: other					**(3,949)**
Profit/(loss) before tax					**15,955**
Tax expense					**(1,084)**
Profit for year					**14,871**

31 December 2021	Asset management £'000	Asset installation £'000	Energy management £'000	Unallocated £'000	Total operations £'000
Segment revenue	82,828	74,208	3,620	–	160,656
Inter-segment revenue	–	(52,176)	–	–	(52,176)
Revenue from external customers	82,828	22,032	3,620	–	108,480
Cost of sales	(31,479)	(14,081)	(2,756)	–	(48,316)
Segment gross profit – pre-exceptional cost of sales	51,349	7,951	864	–	60,164
Exceptional items (cost of sales)	–	(829)	–	–	(829)
Segment gross profit	51,349	7,122	864	–	59,355
Other operating costs/income	–	–	1,256	(33,373)	(32,117)
Depreciation	–	(196)	–	(3,797)	(3,993)
Amortisation of intangibles	(1,725)	–	(31)	(2,304)	(4,060)
Profit/(loss) from operations – pre-exceptional operating items	49,624	6,926	2,089	(39,474)	19,165
Exceptional items (operating)	(6,213)	–	–	564	(5,649)
Profit/(loss) from operations	43,411	6,926	2,089	(38,910)	13,516
Net finance costs: other					(3,481)
Net finance costs: exceptional					(1,742)
Profit/(loss) before tax					8,293
Tax expense					(4,501)
Profit for year					3,792

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

Depreciation associated with meter assets in the asset management segment and grid-scale battery assets in the energy management segment has been reported within Cost of sales as these assets directly drive revenue (see note 3).

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

The Group has two major customers that each generated 10% or more of total Group turnover, as listed below by segment:

	2022 £'000	2021 £'000
Customer 1 – Asset management	**17,574**	12,647
Customer 1 – Asset installation	**5,052**	2,644
Customer 2 – Asset management	**8,056**	8,900
Customer 2 – Asset installation	**8,784**	8,025
	39,466	32,216

Segment assets and liabilities

31 December 2022	**Asset management £'000**	**Asset installation £'000**	**Energy management £'000**	**Unallocated £'000**	**Total operations £'000**
Assets reported by segment					
Intangible assets	**13,550**	**3,497**	**3,161**	**5,624**	**25,832**
Property, plant and equipment	**429,709**	**71**	**95,225**	**8,235**	**533,240**
Investment in associate	**–**	**–**	**1,940**	**–**	**1,940**
Trade and other receivables – non-current	**–**	**–**	**12,347**	**–**	**12,347**
Inventories	**37,136**	**302**	**–**	**–**	**37,438**
Contract assets	**–**	**10**	**277**	**–**	**287**
	480,395	**3,880**	**112,950**	**13,859**	**611,084**
Assets not by segment					**86,278**
Total assets					**697,362**
Liabilities by segment					
Contract liabilities	**1,518**	**1,805**	**80**	**–**	**3,403**
Lease liabilities	**–**	**–**	**8,405**	**3,956**	**12,361**
Provisions	**–**	**–**	**1,963**	**70**	**2,033**
Other liabilities	**606**	**–**	**2,062**	**–**	**2,668**
	2,124	**1,805**	**12,510**	**4,026**	**20,465**
Liabilities not by segment					**143,411**
Total liabilities					**163,876**

31 December 2021	Asset management £'000	Asset installation £'000	Energy management £'000	Unallocated £'000	Total operations £'000
Assets reported by segment					
Intangible assets	11,540	3,497	2,497	7,929	25,463
Property, plant and equipment	366,702	128	38,868	10,203	415,901
Inventories	22,763	215	2	–	22,980
Contract assets	–	46	–	–	46
Other assets (bank loans)	2,201	–	–	–	2,201
	403,206	3,886	41,367	18,132	466,591
Assets not by segment					166,646
Total assets					633,237
Liabilities by segment					
Contract liabilities	1,527	2,084	121	–	3,732
Lease liabilities	–	–	4,060	4,513	8,573
Other liabilities	–	–	638	–	638
Other long-term liabilities	–	–	1,473	75	1,548
	1,527	2,084	6,292	4,588	14,491
Liabilities not by segment					64,956
Total liabilities					79,447

Assets not by segment include cash and cash equivalents, trade and other receivables and investments.

Liabilities not by segment include trade and other payables and deferred tax liabilities, and in 2022 also include bank loans.

Additions to non-current assets within each segment are listed below:

	Asset management £'000	Asset installation £'000	Energy management £'000	Unallocated £'000	Total operations £'000
Additions to non-current assets					
2022	**106,626**	**14**	**43,003**	**2,263**	**151,906**
2021	84,779	90	27,720	3,686	116,275

2 Revenue from contracts with customers

(a) Disaggregation of revenue from contracts with customers

Segment revenue by type of service delivered and by timing of revenue recognition is as follows:

Year ended 31 December 2022	**Asset management £'000**	**Asset installation £'000**	**Energy management £'000**	**Total operations £'000**
Major service lines				
Metering	**80,634**	**–**	**–**	**80,634**
Data management	**12,181**	**–**	**–**	**12,181**
Utility connections	**–**	**7,129**	**–**	**7,129**
Transactional meter works	**–**	**23,059**	**–**	**23,059**
Grid-scale batteries	**–**	**–**	**7,211**	**7,211**
Energy management	**–**	**304**	**5,002**	**5,306**
	92,815	**30,492**	**12,213**	**135,520**
Timing of revenue recognition				
Services transferred at a point in time	**–**	**23,059**	**1,533**	**24,592**
Services transferred over time	**92,815**	**7,433**	**10,680**	**110,928**
	92,815	**30,492**	**12,213**	**135,520**

Year ended 31 December 2021	Asset management £'000	Asset installation £'000	Energy management £'000	Total operations £'000
Major service lines				
Metering	74,358	–	–	74,358
Data management	8,470	–	–	8,470
Utility connections	–	5,852	–	5,852
Transactional meter works	–	15,649	–	15,649
Energy management	–	531	3,620	4,151
	82,828	22,032	3,620	108,480
Timing of revenue recognition				
Services transferred at a point in time	–	15,649	–	15,649
Services transferred over time	82,828	6,383	3,620	92,381
	82,828	22,032	3,620	108,480

(b) Assets and liabilities related to contracts with customers
The Group has recognised the following assets and liabilities related to contracts with customers:

	2022 £'000	2021 £'000
Current contract assets	287	46
Total contract assets	287	46
Current contract liabilities	3,403	3,732
Total contract liabilities	3,403	3,732

Trade receivables and unbilled receivables are disclosed in note 14.

Significant changes in contract assets and liabilities
Contract assets and contract liabilities have not changed significantly, and movements reflect the general timing of revenue recognition and status of services in progress at the end of the year.

Revenue recognised in relation to contract liabilities
The following table shows how much of the revenue recognised in the current period relates to carried-forward contract liabilities:

	2022 £'000	2021 £'000
Revenue recognised that was included in the contract liability balance at the beginning of the period	**3,107**	2,636

No revenue was recognised in 2022 in relation to performance obligations satisfied in previous periods.

Transaction price for which performance obligations not satisfied
All our utilities connections and energy management contracts are either for periods of one year or less or are billed periodically based on time and resources incurred, or other unit measures. As permitted under IFRS 15, the transaction price allocated to these performance obligations unsatisfied at the end of the reporting period is not disclosed.

3 Profit from operations

	2022 **£'000**	2021 (restated) £'000
Profit from operations is stated after (charging)/crediting:		
Cost of sales:		
Direct staff and subcontractor costs	**(31,207)**	(22,338)
Depreciation of meter assets	**(28,340)**	(24,719)
Depreciation of grid-scale assets	**(994)**	—
Inventory costs	**(3,316)**	(995)
Short-term lease expense - restated[1]	**(1,641)**	(264)
Total cost of sales (before exceptional items)	**(65,498)**	(48,316)
Administrative expenses:		
Staff costs	**(20,924)**	(17,842)
Depreciation:		
– owned assets	**(2,477)**	(3,087)
– leased assets	**(1,064)**	(906)
Amortisation of intangibles	**(4,152)**	(4,060)
Auditor's remuneration (note 3a)	**(405)**	(392)
Loss on disposal	**(2,937)**	(2,457)
Low-value lease expense	**(37)**	(29)
Research and development costs	**(55)**	(39)
Other operating charges	**(13,171)**	(13,054)
Total administrative expenses (before exceptional items)	**(45,222)**	(41,866)
Exceptional items (note 3b)	**(6,646)**	(6,478)
Other operating income (note 3c)	**1,936**	1,696
Total operating costs	**(115,430)**	(94,964)

[1] Short-term lease expense relating to vans has been reclassified from Administrative expenses to Cost of sales in line with current year disclosure.

