



# Meeting the energy challenge

SMS Annual report and accounts 2022

Welcome to our Annual  
report and accounts 2022

# Meeting the energy challenge

At SMS, we are delivering on our Carbon Reduction ('CaRe') agenda, originating assets which address the energy challenges of cost, security of supply and sustainability. Through these smart energy solutions, and by serving our customers across the industrial, commercial and domestic markets, we are building long-term value for all our stakeholders.

**Tim Mortlock**  
Chief Executive Officer



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# Performance highlights

## Financial

### Alternative performance measures<sup>1</sup>

Index-linked annualised recurring revenue (ILARR)

**£97.1m** +13%  
(2021: £85.9m)

Pre-exceptional EBITDA

**£63.8m** +21%  
(2021: £52.8m)

Underlying profit before taxation

**£24.5m** +34%  
(2021: £18.3m)

Underlying basic earnings per share

**16.06p** +67%  
(2021: 9.60p)

### Statutory performance measures

Revenue

**£135.5m** +25%  
(2021: £108.5m)

Statutory EBITDA

**£57.1m** +23%  
(2021: £46.3m)

Statutory profit before taxation

**£16.0m** +92%  
(2021: £8.3m)

Statutory basic earnings per share

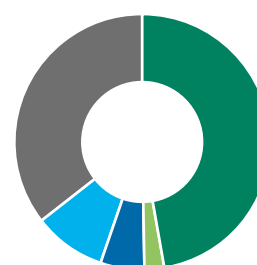
**11.16p** +248%  
(2021: 3.20p)

<sup>1</sup> Refer to page 74 for definitions and details of the Group's alternative performance measures, which include ILARR, pre-exceptional EBITDA, underlying profit before taxation and underlying basic earnings per share.

<sup>2</sup> At December 2022 and December 2021 respectively.

## Operational

### Assets under management



- Smart meter assets  
**2,108,000** (2021: 1,668,000) **+26%**
- I&C meter assets  
**106,000** (2021: 105,000) **+1%**
- Traditional meter assets  
**251,000** (2021: 277,000) **-9%**
- Data assets  
**410,000** (2021: 449,000) **-9%**
- Third-party assets  
**1,575,000** (2021: 1,746,000) **-10%**

### Pipeline

Contracted smart meter order pipeline net of installations<sup>2</sup>

**c.2.17 million**

(2021: c.2.55 million)  
0.10 million contract win and  
0.48 million installations in 2022

### Grid-scale battery storage portfolio<sup>2</sup>

**760MW**

(2021: 620MW)  
includes 140MW operational (2021: nil)



## Our purpose, strategy and culture

# Delivering smart energy solutions

SMS is at the heart of the low-carbon, smart energy revolution that is pivotal to realising a greener, more sustainable world.

With over 25 years of heritage and experience, we have an exceptional understanding of the UK energy market and how it is changing. As leaders in delivering and funding smart energy infrastructure and the technologies required to decarbonise, we are playing a critical role in achieving our nation's climate targets.

As an organisation, we are uniquely positioned to help effect real and enduring transformation.

"Our strategy is led by our purpose and values – and by first investing in our people, who put our customers at the heart of what we do, we can continue to build long-term value for our shareholders."

**Judy Keir**  
Chief People Officer



**Our purpose** is to serve our customers and protect the environment.



**Our strategy** is the continuous delivery of long-term value for all stakeholders.



**Our culture** is to put our people first.



**Our five core values** capture who we are, what we believe in, and what we stand for.



Our purpose is why we exist and it creates an expectation for our customers and reflects a promise from us. At our core we are an organisation that cares about people – committed to our employees, our customers and our communities.

Our immediate goal is carbon reduction, with the ultimate target of net zero carbon emissions.

We use our technology, data, finance and engineering skills and knowledge to provide innovative energy solutions for our customers. Through our services we are changing how businesses and consumers access and use energy thereby reducing carbon emissions.

Our strategic framework is structured into four key priorities:

1

Expanding long-term, resilient and recurring cash flows from carbon reduction assets

2

Customer excellence and efficient delivery

3

Efficient capital allocation to provide headroom for growth

4

Sustainable and socially responsible business

These are underpinned by our focus on continuing to deliver long-term value for our shareholders whilst also serving our customers, protecting the environment and looking after our people. This framework provides a clear strategic vision, built on secure foundations.

► Find out more on page 20

Our culture is underpinned by our five core values: safety, innovation, customer excellence, sustainability and pride. These capture who we are, what we believe in, and what we stand for. They drive the behaviours we wish to see demonstrated throughout our business practices.

We strive to provide an environment and experience that embeds these values on a consistent basis, building an enjoyable and healthy workplace that is open and positive towards change.

We ensure that all employees take responsibility for their own behaviour at work. A shared understanding of what is expected and what is acceptable to others, and consistency of approach from all employees, is essential.

Our values are not just slogans: we believe in them. We stand by them.