(a) Auditor's remuneration
Auditor's remuneration can be analysed as:

	2022 £'000	2021 £'000
Audit of the parent company and consolidated financial statements	**141**	133
Audit of the financial statements of the Company's subsidiaries	**234**	229
Other services – audit-related assurance services	**30**	30
	405	392

(b) Exceptional items

	2022 £'000	2021 £'000
Exceptional operating items		
Losses on the traditional and SMETS1 meter portfolio	**(5,716)**	(5,906)
Acquisition-related costs	**(205)**	(307)
Costs attributable to COVID-19	**—**	(265)
Other non-recurring professional fees	**(725)**	—
	(6,646)	(6,478)
Exceptional finance items		
Facility fees	**—**	(1,742)
	—	(1,742)
Total exceptional items	**(6,646)**	(8,220)

In 2021 exceptional finance costs of £1,742,000 comprised the acceleration of unamortised arrangement fees relating to the existing facility of £1,506,000 together with £236,000 of legal and professional fees attributable to the extinguishment.

The tax effect of exceptional items charged in 2022 is a credit of £1,473,000 (2021: credit of £1,978,000).

(c) Other operating income

	2022 £'000	2021 £'000
Termination fee income	**—**	103
Government grant income	**891**	1,255
Other income	**1,045**	338
	1,936	1,696

Of the government grant income of £891,000 (2021: £1,255,000) recognised in the year ended 31 December 2022, £280,000 relates to RDECs (2021: £489,000) which are detailed in the Accounting policies. A further £611,000 (2021: £766,000) relates to grant income received on government-funded energy efficiency projects within the energy management business.

4 Particulars of employees

The average number of staff employed by the Group during the financial year, including Executive Directors, by activity was:

	2022 Number	2021 Number
Administrative staff	**539**	488
Operational staff	**729**	548
Sales staff	**6**	5
IT staff	**85**	81
Directors (excluding 4 (2021: 4) Non-executive Directors)	**2**	3
	1,361	1,125

The aggregate payroll costs of the employees were:

	2022 £'000	2021 £'000
Wages and salaries	**58,823**	42,973
Social security costs	**5,050**	4,694
Staff pension costs	**1,426**	1,365
Share-based payment (note 28)	**2,612**	841
Director pension costs	**24**	21
	67,935	49,894

5 Finance costs and finance income

	2022 £'000	2021 £'000
Finance costs		
Bank loans and overdrafts	**3,833**	3,132
Lease liabilities	**552**	75
Unwind of discount on liabilities	**19**	—
Foreign exchange (gain)/loss on intra-group borrowings	**(131)**	281
Total pre-exceptional finance costs	**4,273**	3,488
Exceptional finance costs	**—**	1,742
Total finance costs	**4,273**	5,230
Finance income		
Bank interest receivable	**324**	7
Total finance income	**324**	7

6 Taxation

	2022 £'000	2021 £'000
Analysis of charge in the year		
Current tax:		
Current income tax expense	**53**	93
Adjustment to tax charge in respect of previous periods	**2**	–
Total current income tax	**55**	93
Deferred tax:		
Origination and reversal of temporary differences	**1,322**	2,087
Adjustment to tax charge in respect of prior periods	**(293)**	(127)
Adjustment attributable to change in tax rates	**—**	2,448
Tax on profit	**1,084**	4,501

The charge for the period can be reconciled to the profit per the consolidated statement of comprehensive income as follows:

	2022 £'000	2021 £'000
Profit before tax	**15,955**	8,293
Tax at the UK corporation tax rate of 19.00% (2021: 19.00%)	**3,031**	1,576
Expenses not deductible for tax purposes	**277**	171
Income not taxable	**(28)**	–
Impact of super-deduction permanent benefit	**(2,294)**	–
Adjustments to tax charge in respect of previous periods	**(291)**	(127)
Impact of deferred tax not recognised	**47**	(99)
Impact of overseas tax rates	**25**	24
Change in tax rate[1]	**317**	2,956
Tax expense in the income statement	**1,084**	4,501

1 See note 22 for further details.

Current tax credit through equity in the year was £nil (2021: £nil).

7 Earnings per share

The calculation of earnings per share (EPS) is based on the following data and number of shares:

	2022 £'000	2021 £'000
Profit for the year used for calculation of basic EPS	**14,871**	3,792

Number of shares	2022	2021
Weighted average number of ordinary shares for the purposes of basic EPS	**133,241,113**	118,330,817
Effect of potentially dilutive ordinary shares:		
– share options	**615,969**	641,710
Weighted average number of ordinary shares for the purposes of diluted EPS	**133,857,082**	118,972,527
EPS:		
– basic (pence)	**11.16**	3.20
– diluted (pence)	**11.11**	3.19

8 Dividends

	Year ended 31 December 2022 £'000	**Year ended 31 December 2022 Per share (pence)**	Year ended 31 December 2021 £'000	Year ended 31 December 2021 Per share (pence)
FY 2020 second interim dividend paid	**—**	**—**	7,059	6.2500
FY 2020 third interim dividend paid	**—**	**—**	7,065	6.2500
FY 2020 final dividend paid	**—**	**—**	7,107	6.2500
FY 2021 first interim dividend paid	**—**	**—**	7,829	6.8750
FY 2021 second interim dividend paid	**9,166**	**6.8750**	—	—
FY 2021 third interim dividend paid	**9,169**	**6.8750**	—	—
FY 2021 final dividend paid	**9,170**	**6.8750**	—	—
FY 2022 first interim dividend paid	**10,087**	**7.5625**		
Total dividends	**37,592**	**28.1875**	29,060	25.6250

Per the Group's dividend policy, a 27.5p per share dividend was approved in respect of FY 2021 payable in four instalments of 6.875p per share to shareholders in four cash instalments.

A 30.25p per share dividend is proposed in respect of FY 2022 payable in four instalments of 7.5625p per share which are intended to be paid as follows:

Instalment	Ex-dividend date	Record date	Payment date
1	06 October 2022	07 October 2022	28 October 2022
2	05 January 2023	06 January 2023	26 January 2023
3	06 April 2023	11 April 2023	27 April 2023
4	06 July 2023	07 July 2023	27 July 2023

The second, third and fourth instalments will amount to c.£30m and will be accounted for in 2023.

Under the dividend policy, the second interim dividend is paid out of profits recognised in the year prior to the year in which the dividends are declared and reported. As at 31 December 2022, the distributable profits in the parent company were adequate to cover the proposed second interim dividend of c.£10m.

9 Intangible assets

	Goodwill £'000	Intangibles recognised upon acquisition £'000	IT development and software £'000	Total £'000
Cost				
As at 1 January 2021	8,607	2,261	28,518	39,386
Additions	–	–	2,831	2,831
Acquisitions (note 24)	859	1,010	–	1,869
Exchange adjustments	(66)	(3)	(31)	(100)
As at 31 December 2021	9,400	3,268	31,318	43,986
Additions	–	–	2,222	2,222
Acquisitions (note 24)	737	–	1,479	2,216
Exchange adjustments	51	–	32	83
As at 31 December 2022	**10,188**	**3,268**	**35,051**	**48,507**
Amortisation				
As at 1 January 2021	–	2,203	12,260	14,463
Charge for year	–	179	3,881	4,060
As at 31 December 2021	–	2,382	16,141	18,523
Charge for year	–	223	3,929	4,152
As at 31 December 2022	**–**	**2,605**	**20,070**	**22,675**
Net book value				
As at 31 December 2022	**10,188**	**663**	**14,981**	**25,832**
As at 31 December 2021	9,400	886	15,177	25,463
As at 1 January 2021	8,607	58	16,258	24,923

10 Impairment of goodwill

The goodwill arising in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. Goodwill is allocated to CGUs as follows:

	Asset management £'000	Asset installation £'000	Solo Energy £'000	Total £'000
Cost				
As at 1 January 2022	4,971	3,497	932	9,400
Acquisitions (note 24)	737	–	–	737
Exchange adjustments	–	–	51	51
As at 31 December 2022	**5,708**	**3,497**	**983**	**10,188**

Additional goodwill of £737,000 has been recognised in the year on the acquisition of n3rgy Data Limited and is recognised in the Asset management CGU.