Safety



Innovation



Customer excellence



Sustainability



Pride

► Find out more on page 60

## At a glance

# A fully integrated smart energy infrastructure company

### Key

- Assets/capability in place
- Potential market

We are a fully integrated, end-to-end energy infrastructure company which owns, installs and manages carbon reduction ('CaRe') assets.

Our established CaRe verticals include:

- Meter assets
- Grid-scale battery storage
- Behind-the-meter smart solar and storage
- Electric vehicle (EV) infrastructure
- Energy services
- Energy data

We intelligently optimise these low-carbon assets using our in-house technology platform, METIS.

We are helping to build a smarter, greener and more affordable energy system – and in doing so, we create recurring revenue streams for our business, long-term sustainable value for all our stakeholders and, above all, a positive social and environmental impact.

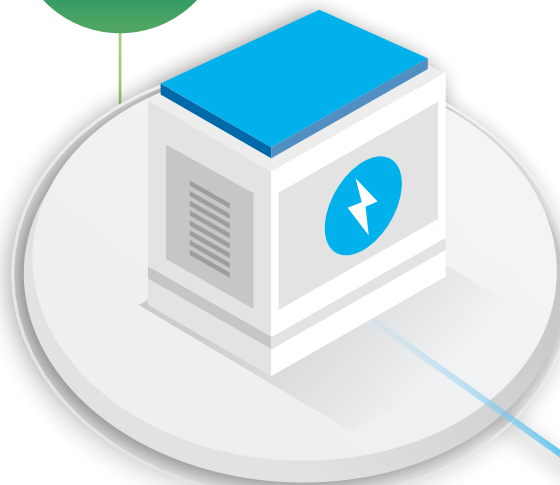
We are playing a critical role in achieving the UK's climate targets.

## Grid-scale battery storage Facilitating the low-carbon transition

► Find out more on page 16

**760MW<sup>1</sup>**

Portfolio secured or under exclusivity

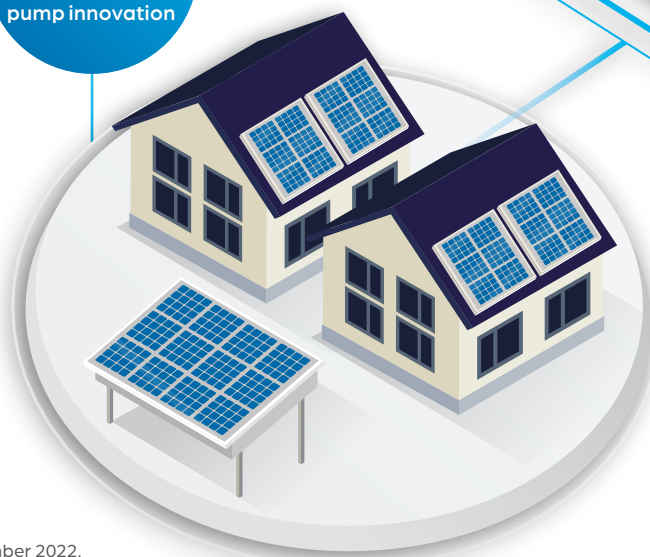


## Solar, storage and heat Helping consumers become energy self-sufficient

► Find out more on page 17

**£60m**

UK Government investment in heat pump innovation

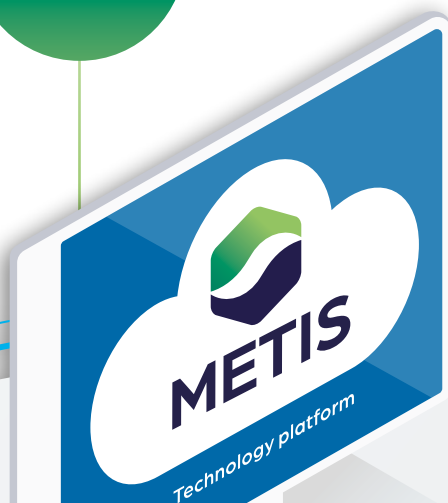


1 At December 2022.

## Energy data Optimising the energy system

Find out more on page 16

410,000  
data assets



Over  
20 years

experience in  
delivering energy  
efficiency

## Energy services Maximising energy savings

Find out more on page 29

## EV infrastructure Decarbonising transport

Find out more on page 17

18 million

electric vehicles  
on UK roads  
by 2030

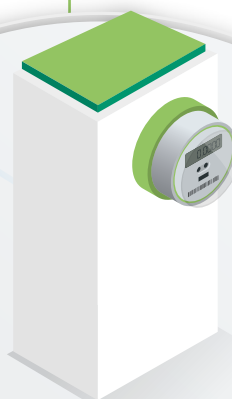


## Smart meters Helping consumers manage their costs

Find out more on page 16

Over  
2 million

Smart meters  
owned





## Chairman's statement

# Executing our strategy

"Our results again demonstrate the resilience of our business model which is underpinned by recurring cash flows from long-term assets."

**Miriam Greenwood**

Non-executive Chairman

We have seen another eventful year in the energy market with the invasion of Ukraine creating not only significant human suffering in that country, but also unprecedented turmoil and volatility in the price of energy. The impact on the cost of living has kept energy costs front and centre in the public's mind. SMS has focused on the continuing and steady delivery of its strategy during this challenging period.

### Performance

Despite the turbulence across the energy sector, we kept focused over 2022 on delivering our strategic plan. The key priorities for the year were continuing to build our smart meter portfolio and proving that we could convert our grid-scale battery storage pipeline into profitable long-term assets. We made excellent progress in both these areas.

We continued to improve our smart meter installation run-rate installing 480,000 over the year. This has led to our index-linked annualised recurring revenue growing 13% year-on-year. The smart meter roll out is scheduled to run to 2025 and we currently have

a contracted smart meter order pipeline of a further c.2.17 million meters to install which will increase our long-term revenue-generating assets.

Our first grid-scale battery storage site at Burwell became operational in January 2022 and has performed ahead of our initial expectations. Our next two sites became operational in December, and we now have 140MW of battery storage assets generating revenue. We have also continued to build our grid-scale battery pipeline with our portfolio now standing at 860MW at 28 February 2023.

We also continued to invest in developing our capabilities in electric vehicle charging and energy data management; areas where we can meet emerging market needs. We can see the continuing scope for growth in our established and developing CaRe asset classes reinforcing the long-term opportunity for the business.

### Health, safety and sustainability

The safety and welfare of our people continues to be our first priority and I am pleased to say that we had zero reportable injuries for the second year running. You can read more about our work in these areas in our Sustainability section on pages 36 to 61.

Sustainability is at the heart of what we do at SMS, and our products and services have carbon reduction as their goal. We measure this as our 'handprint' – the amount of carbon emissions mitigated by our customers using our products and services. The positive impact of our 2022 handprint was 63,495 tonnes of CO<sub>2</sub> emissions which



## Principal decisions

On the pages listed in the table below we have provided examples of how the Board duly considered the impact on stakeholders when making principal decisions during 2022:

Principal decision	Page	Key stakeholders impacted	Key
Strategic investment in n3rgy data platform	25	  	 Shareholders  Employees
Strategic investment in Clenergy EV	30	  	 Lenders  Regulatory bodies
Approval of a one-off discretionary cost-of-living payment to most staff	52	 	 Customers  Suppliers
			 Government

was 14.5 times the negative impact of our Scope 1 and Scope 2 carbon footprint (see page 50).

We also made tangible progress over the year on our 'net zero by 2030' target for our business. We have been upgrading the fabric of our Cardiff site by installing solar panels and battery storage. When complete, we expect the improvements to reduce building emissions by 70%. We have also tested hybrid vans and will be commencing our fleet transition by introducing 100 mild hybrid vans to the fleet in 2023.

### Our people

At SMS we recognise that it is our people that deliver our achievements. We therefore place great emphasis on developing our employees and creating a positive and healthy workplace. Our commitment to developing and supporting our staff was recognised by us achieving Investors in People Silver accreditation, one of a number of initiatives we have delivered in this area.

We are also conscious of our responsibility to provide our employees the security they need. We have been a 'Living Wage' employer since 2020 and during 2022 also became an accredited 'Living Hours' employer. To help our employees who may be experiencing pressure from the increased cost of living, we also made a one-off discretionary payment to most of our staff to help them through this winter and we brought forward implementation of 2023's Living Wage increase.

### Dividend

Two years ago, we set out our policy to grow our dividend by 10% each year through to 2024 and we are therefore,

proposing a 30.25p per share dividend in respect of FY 2022. Two of the four equal quarterly instalments have already been paid, in October 2022 and January 2023. We remain confident of the Group's prospects and expect to maintain our dividend policy until 2024 as stated.

### Board changes

In October, we announced that Gavin Urwin was stepping down as Chief Financial Officer to take up another opportunity. The Board was pleased to appoint Gail Blain as Chief Financial Officer to take over from 1 December 2022. Gail has been with the Group since 2016 in the role of Group Financial Controller. Over that time, she has worked closely with our Chief Executive Officer, Tim Mortlock, and has developed an in depth understanding of our business. She has played a key role in developing all areas of finance and in providing strategy support to the leadership team. Gavin is remaining available to the Group until 31 March 2023 to ensure a smooth handover. On behalf of the Board, I would like to thank Gavin for his contribution to SMS and I wish him well in his future career.

Gail's appointment is further testament to our succession planning and ability to develop internal talent.

### Governance

The Board remains committed to the highest standards of corporate governance. One feature of this governance has been the completion of our annual board self-evaluation process which this year has been facilitated with external input to support the Board in ensuring a rigorous review focused on continual improvement.

SMS's approach to stakeholder engagement is set out in more detail on pages 37 to 41 and our section 172 statement is set out on page 37.