The Group tests goodwill for impairment annually or more frequently if there are indications that goodwill might be impaired. Goodwill is tested for impairment by comparing the carrying amount of each CGU, including goodwill, with the recoverable amount. The recoverable amounts are determined based on value-in-use calculations which require assumptions. The calculations use cash flow projections based on financial budgets approved by the Board covering a one-year period, together with management forecasts for a further four-year period. These budgets and forecasts have regard to historical performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed cash flows. Cash flows beyond this are extrapolated using the estimated growth rates stated below.

The cash flows used in the value-in-use calculation for the asset management segment include all costs incurred in the provision of meter assets to energy suppliers, together with the initial installation. The cash flows used in the value-in-use calculation for the asset installation segment exclude installation costs incurred to fit an owned meter. For the purpose of the value-in-use calculation, these are instead allocated to the asset management segment, being the segment to which the corresponding revenues are allocated.

The annual impairment test was performed for the three CGUs identified above that have goodwill allocated to them. No evidence of impairment was found at the balance sheet date.

The key assumptions used in the value-in-use calculations for those CGUs that have goodwill allocated to them are as follows:

- **Perpetual growth rate** – the terminal cash flows are extrapolated in perpetuity using a growth rate of 2.25% for asset management (2021: 2.25%) and 1.0% for asset installation and Solo Energy (2021: 1.0% for asset installation and energy management). The rate of 2.25% applied to asset management is derived from historical Retail Price Index increases applied to the segment's index-linked meter rentals. This is not considered to be higher than the average long-term industry growth rate. The rate of 1.0% applied to asset installation and Solo Energy is aligned to the Group's corporate forecast model and is lower than the rate applied to asset management as revenues in these segments are not always index-linked.
- **Discount rate** – the discount rate is initially based on the weighted average cost of capital (WACC) which would be anticipated for a market participant investing in the Group. A specific discount rate is then calculated for each operating segment, taking into account the time value of money, the segment's risk profile and the impact of the current economic climate. The pre-tax discount rates applied are 8.0%, 10.0% and 19.4% for asset management, asset installation and Solo Energy respectively (2021: 6.8% for asset management, 8.6% for asset installation and 18.2% for Solo Energy) and the post-tax discount rates applied are 6.0%, 7.5% and 15.0% for asset management, asset installation and Solo Energy respectively (2021: 5.5% for asset management, 7.00% for asset installation and 15.0% for Solo Energy). The risk premium assigned to the asset installation CGU reflects the shorter-term nature of the underlying revenues within this segment, as compared to the annually recurring revenue generated by an installed asset. The risk premium assigned to the Solo Energy CGU reflects the pre-revenue status of this part of the business, in which the underlying system is still undergoing development.

Management has performed sensitivity analysis on the key assumptions both with other variables held constant and with other variables simultaneously changed. Management has concluded that there are no reasonably possible changes in the key assumptions that would cause the carrying amounts of goodwill to exceed the value in use for any of the CGUs.

11 Property, plant and equipment

	Land and buildings £'000	Meter assets £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Right-of-use assets £'000	Grid-scale assets £'000	Assets under construction £'000	Total £'000
Cost									
As at 1 January 2021	2,807	392,146	1,044	7,148	5,305	7,010	–	–	415,460
Reclassification[1]	–	–	–	–	–	–	–	4,071	4,071
Additions	–	82,401	126	1,117	28	5,267	–	24,505	113,444
Acquisitions	–	6,682	–	–	–	–	–	5,414	12,096
Disposals	(2)	(19,889)	–	(52)	(202)	–	–	–	(20,145)
Exchange adjustments	–	–	–	(6)	–	(4)	–	–	(10)
As at 31 December 2021	2,805	461,340	1,170	8,207	5,131	12,273	–	33,990	524,916
Reclassification	–	–	–	1	–	–	54,048	(54,049)	–
Reclassified as held for sale	(688)	–	–	–	–	–	–	–	(688)
Additions	1,105	105,004	18	994	719	5,509	84	36,251	149,684
Acquisitions	–	–	–	1	–	–	–	15,190	15,191
Disposals	(4)	(20,773)	(2)	(8)	(494)	(785)	–	–	(22,066)
Exchange adjustments	–	–	–	3	–	3	–	–	6
As at 31 December 2022	**3,218**	**545,571**	**1,186**	**9,198**	**5,356**	**17,000**	**54,132**	**31,382**	**667,043**
Depreciation									
As at 1 January 2021	679	76,683	790	4,721	2,387	1,862	–	–	87,122
Charge for year	171	24,719	204	1,555	1,157	1,032	–	–	28,838
Disposals	1	(6,767)	–	(43)	(134)	–	–	–	(6,943)
Exchange adjustments	–	–	–	(1)	–	(1)	–	–	(2)
As at 31 December 2021	851	94,635	994	6,232	3,410	2,893	–	–	109,015
Reclassified as held for sale	(174)	–	–	–	–	–	–	–	(174)
Charge for year	172	28,340	91	1,176	1,038	1,264	994	–	33,075
Disposals	(3)	(7,116)	–	(7)	(391)	(599)	–	–	(8,116)
Exchange adjustments	–	–	–	2	–	1	–	–	3
As at 31 December 2022	**846**	**115,859**	**1,085**	**7,403**	**4,057**	**3,559**	**994**	**–**	**133,803**
Net book value									
As at 31 December 2022	**2,372**	**429,712**	**101**	**1,795**	**1,299**	**13,441**	**53,138**	**31,382**	**533,240**
As at 31 December 2021	1,954	366,705	176	1,975	1,721	9,380	–	33,990	415,901
As at 1 January 2021	2,128	315,463	254	2,427	2,918	5,148	–	–	328,338

1 The reclassification of £4,071,000 within Assets under construction relates to costs previously recorded within Inventories at 31 December 2020.

Meter assets
In 2021, meter asset acquisitions include the c.15,000 assets acquired as part of the Industrial & Commercial large-power half-hourly electricity business acquisition. See note 24 for details.

Included within the closing Meter assets net book value of £429,712,000 (2021: £366,705,000) is £11,173,000 (2021: £16,246,000) relating to the traditional meter portfolio. In accordance with our accounting policy these assets will be written down to zero by 1 July 2025. In the 2022 consolidated financial statements the traditional meter portfolio generated £10,198,000 (2021: £12,781,000) of revenue with a corresponding £4,383,000 (2021: £5,071,000) depreciation charge. As at 31 December 2022, £11,168,000 (2021: £11,787,000) of annualised recurring revenue arises from the owned traditional meter portfolio.

The assets are secured by a bond and floating charge.

For the purpose of impairment testing the traditional meter asset portfolio recognised within “Meter assets” is assessed as a stand alone cash-generating unit (CGU) and its carrying amount is compared with the recoverable amount. See background information provided in the “Key sources of estimation uncertainty” section in the accounting policies. The recoverable amount is determined based on a value-in-use calculation, which uses the following key assumptions:

- estimated future cash flows from rental income, which decline based on the forecast for when meters are replaced;
- estimated future cash flows from termination income, which are derived using historical data and analysis around the risk of churn between contracted and non-contracted customers and the risk of non-recoverability once issued; and
- a pre-tax discount rate of 6.45%, which reflects the risk attached to the time value of these specific cash flows and is deemed to be best represented by the Group’s incremental cost of borrowing on the basis that cash flows are secured by the installed meter and the risk inherent in the decline of the cash flows is already accounted for through the assumptions detailed above.

The impairment test indicated that the value in use of the traditional meter assets CGU exceeded its carrying value and therefore no impairment has been recognised in the year to 31 December 2022.

Management has performed sensitivity analysis on the key assumptions both with other variables held constant and with other variables simultaneously changed. Management has concluded that there are no reasonably possible changes in the key assumptions that would cause the carrying amounts of the traditional meter portfolio to exceed the value in use for either CGU.

No impairment on other meter assets was recognised in 2022 or 2021.