The Annual report and accounts will enable stakeholders to assess how effectively the Board, supported by the executive leadership team and other employees, promoted the success of SMS during the year, specifically with respect to our obligations pursuant to section 172 of the Companies Act 2006. 'Decision-making in practice' case studies dispersed throughout the Annual report and accounts explain the principal decisions taken in the year and how the interests of relevant stakeholder groups were considered. A summary of these decisions is provided above.

### Looking to the future

The turbulence of the energy market in 2022 has focused attention on the global challenges of energy affordability, sustainability and security. I believe this attention has driven much wider recognition of the benefits that our carbon reduction assets, such as smart meters and grid-scale batteries, bring.

SMS will continue to meet this energy challenge and play its part in transitioning the UK to a more flexible and sustainable energy system and enabling the move to net zero. The Board therefore continues to focus on our established strategy, and under the strong leadership of our executive team we look to the future with confidence.

### Miriam Greenwood

Non-executive Chairman

14 March 2023

## Chief Executive Officer's statement

# Delivering on our sustainable promises

"Listening to customers is critical to our success in realising a greener, more sustainable future."

**Tim Mortlock**

Chief Executive Officer



Never has the energy industry been more at the forefront of the national agenda than during 2022, with energy security, affordability and sustainability proving to be fundamental challenges affecting all of society. I am proud that SMS continues to respond to these challenges by delivering carbon reduction ('CaRe') assets and solutions which directly address each of them, both for our customers and end consumers.

Like many others, our company is increasingly judged not only on its financial performance, which has again been extremely strong in 2022, outperforming upgraded expectations (see more detail in the Financial review on page 70), but also on the contribution it makes to society.

For us, sustainability isn't just a headline. We see it as being at the heart of our purpose. We believe we have an obligation to serve our customers and to provide solutions which benefit all of society – but we can only do this if we continue to promote the wellbeing of our workforce alongside providing a secure long-term return for our shareholders. This starts by listening to our stakeholders, and

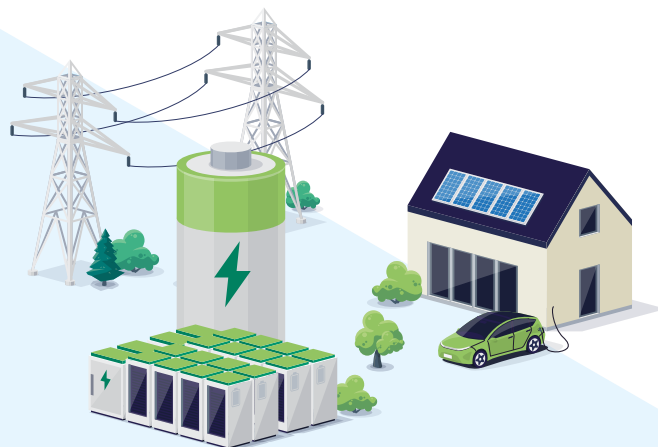
over the last year there were two priorities for our business – delivering on our smart meter order pipeline and proving the returns on grid-scale batteries. We have operationally and financially delivered in both these critical areas in 2022, and I am confident this gives us the platform to grow recurring revenues within these core CaRe assets and beyond.

### Smart meter delivery

We are delighted to have grown and delivered on our smart meter order pipeline over the last year. We built our smart meter installation run rate to c.45,000 per month in the second half of the year, and installed c.480,000 meters over the course of the year exceeding our target of 450,000 – c.12% of all new smart meters in the UK (2021: 9.4%). This resulted in an increase in our index-linked annualised recurring revenue (ILARR) from metering and data assets to £97.1m at year end.

This success followed continued investment in our engineering capacity, particularly in the latter part of 2021 and first half of 2022, which we have been able to support due to the long-term security of the recurring revenues that flow from these assets, and the strength of our continued order pipeline.





## Investment case

### 01. At the heart of enabling the low-carbon revolution

Leaders in delivering and funding smart energy infrastructure assets, with over 25 years' experience. We have committed to our own ambition of net zero by 2030.

▶ See more on pages 42 to 50

### 02. Strong growth platform reinforced by accelerated transition towards decarbonisation

Continued momentum in securing meter, grid-scale battery and other CaRe assets pipeline, with substantial additional opportunities underpinned by the UK Government's net zero ambition.

▶ See more on pages 22 to 35

### 03. Fully integrated, scalable platform with well-established industrial partnerships

An industry-leading central, cloud-based IT and data platform – METIS – backed by a nationwide engineering workforce and decades of strong industrial relationships.

▶ See more on pages 22 to 35

### 04. Strong liquidity position

Low net debt coupled with strong internal cash generation provides liquidity to fund the existing pipelines and secure additional growth opportunities.

▶ See more on pages 70 to 75

### 05. Robust, sustainable dividend policy underpinned by existing asset base

10% compound annual growth rate (CAGR) in dividends until 2024 is secured by long-term, sustainable cash flows generated from our existing portfolio of metering, data and grid-scale battery assets.

▶ See more on pages 70 to 75

### 06. Highly experienced management team committed to delivering shareholder value

A balanced and effective Board and senior management team provide the capability to successfully navigate a fast-changing energy landscape.

▶ See more on pages 78 to 79

## Chief Executive Officer's statement continued

At the year end this pipeline, net of installations, stood at c.2.17 million. With annual binding installation targets on energy suppliers through to the end of 2025 to deliver the smart meter rollout, we will continue to incrementally invest in our engineering capacity and supply chain to deliver this critical infrastructure.

The index-linked nature of our revenues also ensures we have significant protection from the current inflationary environment. Our continued investment in our supply chain, our meter stock and the efficiency of our delivery model together with this index linkage ensures that, despite the impact of inflation, the returns on our incremental capital investment in meters will remain at least in line with our previous guidance. In this way, returns from the pipeline are secured – further reinforcing the defensive nature of the asset class.

I believe that 2022 also saw a sea change in the public understanding of and support for smart metering – end consumers now demanding smart meters to allow better visibility and control over their consumption and energy costs. At the same time, recent threats to our energy security have only increased the need to manage consumption, particularly at peak periods or when renewable generation is low. National Grid's introduction of its 'Demand Flexibility Service' (DFS), which pays people with smart meters to use less energy at times of stress on the network, is just the start of this long-term drive to gain flexibility from using data. You can read more about the DFS scheme and how we are enabling energy suppliers to participate on page 26.

### Batteries are critical to energy security and net zero

We have been talking to our stakeholders for several years about how energy storage is critical to the long-term security and sustainability of our energy system. We are therefore delighted that our first 50MW project went live in January 2022 and that we ended the year with a total of 140MW of operational grid-scale battery storage capacity. A significant highlight of the year has been proving that this asset class can help integrate intermittent renewable generation to the energy network and can generate attractive long-term revenues.

Similar to the change in the public's perception of smart meters, events in 2022 have driven a greater understanding of the long-term need for grid-scale battery storage. The war in Ukraine exacerbated concern about the security of our energy supply and in its July Future Energy Scenarios report, National Grid increased its forecast requirement for grid-scale battery storage by c.5.8GW to c.14.1GW by 2030.

Having the capability to rapidly develop, build and operate these projects – particularly in the face of grid connection constraints – to address this market need is clearly vital, and for that reason I am delighted that we continued to grow our portfolio of projects during 2022 to 760MW at 31 December 2022. Since then, we have added a further two 50MW projects under exclusivity bringing the portfolio to 860MW. Within that portfolio, 610MW has now been fully secured and is either operational or 'shovel-ready'.

We have demonstrated our capability to develop and deliver on this pipeline within our capex guidance, but of equal importance was that in 2022 we proved the return on investment. We were delighted therefore that we delivered revenues significantly ahead of our previous expectations, equivalent to an annualised c.£123,000 of EBITDA per MW. The majority of the revenues were generated from the provision of frequency services, and whilst we expect those to soften over time, there is a parallel and long-term requirement to provide balancing services to the national energy network. This will enable a smarter and lower-carbon energy system, reducing peak energy costs and underpinning national energy security.

I was delighted to host an investor site visit to our first 50MW operational site at Burwell in October, which you can read about on page 38.

### Serving our customers

Listening to and serving our customers remains at the heart of our purpose – and this means delivering operational excellence every single day. This starts with health and safety where I am pleased to say we have again shown industry-leading performance across our key performance measures:

- zero reportable injuries or dangerous occurrences (RIDDOR incidents)
- maintained industry-leading performance on Lost Time, Non-Lost Time and Total Recordable Incident Frequency Rates
- continued improvement, and ahead of target, in group technical performance
- no significant incidents at our growing portfolio of grid-scale battery sites

We have also continued to focus on our Net Promoter Score (NPS), performance against industry guaranteed standards and customer complaints, all of which have again shown continual improvement and are ahead of target.

The efficiency of our operations is also clearly important. We grew our engineering and installation capacity early in the year while keeping job completions per engineer in line with our expectations.

You can read more about our operational performance on pages 32 to 35.

## CaRe growth

2022 demonstrated the continued security and stability of our business model and that we can execute on our strategic growth plan. Delivering our existing smart meter and grid-scale battery pipelines alone will more than double the EBITDA of our business, before taking into account the net positive impact of inflation on our index-linked recurring revenues.

However, the most exciting part of our business is the further opportunity to grow beyond these contracted and secured pipelines. I have already referred to the expected grid-scale battery storage market size by 2030, but in addition to this, smart meters are enabling a more dynamic, digital and flexible smart energy system to be built – which we will need if we are to resolve the significant security, affordability and carbon challenges we face.

The National Grid DFS service points to a future where half-hourly smart meter consumption data is central to the control, management and aggregation of behind-the-meter solutions, such as local solar and storage, and to controlling increasing peak demand from the electrification of transportation and heat. Our technology platforms can facilitate this new energy system, by delivering on mandatory half-hourly settlement for energy suppliers whilst optimising the use of energy to balance the energy grid and respond to price signals – just like we do at the grid-scale level.