Right-of-use assets
A breakdown of right-of-use assets is presented below:

Carrying value	**2022 £’000**	2021 £’000
Properties[1]	**3,840**	4,502
Land	**9,601**	4,878
	13,441	9,380

1 Properties include office and warehouse space.

The statement of profit or loss shows the following amounts relating to leases:

Depreciation charge on right-of-use assets	**2022 £’000**	2021 £’000
Properties	**1,024**	919
Motor vehicles	**-**	6
Land	**240**	107
	1,264	1,032

12 Investment in associate

	2022 £'000	2021 £'000
At 1 January	**–**	–
Additions	**2,126**	–
Share of loss for the period	**(186)**	
Dividends received	**–**	–
At 31 December	**1,940**	–

On 15 June 2022, the Group acquired a 25% shareholding in Clenergy EV Ltd, a software business with a chargepoint operator (CPO) platform focused on electric vehicle charging infrastructure. The agreement also gives the Group the option to invest a further £2.0m after one year to acquire an additional 26% interest and an option to acquire the remining shares after five years.

Summarised financial information for Clenergy EV Ltd for the period since investment and after adjustment for fair value adjustments at acquisition and differences in accounting policies is set out below:

	2022 £'000	2021 £'000
Revenue	**723**	–
Operating profit excluding depreciation and amortisation (EBITDA)	**(88)**	–
Depreciation and amortisation	**(868)**	–
Taxation	**214**	–
Loss after taxation	**(742)**	–
Group's share of associate's loss for the period	**(186)**	–

	2022 £'000	2021 £'000
Non-current assets	**8,627**	–
Current assets	**1,609**	–
Current liabilities	**(482)**	–
Non-current liabilities	**(1,996)**	–
Net assets	**7,758**	–
Group's share of associate's net assets	**1,940**	–

13 Inventories

	2022 £'000	2021 £'000
Finished goods	**36,888**	22,476
Consumables	**550**	504
	37,438	22,980

14 Trade and other receivables

	2022 £'000	2021 £'000
Current		
Trade receivables	**25,297**	22,451
Prepayments and deferred costs	**3,112**	2,520
Accrued income	**19,385**	19,265
Other receivables	**4,517**	1,463
VAT recoverable	**624**	1,932
	52,935	47,631

Amounts falling due after more than one year:

	2022 £'000	2021 £'000
Payments on account to acquire grid-scale battery assets	**12,347**	–

Accrued income is made up of the following balances:

	2022 £'000	2021 £'000
Unbilled receivables	**18,714**	18,915
Contract assets	**287**	46
Other accrued income	**384**	304
	19,385	19,265

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

The Group's credit risk is primarily attributable to trade receivables and accrued income. The amounts presented in the consolidated statement of financial position are net of any loss allowance. The total loss allowance for trade receivables and accrued income at 31 December 2022 was £4,182,000 (2021: £4,370,000). See note 23 for further details. The ageing profile of trade receivables past due date is shown below:

	2022 £'000	2021 £'000
Current	**15,894**	13,019
1-30 days	**7,069**	3,728
31-60 days	**1,128**	1,615
61-90 days	**639**	1,499
91-120 days	**597**	1,705
Over 120 days	**4,782**	5,812
	30,109	27,378
Loss allowance	**(3,026)**	(3,969)
Amounts offset (see note 23)	**(1,786)**	(958)
	25,297	22,451

Trade receivables are non-interest-bearing and are generally on 30 to 90-day terms. Trade receivables due from related parties at 31 December 2022 amounted to £nil (2021: £nil).

Substantially all trade receivables are denominated in Sterling.

Accrued income, which is made up of unbilled receivables and contract assets, is presented net of any loss allowance and impairment, with amounts being invoiced periodically and customers being the same as those within trade receivables. The loss allowance for accrued income at 31 December 2022 was £1,156,000 (2021: £401,000) and the charge recognised in profit or loss during the year was £755,000.

15 Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group. The carrying amount of the asset approximates the fair value. Substantially all balances are held in Sterling.

For the purposes of the cash flow statement, cash and cash equivalents comprises:

	2022 £'000	2021 £'000
Cash at bank	**32,770**	67,687
Short-term deposits	**–**	50,000
Cash and cash equivalents	**32,770**	117,687
Cash and cash equivalents - restricted	**307**	1,299
Total cash and cash equivalents	**33,077**	118,986

16 Assets held for sale

The Group classifies non-current assets as held for sale if the assets are available immediately for sale in their present condition, management is committed to a plan to sell the assets under usual terms, it is highly probable that their carrying amounts will be recovered principally through a sale transaction rather than through continuing use and the sale is expected to be completed within one year from the date of the initial classification.

Assets classified as held for sale are presented separately in the consolidated statement of financial position and are measured at the lower of their carrying amount and fair value less costs to sell. Property, plant and equipment are not depreciated once classified as held for sale.

	2022 £'000	2021 £'000
Property awaiting disposal	**513**	–
	513	–

A warehouse, which is no longer required following the consolidation of the Group's warehouse operations, is classified as held for sale as at 31 December 2022.

17 Trade and other payables

	2022 £'000	2021 £'000
Current		
Trade payables	**28,447**	16,638
Other payables	**5,350**	4,097
Other taxes	**1,725**	1,519
Deferred income	**2,806**	2,898
Advance payments	**995**	1,185
Accruals	**30,055**	30,152
	69,378	56,489

Deferred income and advance payments are made up of the following balances:

	2022 £'000	2021 £'000
Contract liabilities	**3,403**	3,732
Other deferred income	**398**	351
	3,801	4,083

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

Trade payables are classified at amortised cost, are non-interest-bearing and are normally settled on 30 to 45-day terms.

Substantially all trade liabilities are denominated in Sterling.

18 Bank loans

	2022 £'000	2021 £'000
Current	**591**	–
Non-current	**63,349**	–
	63,940	–

The Group has a £420m revolving credit facility which matures in December 2025. Interest is payable at a rate of 1.85% over SONIA and 0.65% is payable on undrawn funds.

The loans drawn under the facility are all denominated in Pounds Sterling. The balance as at 31 December 2022 is stated net of £1,651,000 of unamortised transaction costs.

No principal or interest was outstanding as at 31 December 2021 and the amount recognised as Bank loans was therefore nil. Unamortised transaction costs of £2,201,000 that would ordinarily be deducted from the carrying value of bank loans were therefore classified as Other assets (£550,000 was classified as current Other assets, with the balance of £1,651,000 classified as non-current, in line with the remaining term of the facility).

The movement in bank loans is:

	2022 £'000	2021 £'000
As at 1 January	**(2,201)**	(1,949)
Cash flows – proceeds of new borrowings	**65,000**	–
Cash flows – payments of interest	**(212)**	(554)
Cash flows – payments of arrangement fees	**(227)**	(2,077)
Non-cash changes – accrual of interest	**803**	246
Non-cash changes – amortisation of arrangement fees	**777**	2,133
As at 31 December	**63,940**	(2,201)
Presentational reclassification to Other assets	**–**	2,201
Bank loans as at 31 December	**63,940**	–

The Group has the following committed facility:

	2022 £'000	2021 £'000
Undrawn committed borrowing facility	**323,450**	404,650
Bank loans drawn	**65,000**	–
Utilised in respect of guarantees	**31,550**	15,350
Total facility	**420,000**	420,000

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

19 Lease liabilities

	2022 £'000	2021 £'000
Current		
Current	**885**	999
Non-current	**11,476**	7,574
	12,361	8,573

The movement in lease liabilities is:

	2022 £'000	2021 £'000
As at 1 January	**8,573**	5,251
Cash flows – lease payments	**(1,500)**	(1,247)
Non-cash changes – accrued lease payments	**(22)**	–
Non-cash changes – new leases	**3,654**	4,230
Non-cash changes – changes in lease terms and foreign exchange impact	**1,107**	58
Non-cash changes – interest charge	**549**	281
As at 31 December	**12,361**	8,573

20 Provisions

Provisions comprise:

	2022 £'000	2021 £'000
Non-current		
Provision for restoration and decommissioning costs	**2,033**	798
	2,033	798

The movement in provisions is:

	2022 £'000	2021 £'000
As at 1 January	**798**	–
Provisions recognised	**1,240**	798
Utilised in the year	**(5)**	–
As at 31 December	**2,033**	798

The Group is required to restore the land leased as part of its grid-scale battery storage business, and certain leased warehouses, to the condition required by the terms and conditions of the lease at the end of the respective lease terms (which range between three to ten years for warehouses and 20 to 40 years for land). A provision has been recognised for the present value of the estimated expenditure required to carry out this restoration. These costs have been capitalised as part of the cost of right-of-use assets and are depreciated over the shorter of the term of the lease and the useful life of the assets. Provisions also include the estimated cost to decommission grid-scale batteries at the end of their life.

21 Other liabilities

Other liabilities comprise:

	2022 £'000	2021 £'000
Current		
Deferred consideration on acquisitions	**1,388**	638
	1,388	638
Non-current		
Deferred consideration on acquisitions	**674**	750
Contingent consideration on acquisitions	**606**	–
	1,280	750

Refer to notes 24 and 25 for further details on the contingent and deferred consideration.

22 Deferred taxation

The movement in the deferred taxation liability during the year was:

	2022 £'000	2021 £'000
Opening deferred tax liability	**12,199**	8,511
Increase in provision through consolidated statement of comprehensive income	**1,029**	4,408
Increase/(decrease) in provision through equity	**93**	(319)
Deferred tax in respect of acquisitions and disposals	**175**	(401)
Closing deferred tax liability	**13,496**	12,199

The Group's provision for deferred taxation consists of the tax effect of temporary differences in respect of:

	2022 £'000	2021 £'000
Excess of taxation allowances over depreciation on property, plant and equipment	**13,527**	11,036
Tax losses available	**(115)**	(51)
Deferred tax asset on share options	**(1,519)**	(1,438)
Deferred tax on intangibles acquired	**1,240**	1,168
Other temporary differences[1]	**363**	1,484
	13,496	12,199

The deferred tax included in the consolidated statement of comprehensive income is as follows:

	2022 £'000	2021 £'000
Accelerated capital allowances	**2,491**	3,902
Tax losses	**(9)**	74
Deferred tax asset on share options	**(175)**	558
Movement in fair value of intangibles	**(157)**	256
Other temporary differences[1]	**(1,121)**	(382)
	1,029	4,408

1 Other temporary differences predominately relate to deferred tax on provisions and accruals.

At 31 December 2022, the main rate of corporate tax applying to the profits of the Group was 19%. In the spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19%, as previously enacted). This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

Further, the UK Government announced legislation in respect of the 'super-deduction' for qualifying capital expenditure incurred during a two-year period commencing 1 April 2021. This new law was also substantively enacted on 24 May 2021. The Group has recognised an estimated permanent benefit of £2,294,000 on qualifying assets when calculating the tax charge for the current year, as well as a permanent benefit in respect of the prior year of £230,000.

The Group had unrecognised trading losses of £1,762,000 (2021: £1,456,000) in subsidiary undertakings at 31 December 2022. The Group also had unrecognised capital losses of £729,000 (2021: £729,000) in subsidiary undertakings at 31 December 2022.

23 Financial risk management

The Board reviews and agrees policies for managing the risks associated with interest rate, credit and liquidity risk. The Group has in place a risk management policy that seeks to minimise any adverse effect on the financial performance of the Group by continually monitoring the following risks:

(a) Interest rate risk

The Group's main interest rate risk arises from its floating rate bank loan. See note 18 for further details.

There were no overdrafts at 31 December 2022 (2021: none) and the interest charge arising on lease liabilities does not represent a cash interest rate risk for the Group.

The Group's financial assets at 31 December 2022 comprise cash and trade receivables. The cash balance of £32,770,000 (2021: £117,687,000) is a floating rate financial asset, but interest income is not typically material.

Interest rate sensitivity

The following table shows how a change in interest rates applied to the average level of borrowings would have affected the Group's interest cost and profit before tax:

	Increase/(decrease) in interest rate in basis points	(Decrease) in profit before tax £'000
2022	**+100bps**	**(198)**
2021	+70bps	–

(b) Fair values of financial liabilities and financial assets

The Group's bank loan is measured at amortised cost. For fair value disclosure purposes, the bank loan is considered to be a level 2 financial instrument on the basis that it is not traded in an active market. The fair values, based upon the market value or discounted cash flows of financial liabilities and financial assets held in the Group, were not materially different from their book values.

(c) Foreign currency risk

The Group's exposure to the risk of changes in foreign exchange primarily arises from a single subsidiary, operating in Euros. With the exception of this entity, all of the Group's operating activities are denominated in Pounds Sterling and, therefore, the Group's overall exposure is not significant.

(d) Liquidity risk

The Group manages its cash in a manner designed to ensure maximum benefit is gained whilst ensuring security of investment sources. The Group's policy on investment of surplus funds is to place deposits at institutions with strong credit ratings; this is considered to be institutions with a credit rating of AA– and above. Currently, all of the chosen investment institutions are in line with these criteria.

The ageing and maturity profile of the Group's material financial liabilities is disclosed in the table below. The amounts disclosed are the contractual undiscounted cash flows.

31 December 2022	**Less than one year £'000**	**Between two and five years £'000**	**Over five years £'000**	**Total contractual cash flows £'000**
Contractual maturities of financial liabilities				
Trade payables	**28,447**	**–**	**–**	**28,447**
Bank loan	**591**	**–**	**–**	**591**
Other liabilities	**1,388**	**1,280**	**–**	**2,668**
Lease liabilities	**1,133**	**3,104**	**5,648**	**9,885**
	31,559	**4,384**	**5,648**	**41,591**

31 December 2021	Less than one year £'000	Between two and five years £'000	Over five years £'000	Total contractual cash flows £'000
Contractual maturities of financial liabilities				
Trade payables	16,638	–	–	16,638
Bank loan	–	–	–	–
Other liabilities	638	–	–	638
Other long-term liabilities	–	750	–	750
Lease liabilities	1,280	3,232	5,965	10,477
	18,556	3,982	5,965	28,503

(e) Credit risk
The Group's credit risk primarily arises from credit exposures to energy suppliers (our customers), including outstanding receivables, due to the Group trading with a limited number of companies, which are generally large utility companies or financial institutions.

Credit risk is managed on a Group basis. For banks and financial institutions, only independently rated parties with a minimum rating of AA– are accepted. With regard to customers, the Group assesses the credit quality of the customer, considering its financial position, past experience and other factors. The Group does not expect, in the normal course of events, that debts due from customers are at significant risk. The Group's maximum exposure to credit risk equates to the carrying value of cash and cash equivalents, trade and other receivables, contract assets and investments. The Group's maximum exposure to credit risk from its customers is £44,682,000 (2021: £41,716,000), being the sum of the carrying value of trade receivables and accrued income, including contract assets, as disclosed within Trade and other receivables in note 14. The Group regularly monitors and updates its cash flow forecasts to ensure it has sufficient and appropriate funds to meet its ongoing operational requirements.

Impairment of financial assets
The Group has two types of financial assets that are subject to IFRS 9's expected credit loss model:

- trade receivables, which consist of billed receivables arising from contracts with customers, for the provision of meter asset installation, management and energy services; and
- accrued income, which consists of contract assets and unbilled receivables arising from contracts with customers.

While cash and cash equivalents, and debt investments held at amortised cost, are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

The Group applies the IFRS 9 simplified approach to measuring forward-looking expected credit losses, which uses a lifetime expected loss allowance for all trade receivables and accrued income, including contract assets.

To measure the ECL, trade receivables and accrued income have been grouped based on shared credit risk characteristics and the days past due. Accrued income relates to rights to consideration for performance, and other operating charges, before payment is due from customers, and consists of unbilled receivables and contract assets (see note 2 for details). These have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for accrued income.

The Group has established a provision matrix based on the payment profiles of sales, over the most recent twelve-month period that is an appropriate representation of loss patterns, and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information that might affect the ability of customers to settle the receivables, including macroeconomic factors as relevant. In calculating the loss rates, certain historical losses arising from specific circumstances with customers have been removed where these are not indicative of future loss patterns.

During the second half of 2021, the global energy market suffered from unprecedented increases in wholesale gas prices, creating significant volatility within the UK energy market and leading to a number of independent energy suppliers entering administration and exiting the market. This crisis notably impacted the smaller independent energy suppliers and, as a result, management did not increase the expected loss rates for the trade receivables portfolio as a whole. Instead, a subset of trade receivables has been identified as having a potentially elevated credit risk, due to a greater risk of administration as a direct consequence of the crisis. This subset of trade receivables has been provided for on a specific basis and has resulted in an additional £0.2m impairment loss in the year. Given the continued and changing uncertainty regarding the impact of this crisis on customer default risk, management will continue to monitor the situation and reassess its ECL at each reporting period end accordingly.