Bringing together this technology and our energy knowledge and engineering capacity enables us to develop our asset deployment capability in wider CaRe solutions. For example, we can originate, own and operate electric

vehicle charging infrastructure and in some cases link this to local generation and storage to optimise the cost and use of energy. These solutions are closely aligned to our existing skills and capabilities, and again address the key challenges of our time.

The technical solutions to address these themes of security, affordability and sustainability already exist and that is why I feel that at SMS we have an obligation to use our platform to deliver these emerging solutions, support the path to net zero and reduce energy costs for end consumers. In doing so we will also continue to securely grow our business, our asset base and our returns for the benefit of all our stakeholders.

## Our people

Our values underpin our entire business, and nowhere is this more apparent than in our greatest asset – our people.

You can read more about the significant effort we have made into 'Putting our people first' on pages 51 to 55, but the highlight for me is being able, post-pandemic, to see first-hand the pride our staff take in delivering our services across the country.

I was also pleased in October to launch, with the Rt Hon Justine Greening, our 'Levelling Up Impact Report' setting out our commitment, in partnership with the Purpose Coalition, to levelling up through the framework of the Levelling Up Goals.

Sustainability underpins everything we do at SMS. This means not just doing what we can to help our environment; it also means building a long-term secure business for all our stakeholders, and contributing to the prosperity of people and society in general. We aim to achieve this positive impact through responsible corporate governance, as much as through the direct and indirect effects of our innovative energy solutions. That means promoting policies that prioritise wellbeing, open recruitment, and fair career progression, as well as nurturing a truly diverse and inclusive workforce.

## Looking forward

Our focus remains on executing our strategic growth plan over the coming year:

- installing c.600,000 smart meters to continue to build our ILARR;
- building out our secured pipeline of grid-scale battery projects and continuing to evidence the returns at least in line with our updated guidance;
- growing these smart meter and grid-scale battery pipelines further;
- building the opportunity pipeline in wider CaRe assets, such as EV charging infrastructure and behind-the-meter solutions such as solar and storage; and
- leveraging our technology platforms to enable a smart, data-driven, energy system.

We have consistently demonstrated our ability to fund and deliver on this growth agenda and we believe that the opportunity ahead of us in terms of market size is very significant. It is incumbent on us to deliver on those opportunities for the benefit of all our stakeholders.

I would once again like to thank all our staff, leadership team and Board, who continue to work passionately to help deliver our purpose – it is a privilege to lead an organisation with such a committed workforce. My thanks also to all our customers for their continued support and partnership.

I am proud of what we have delivered this year and excited by the enormous potential we can achieve in the years ahead.

**Tim Mortlock**

Chief Executive Officer

14 March 2023



Market overview

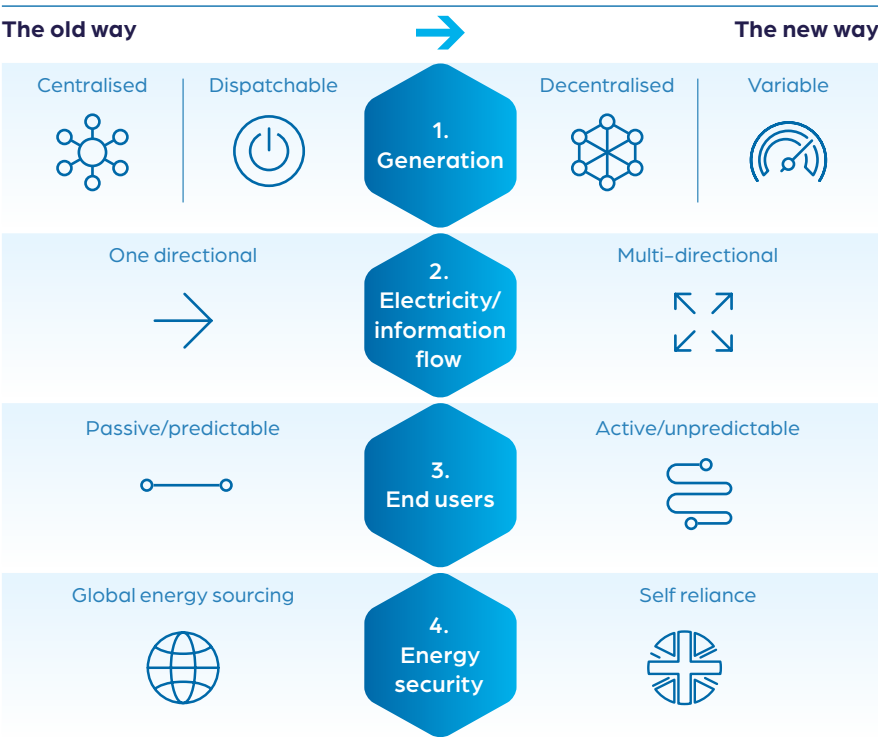
# The changing energy landscape

The net zero 2050 legislation underpins the critical energy transformation happening in the UK today.