On that basis, the loss allowance at 31 December 2022 was determined as £4,182,000 (2021: £4,370,000) for trade receivables and accrued income. A reconciliation of these balances is provided as follows:

	Accrued income £'000	Trade receivables £'000	Total £'000
At 1 January 2022	401	3,969	4,370
Increase in loss allowance recognised in profit or loss during the year – underlying	755	(192)	563
Decrease in loss allowance recognised in profit or loss during the year - exceptional	-	-	-
Amounts reversed/written off during the year	-	(751)	(751)
At 31 December 2022	**1,156**	**3,026**	**4,182**

The overall loss allowance has decreased at 31 December 2022. Whilst the crisis in the energy market has given rise to an additional impairment loss in the year, as detailed above, only one energy supplier entered administration during 2022 in comparison to the high number of insolvencies seen in the prior year.

Total net impairment losses on financial and contract assets were £563,000 in 2022 (2021: £2,964,000). Of this amount, £563,000 (2021: £2,964,000) relates to amounts arising from trade receivables and accrued income.

Fair value
There is no material difference between the book value and the fair value of any financial asset or liability.

(f) Capital management
Capital is the equity attributable to the equity holders of the parent. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure, and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, sell assets, return capital to shareholders or issue new shares.

The Group monitors capital on the basis of a leverage ratio. This ratio is calculated as net debt divided by pre-exceptional EBITDA. Net debt is calculated as total borrowings less cash. Pre-exceptional EBITDA is calculated as operating profit before any significant exceptional items, interest, tax, depreciation and amortisation.

The objective of SMS's strategy is to deliver long-term value to its shareholders whilst maintaining a balance sheet structure that safeguards the Group's financial position. Under the Group's enhanced dividend policy, SMS declared a 27.5p per share dividend in respect of FY 2021 and proposes a 30.25p per share dividend in respect of FY 2022. The Group's long-term index-linked cash flows from its existing asset base are able to support an intended annual increase of 10% in dividends for each of the financial years FY 2022, FY 2023 and FY 2024. This results in a more predictable return to shareholders and reflects the forecast growth of the business over and above RPI in that period. The Group's strong liquidity position supports the funding of its contracted smart meter order pipeline, which will further add to its long-term index-linked cash flows.

(g) Disclosure of offsetting arrangements

31 December 2022	**Gross balances[1] £'000**	**Amounts offset[2] £'000**	**Balance sheet[3] £'000**
Financial assets			
Trade receivables	**27,083**	**(1,786)**	**25,297**
Accrued income	**23,138**	**(3,753)**	**19,385**
Financial liabilities			
Trade payables	**28,579**	**(132)**	**28,447**
Accruals	**35,463**	**(5,408)**	**30,055**

31 December 2021	**Gross balances[1] £'000**	**Amounts offset[2] £'000**	**Balance sheet[3] £'000**
Financial assets			
Trade receivables	23,409	(958)	22,451
Accrued income	20,313	(1,048)	19,265
Financial liabilities			
Trade payables	16,770	(132)	16,638
Accruals	32,026	(1,874)	30,152

1 The gross amounts of the recognised financial assets and liabilities.

2 Amounts are offset where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and liability simultaneously, in accordance with IAS 32.

3 The net amounts presented in the consolidated statement of financial position.

24 Business combinations

Year ended 31 December 2022

On 25 May 2022, the Group acquired 100% of the issued share capital of n3rgy Data Limited, a data software company, for cash consideration of £1.4m and additional contingent consideration subject to the company achieving certain performance targets. n3rgy Data Limited's software enables and facilitates the use of energy consumption, generation and tariff data from smart meters. The acquisition is expected to enhance and accelerate the Group's capabilities in smart energy data solutions and is reported in the Group's asset management segment.

The fair values of the assets and liabilities acquired and of the consideration are as follows:

	Fair value £'000
Intangible assets: software	1,479
Trade and other receivables	149
Cash	86
Trade and other payables	(202)
Deferred tax liabilities	(229)
Net identifiable assets acquired	1,283
Add: goodwill	737
Net assets acquired	2,020
Satisfied by:	
Cash	1,432
Contingent consideration	588
Total consideration	2,020

The net outflow of cash in respect of the purchase of the business is:

	£'000
Cash consideration	1,432
Cash and cash equivalents acquired	(86)
Net cash outflow in respect of the purchase of the business	1,346

No contingent assets or liabilities were acquired.

If n3rgy Data Limited's EBITDA over a five year earn-out period exceeds a threshold, then contingent consideration becomes payable based on the amount by which the EBITDA exceeds threshold. The minimum payment is therefore nil and the maximum payment is unlimited. The fair value of the contingent consideration at the acquisition date of £588,000 represents the estimated most likely pay-out based on management's future forecast of future trading (level 3) discounted at the Group's incremental borrowing rate.

The goodwill is mainly attributable to synergies and the opportunity to accelerate growth of the Group's data business. Goodwill will not be deductible for tax purposes.

The acquisition contributed £127,000 to the Group's revenue and reduced the Group's profit before tax by £406,000 between the date of acquisition and 31 December 2022.

If the acquisition had been completed on 1 January 2022, the Group's revenue would have been £135,591,000 and profit before tax would have been £15,786,000 for the year ended 31 December 2022.

Acquisition-related costs of £20,000 have been included as part of exceptional Administrative costs in the consolidated statement of comprehensive income.

Year ended 31 December 2021

On 6 April 2021 the Group acquired a portfolio of c.15,000 Industrial & Commercial large-power half-hourly electricity meters from a third party. The Group also took ownership of the Meter Operator (MOP) and data service contracts associated with a portfolio of electricity meters. This is reported through the Group's asset management segment.

As part of the transaction, a workforce was transferred with the skills, knowledge and experience to generate revenues from the assets and contracts acquired, and potentially grow the acquired business for the Group. Such a workforce meets the definition of a substantive process under IFRS 3. On the basis that the Group has obtained inputs, a substantive process and outputs, management has concluded that the acquisition meets the definition of a business combination and should be accounted for as such under IFRS 3.

Purchase consideration consisted of cash only. Total cash paid was £8,433,000.

The assets and liabilities recognised as a result of the acquisition were as follows:

31 December 2021	Fair value £'000
Intangible assets: customer contracts	1,010
Property, plant and equipment: meter assets	6,682
Inventories	700
Trade and other receivables	1,778
Trade and other payables	(2,368)
Deferred tax liability	(228)
Net identifiable assets acquired	7,574
Add: goodwill	859
Net assets acquired	8,433

No contingent assets or liabilities were acquired. The customer contracts acquired were valued using a multi-period excess earnings method, which assesses the present value of the after-tax cash flows attributable only to these contracts.

The goodwill is attributable to the opportunity to grow this part of the business for the Group. Goodwill will not be deductible for tax purposes.

For the year ended 31 December 2021, the acquired business contributed a net profit before taxation of £1.7m to the Group.
If the acquisition had occurred on 1 January 2021, consolidated pro-forma profit for the year ended 31 December 2021 would have been approximately £2.2m.

Acquisition-related costs of £0.3m have been incurred to date, including transaction costs and mobilisation costs to integrate the newly-acquired business into the Group, and have been included as part of exceptional Administrative costs in the consolidated statement of comprehensive income.

25 Asset acquisitions

Year ended 31 December 2022

During the year ended 31 December 2022, the Group acquired 100% of the issued share capital of the seven special purpose vehicle companies listed below. Details of the purchase consideration are as follows:

Name of acquired company	Company number	Acquisition date	Cash consideration £'000	Deferred consideration £'000	Total consideration £'000
Balance Energy 2 Limited	12266348	14 February 2022	856	—	856
Fen Power 1 Limited	12875930	26 April 2022	600	274	874
Drumcross Energy Storage Limited	SC679835	8 July 2022	2,815	—	2,815
Erskine Energy Storage Limited	SC690064	17 August 2022	2,654	—	2,654
Balance Energy 3 Ltd	12341398	1 October 2022	2,780	400	3,180
Balance Energy 1 Ltd	11894406	1 October 2022	3,031	200	3,231
Bramford Power Limited	12480700	7 October 2022	1,826	—	1,826
Total purchase consideration			**14,562**	**874**	**15,436**

All seven companies report in British Pounds Sterling. The acquisitions enable SMS to obtain control over the rights required to develop and commission seven grid-scale battery storage sites, totalling 320MW, as part of the Group's strategy of investment in CaRe assets. Grid-scale battery storage is reported through the Group's energy management segment and is a key asset class required by the UK energy system to provide flexibility services to balance the grid and support the continued introduction of more intermittent renewable generation.