It is clear that increasing intermittent renewable generation will have a fundamental impact on the future of our energy networks. Furthermore, in addition to this transition to sustainable generation, ongoing geopolitical tensions have reinforced the need to deliver this change in a way that also addresses both energy security and the cost-of-energy crisis.

The energy landscape is therefore dominated by the need to create an equilibrium between decarbonisation, energy security and the cost of energy – and to do so requires significant investments in technologies and assets which provide flexibility and resilience to the energy system.

Over the last decade, the UK has been transitioning away from a system of centralised and highly predictable generation to one dominated by distributed intermittent renewable generation. However, given that renewable generation is neither forecastable nor controllable, this unpredictability is impacting the grid and also making the energy system less reliable at a time when we see the potential for increasing peak demand driven by the electrification of heat and transport. The increasing multi-directional flow of energy and information increases volatility further.



This is where SMS's carbon reduction ('CaRe') assets are meeting the energy challenge. Smart meters continue to be key to enabling more efficient energy use, and the data they provide can facilitate building a more flexible energy system that makes it easier to match energy supply and demand. There is a mandated national target for an 85% rollout by 2025.

Whilst grid-scale energy storage is needed to absorb excess energy generation, demand-side flexible systems, like distributed solar and storage, air-sourced heat pumps and electric vehicle charging infrastructure not only deliver low-carbon solutions to our energy needs but also provide the ability to power down non-essential equipment at times of high system load or power up standby generation when grid prices peak.

Ultimately, transitioning towards a cheaper, cleaner, and more secure renewable energy future requires local renewable sources of energy and efficient ways to manage how and when that energy is used.

"SMS is strongly positioned to provide the knowledge, engineering, data platforms and services behind the UK's move to net zero."

**Tim Mortlock**

Chief Executive Officer



## Market overview continued

### Cost of energy

## Reducing cost for consumers

Our smart meters help consumers save money by enabling them to control and optimise their energy usage.

Our grid-scale batteries reduce power price volatility, accelerate adoption of cheap renewables and reduce the level of network investment that would otherwise be required to enable them.

Our 'behind-the-meter' solutions allow consumers to generate their own energy, sell excess energy to the grid, automatically move consumption to when prices are lower and get paid for reducing demand. Our Solopower proposition offers local housing authorities a funded solar generation and smart battery storage solution helping to address fuel poverty.

# 86%

of people with a smart meter say they have made changes to use less energy

Source: research from Smart Energy GB

# £1.2bn per year

Estimated savings on energy bills by 2030 from efficiencies driven by smart meters

Source: BEIS smart meter roll-out cost benefit analysis 2019



# Addressing the energy challenge

### Decarbonisation

## Working towards a low-carbon world

Our grid-scale batteries enable us all to maximise the use of energy generated from renewable sources, and to make the energy system more resilient.

Our smart meters and data services lead to efficient energy management, local energy generation and the alignment of energy demand to renewable generation.

Electric vehicle (EV) charging infrastructure enables the transition of the transport sector from fossil-fuel to low-carbon technologies.

Our behind-the-meter solutions such as solar, storage and air sourced heat pumps enable domestic and commercial energy use to be decarbonised and optimised.





## Energy security

### Delivering energy security

Our grid-scale battery storage assets maintain the security of the energy network by balancing energy generation and demand, whilst also stabilising the frequency of the grid in the face of more volatile renewable generation.

Our smart meters and data services help to balance energy consumption and supply, enabling new solutions such as time-of-use tariffs and the Demand Flexibility Service launched by the Electricity System Operator in 2022 to help reduce the risk of shortages in supply.

Our FlexiGrid platform intelligently operates distributed energy resources such as behind-the-meter batteries, EV chargers, heat pumps and storage heaters to shift energy demand to better match supply. These can reduce peaks in demand that are currently met by gas-fired power stations.

Our Solopower proposition offers local housing authorities a funded solar generation and smart battery storage solution.

### More than 75%

Proportion of low carbon renewable generation by 2050

Source: National Grid Electricity System Operator

### 70 million trees

Estimated equivalent carbon reduction once every home has a smart meter installed

Source: Smart Energy GB

### 70% per home

Potential decarbonisation of housing electricity per home with Solopower

Source: internal SMS estimate



Market overview continued

# Our market position

## Smart meters and data

The UK Government has mandated that energy suppliers replace traditional meters with smart meters and has set an objective of achieving 85% coverage by the end of 2025. The significant increase in energy prices and the increasing understanding of the benefits to consumers supported strong demand for smart meters in 2022 – with smart meters installed across the industry, the highest since the rollout began.