In respect of one of the companies, deferred consideration of £274,000 is payable in cash upon energisation (when the grid-scale battery storage asset is connected to the grid). Deferred consideration of a further £600,000 is payable on the execution of certain property deeds. The payments have been measured at fair value at the acquisition date, ignoring the impact of discounting on the basis that the anticipated payment date is within 24 months of the current reporting date and management consider the impact of discounting over this period to be immaterial.

Management has concluded that these acquisitions do not meet the definition of a business combination under IFRS 3 on the basis that no substantive processes have been transferred. Therefore, these transactions have been accounted for as acquisitions of a group of assets. No goodwill thus arises on the transactions.

The individual assets and liabilities acquired have been identified and the cost of the transactions has been allocated to the assets acquired, and liabilities assumed, based on their relative fair values at the date of purchase as follows:

	Total £'000
Assets under construction	15,190
Trade and other receivables	248
Trade and other payables	(2)
Total purchase consideration	**15,436**

The majority of the value gained from acquiring the sites is attributable to development and construction rights and therefore most of the total cost of the transaction has been allocated to Assets under construction.

No contingent assets or liabilities were acquired.

The cash outflow in 2022 relating to asset acquisitions is as follows:

	Total £'000
Cash consideration	14,562
Less payments made in advance in earlier years	(135)
Add deferred consideration paid in 2022 on acquisitions in earlier years	200
Cash outflow on asset acquisitions in 2022	**14,627**

Year ended 31 December 2021

During the year ended 31 December 2021, the Group acquired 100% of the issued share capital of the following companies:

Name of acquired company	Company number	Registered office prior to acquisition	Purchase consideration £	Acquisition date £	Nature of the company
Newtonwood Energy Storage Limited	11257609	Unit 9, the Green Easter Park, Benyon Road, Reading, Berkshire RG7 2PQ	1,471	9 March 2021	Special purpose vehicle
Brook Farm Energy Storage Limited	10780034	Unit 9, the Green Easter Park, Benyon Road, Reading, Berkshire RG7 2PQ	1,572	11 June 2021	Special purpose vehicle
Berkeley Battery Storage 2 Limited	10942601	Suite 4D Drake House, Dursley, Gloucestershire GL11 4HH	1,306	15 June 2021	Special purpose vehicle
Brentwood Energy Storage Limited	11516707	Unit 8-9 Benyon Road, Silchester, Reading, Berkshire RG7 2PQ	1,401	1 October 2021	Special purpose vehicle

All four companies report in British Pounds Sterling. The acquisitions enable SMS to obtain control over the rights required to develop and commission four grid-scale battery storage sites, totalling 200MW, as part of the Group's strategy of investment in CaRe assets. Grid-scale battery storage is reported through the Group's energy management segment and is a key asset class required by the UK energy system to provide flexibility services to balance the grid and support the continued introduction of more intermittent renewable generation.

Details of the purchase consideration are as follows:

Name of acquired company	Cash paid £'000	Deferred consideration £'000	Total consideration £'000
Newtonwood Energy Storage Limited	1,221	250	1,471
Brook Farm Energy Storage Limited	1,572	—	1,572
Berkeley Battery Storage 2 Limited	1,056	250	1,306
Brentwood Energy Storage Limited	901	500	1,401
Total purchase consideration	**4,750**	**1,000**	**5,750**

In respect of three of the four companies, total additional consideration of £750,000 is payable in cash upon energisation (when the grid-scale battery storage asset is connected to the grid). In addition, in respect of one of the four companies, total additional consideration of £250,000 is payable in cash upon the full execution of an extension of the term of the land lease. The payments have been measured at fair value at the acquisition date, ignoring the impact of discounting on the basis that the anticipated payment date is within 24 months of the current reporting date and management consider the impact of discounting over this period to be immaterial.

Management has concluded that these acquisitions do not meet the definition of a business combination under IFRS 3 on the basis that no substantive processes have been transferred. Therefore, these transactions have been accounted for as acquisitions of a group of assets. No goodwill thus arises on the transactions.

The individual assets and liabilities acquired have been identified and the cost of the transactions has been allocated to the assets acquired, and liabilities assumed, based on their relative fair values at the date of purchase as follows:

	Newtonwood £'000	Brook Farm £'000	Berkeley £'000	Brentwood £'000	Total £'000
Assets under construction	1,272	1,596	1,290	1,256	5,414
Trade and other receivables	199	76	16	145	436
Trade and other payables	—	(100)	—	—	(100)
Total purchase consideration	**1,471**	**1,572**	**1,306**	**1,401**	**5,750**

No contingent assets or liabilities were acquired.

The majority of the value gained from acquiring the four sites is attributable to development and construction rights and therefore a significant portion of the total cost of the transaction has been allocated to Assets under construction due to its higher fair value relative to the other net assets acquired.

Transaction costs of £0.2m were incurred and have been capitalised as a component of the cost of the assets acquired, classified as part of Assets under construction within Property, plant and equipment.

26 Related party transactions

(a) Key management personnel compensation

The Group has determined that its key management personnel comprise the Executive Directors, Non-executive Directors and certain senior management personnel. The aggregate compensation paid or payable to key management is shown below:

	2022 £'000	2021 £'000
Short-term employee benefits	**3,154**	2,747
Post-employment benefits	**50**	35
Termination benefits	**273**	146
Share-based payments	**1,661**	262
	5,138	3,190

(b) Directors

Directors' emoluments

Aggregate remuneration for both Executive and Non-executive Directors in respect of qualifying services was:

	2022 £'000	2021 £'000
Aggregate emoluments	**1,776**	1,744
Company contributions to money purchase pension scheme	**24**	21
	1,800	1,765

In 2022, £273,000 was payable to a Director as settlement following resignation (2021: £146,000 was payable to a Director as settlement following resignation).

Emoluments of highest paid Director

	2022 £'000	2021 £'000
Emoluments	**901**	694
Company contributions to money purchase pension scheme	**20**	–
	921	694

Number of Directors who accrued benefits under Company pension schemes

	2022 Number	2021 Number
Money purchase schemes	**3**	3

(c) Other transactions with related parties

During the year, the Group entered into the following transactions with related parties:

Rent amounting to £nil (2021: £10,375) paid to the Directors' pension scheme, Eco Retirement Benefit Scheme, for the use of certain premises. Alan Foy is a trustee of the scheme.

The Group paid dividends to Alan Foy (whilst a Director) of £321,809 (2021: £906,915), The Metis Trust[1] of £61,875 (2021: £230,625), Metis Investments Limited[2] of £25,599 (2021: £387,968), Tim Mortlock of £5,033 (2021: £1,501), Gavin Urwin (whilst a Director) of £458 (2021: £153), Miriam Greenwood of £7,177 (2021: £6,129), Graeme Bissett of £5,796 (2021: £4,116) and Jamie Richards of £1,389 (2021: £1,002).

1 Alan Foy is a trustee but not a beneficiary.

2 Alan Foy is a Director and shareholder.

27 Share capital

	2022 £'000	2021 £'000
Allotted and called up:		
133,397,009 ordinary shares of £0.01 each (2021: 133,321,555 ordinary shares of £0.01 each)	**1,334**	1,333

During the year 75,454 (2021: 921,447) ordinary share options were exercised in relation to the Group's employee share plans which are described in note 28. The ordinary shares issued have a nominal value of £755 (2021: £9,000) and aggregate consideration of £285,000 (2021: £1,627,000) was received.

The Group's Share Incentive Plan is administered by the Smart Metering Systems SIP Trust, which acquires shares in SMS (own shares) to satisfy awards under this plan and facilitate the delivery of shares to participants. At 31 December 2022, 145,821 (2021: 139,055) own shares were held in trust with a carrying value of £955,000 (2021: £825,000) and a market value of £1,140,000 (2021: £1,169,000). The Company purchased 48,900 shares (2021: 34,191) from the market during 2022 with a weighted average fair value of £8.08 per share (2021: £8.15).

28 Share-based payments

(a) Employee option plans

The Group operates the Unapproved Share Option Plan (the ‘Unapproved Plan’) and the Long-Term Incentive Plan (LTIP).

The Unapproved Plan is open to any employee, including Executive Directors. Participants are granted options which, except in certain specified circumstances, only vest if certain performance conditions are met and the employee is still in service five years from the date of grant. The performance conditions for awards are based on market capitalisation and individual performance targets. Once vested, the options remain exercisable for a period of up to ten years from the date of grant. The exercise price of the options is determined by the Directors but shall not be less than the closing price at which the Company’s shares are traded on the date of grant.

The LTIP is open to senior employees. Participants are granted nil-cost options which are subject to performance conditions and remaining employed up to the vesting date. The performance conditions are based on the total shareholder return and meeting financial and non-financial targets over a three-year performance period. The vesting period varies from three to five years. Once vested, the options remain exercisable for a period of up to ten years from the date of award.

Summary of options

The table below summarises options granted under the Unapproved Plan and LTIP:

Plan	At 1 January 2022	Granted	Exercised	Forfeited	Expired	**At 31 December 2022**	Exercise price (pence)	Date exercisable	Expiry date	Fair value at grant (pence)
Unapproved	437,832	–	(57,898)	–	–	**379,934**	350.0	12 Nov 2019	11 Nov 2024	84.8
Unapproved	43,890	–	(17,556)	–	–	**26,334**	470.0	18 Aug 2021	17 Aug 2026	87.2
Unapproved	50,000	–	–	–	–	**50,000**	529.0	26 Sep 2021	25 Sep 2026	142.4
Unapproved	409,001	–	–	(16,000)	–	**393,001**	700.0	1 Jan 2023	13 Jul 2028	125.2
Unapproved	12,000	–	–	–	–	**12,000**	602.8	13 Sep 2023	12 Sep 2028	154.3
Unapproved	409,000	–	–	(16,000)	–	**393,000**	700.0	1 Jan 2023	13 Jul 2028	34.6
Unapproved	12,000	–	–	–	–	**12,000**	602.8	13 Sep 2023	12 Sep 2028	98.0
Unapproved	370,000	–	–	–	–	**370,000**	454.6	5 Sep 2024	4 Sep 2029	111.5
Unapproved	409,000	–	–	(16,000)	–	**393,000**	700.0	1 Jan 2023	13 Jul 2028	37.2
Unapproved	12,000	–	–	–	–	**12,000**	602.8	13 Sep 2023	12 Sep 2028	105.6
Unapproved[1]	76,000	–	–	–	–	**76,000**	577.4	26 Jun 2025	25 Jun 2030	59.3
Unapproved	408,999	–	–	(16,000)	–	**392,999**	700.0	01 Jan 2023	13 Jul 2028	134.3
Unapproved	12,000	–	–	–	–	**12,000**	602.8	13 Sep 2023	12 Sep 2028	266.1
Unapproved[1]	76,000	–	–	–	–	**76,000**	577.4	26 Jun 2025	25 Jun 2030	191.4
Unapproved[2]	290,000	–	–	–	–	**290,000**	705.4	10 Feb 2026	09 Feb 2031	210.8
Unapproved	–	408,999	–	(16,000)	–	**392,999**	700.0	1 Jan 2023	13 Jul 2028	11.1
Unapproved	–	12,000	–		–	**12,000**	602.8	13 Sep 2023	12 Sep 2028	195.5
Unapproved[1]	–	76,000	–		–	**76,000**	577.4	26 Jun 2025	25 Jun 2030	144.4
Unapproved[2]	–	290,000	–		–	**290,000**	705.4	10 Feb 2026	09 Feb 2031	181.4
LTIP	–	57,701	–		–	**57,701**	nil	18 May 2025	18 May 2032	631.1
LTIP	–	19,234	–		–	**19,234**	nil	18 May 2025	18 May 2032	313.0
LTIP	–	9,617	–		–	**9,617**	nil	18 May 2026	18 May 2032	604.1
LTIP	–	3,206	–		–	**3,206**	nil	18 May 2026	18 May 2032	301.0
LTIP	–	9,617	–	–	–	**9,617**	nil	18 May 2027	18 May 2032	578.3
LTIP	–	3,205	–	–	–	**3,205**	nil	18 May 2027	18 May 2032	290.1
Total	3,027,722	889,579	(75,454)	(80,000)	–	**3,761,847**				

1 These options relate to the first three of five tranches.

2 These options relate to the first two of five tranches.

The weighted average share price at the date of exercise of options exercised during the year ended 31 December 2022 was £8.02 (2021: £8.37).

Fair value of options granted

Awards subject to a market capitalisation or total shareholder return condition are valued using a Monte Carlo simulation. Other awards are valued using the Black-Scholes model.

The principal assumptions used in these valuations were:

	31 December 2022	31 December 2021
Dividend yield (%)	**3.5 to 4.3**	3.3
Expected volatility (%)	**30.03 to 38.48**	35.96 to 41.33
Risk-free interest rate (%)	**1.25 to 4.16**	0.09 to 0.39
Expected option life (years)	**1.28 to 4.87**	2.28 to 4.87
Exercise price (£)	**nil to 7.05**	5.77 to 7.05
Share price at grant date (£)	**7.08 to 7.89**	8.30
Fair value at grant date (£)	**0.11 to 6.31**	1.34 to 2.66

The expected price volatility is based on historical volatility, adjusted for any expected changes to future volatility due to publicly available information.

In January 2022, the Remuneration Committee assessed performance of the first four tranches of the 2018 awards and the first two tranches of the 2020 awards under the Unapproved Plan against vesting criteria. These awards did not meet the market capitalisation targets set when they were originally granted. The Remuneration Committee exercised the discretion available to it under the plan and, after taking into account a range of factors, concluded that these awards would vest at 95% of the maximum. This has been accounted for as a modification of the awards. In accordance with IFRS 2, the options were valued as at the date of modification based on the original terms using a Monte-Carlo simulation, and based on the modified terms using the Black Scholes model. The incremental fair value granted as a result of the modifications was £1,067,000, all of which was recognised as an expense in 2022.

The expense recognised in 2022 for all options, including the effect of the modifications, is £2,262,000 (2021: £563,000).

(b) Share Incentive Plan (SIP)
The Company introduced the SIP in October 2014. All employees of the Group (including Executive Directors) are eligible to participate in the SIP. Participants may each acquire Partnership Shares worth up to £1,800 per year from their pre-tax earnings at market value. The Company awards participants one Matching Share for each Partnership Share which they acquire. Dividends received on shares held in the SIP are reinvested to acquire Dividend Shares at market value. Matching Shares may be forfeited if the participant disposes of the corresponding Partnership Shares or leaves the employment of the Group within three years of the award date.

The table below shows the number of shares held in the SIP at the beginning and end of the year.

Type of award	At 1 January 2022	Awarded shares	Sold/transferred	Forfeited	**At 31 December 2022**	Weighted average acquisition price
Partnership	230,315	61,103	(36,545)	–	**254,873**	6.10
Matching	228,943	61,103	(23,875)	(14,437)	**251,734**	6.10
Dividend	25,204	12,327	(2,826)	–	**34,705**	7.24
Total	484,462	134,533	(63,246)	(14,437)	**541,312**	

The SIP is administered by the Smart Metering Systems SIP Trust (the 'Trust'). To the extent sufficient shares are not already held by the Trust, Matching Shares awarded by the Trust to employees are acquired in the market prior to the award. Matching Shares held by the Trust which have not yet vested unconditionally at the end of the reporting period are shown as own shares in the financial statements.

The fair value of the Matching Shares at the award date is equal to the share price at the award date. The weighted average fair value per share of the Matching Shares awarded during 2022 was approximately £8.02 per share (2021: £8.18). The total fair value of Matching Shares awarded is recognised over the three-year period starting on the respective award dates.

The expense recognised in 2022 for all Matching Shares is £350,000 (2021: £278,000). No expense is recognised for the Partnership Shares and Dividend Shares because the participants pay full market value for these shares.

29 Other reserve

This is a non-distributable reserve that initially arose by applying merger relief under section 612 of the Companies Act 2006 to the shares issued in 2009 in connection with the Group restructuring. Additionally, the premium of £4,189,000 and £1,115,000 arising on the issue of shares as part of the acquisitions of CH4 Gas Utility and Maintenance Services Limited ('CH4'), Trojan Utilities Limited ('Trojan') and Qton Solutions Limited ('Qton') has been credited to this reserve.

30 Capital commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	2022 £'000	2021 £'000
Property, plant and equipment	**38,930**	27,746

Capital expenditure of £35,901,000 (2021: £27,746,000) contracted for in relation to property, plant and equipment relates to the Group's grid-scale battery storage projects under construction. The remaining £3,029,000 (2021: £nil) relates to the purchase of motor vehicles.

31 Ultimate controlling party
There is no ultimate controlling party by virtue of the structure of shareholdings in the Group.