There are now c.30 million smart meters installed across the UK (including 2.1 million owned by SMS) with c.26 million traditional meters still to be exchanged for smart ones by the end of the roll-out period. With our full end-to-end capabilities, SMS is perfectly positioned to capitalise on this opportunity. We have a c.2.17 million contracted smart meter order pipeline and we are currently installing c.12% of all new smart meters in the UK.

The UK Government has also confirmed its intention to mandate market-wide half-hourly settlement from 2026, which will require the balancing of the electricity industry on an actual half-hourly consumption basis rather than an assumed energy usage profile. This settlements service provides a significant opportunity for SMS and new solutions will also then be enabled – using smart meter data to drive more efficient use of energy and save customers money. This will grow the current market from c.480,000 Industrial & Commercial (I&C) electricity metering points (in which we have c.10% market share) to c.32 million I&C and domestic meters. One of the first of these data driven solutions is The Demand Flexibility Service (see page 26).

## Grid-scale energy storage

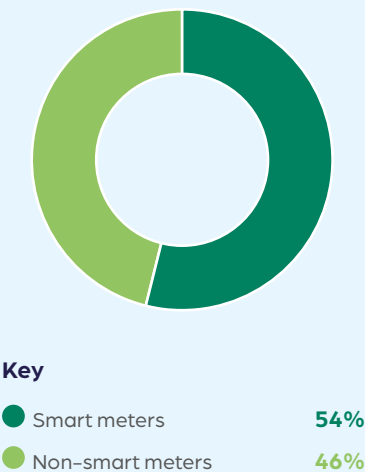
The UK’s energy storage capacity is projected to grow from c.4GW at 31 December 2022 to 38GW by 2050, with 26.2GW expected to come from batteries.

With 25 years’ experience delivering large-scale electrical infrastructure across the country, SMS remains unique in its approach to grid-scale storage, by covering the majority of the value chain in-house. Our specialist in-house teams manage the design, supply, installation, operation, maintenance and energy trading of our battery energy storage sites. At 31 December 2022 we had a 760MW portfolio of projects (of which 610MW is either commissioned, under construction or fully secured, with the remaining under exclusivity) and our target is to deliver 1.5GW by 2030; this will provide us with a c.10% market share.

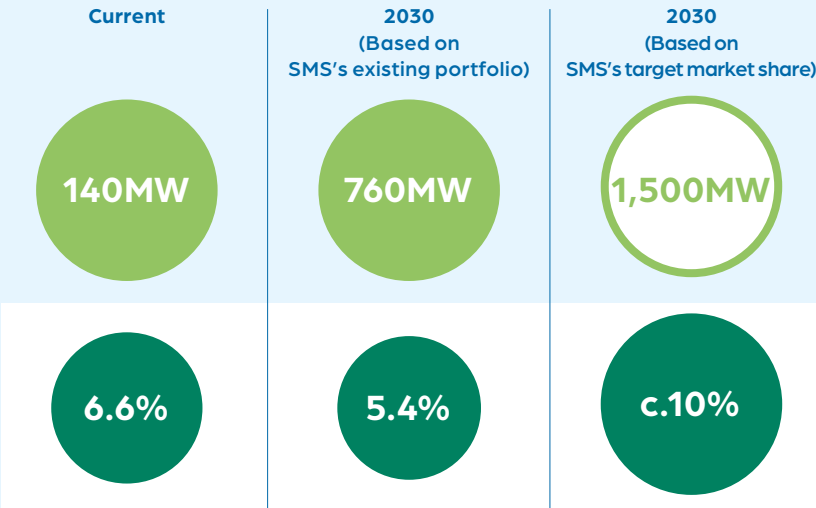
c.2.17million

SMS contracted smart meter order pipeline at 31 December 2022

Smart meter rollout



SMS market share for grid-scale energy storage



## Electric vehicle charging

The UK Government has announced that sales of all new petrol and diesel cars and vans will end in 2030 and plans to introduce percentage targets for sales of clean vehicles from 2024. To support this transition, the UK Government expects around 480,000 public chargers will be required as a minimum by 2030 (of which there are currently just 36,750 installed nationally as of December 2022). This figure does not include the potential number of chargepoints in domestic and private commercial premises in the UK.

SMS has EV charging solutions targeting both public and domestic chargepoints. We offer a fully end-to-end integrated platform for EV charging infrastructure to the non-domestic market – installing, owning and operating car charging networks

offering a full life cycle proposition, from initial consultancy and design of electrical infrastructure, through to technology procurement, installation, and ongoing ownership, operation and maintenance of the assets. In addition to workplace and public charging, SMS is also targeting the destination charging market – which broadly refers to chargepoints installed at leisure, retail, and hospitality businesses – as well as the fleet sector.

SMS has also begun to install domestic EV chargepoints, an engineering competency closely aligned to our existing delivery resource, and we are developing asset-owning commercial models to extend our CaRe business model in this substantial market space.

## Distributed ('behind-the-meter') energy resources FlexiGrid

FlexiGrid is a cloud-based software platform that monitors and controls a range of distributed energy resources (DERs) such as solar panels, home batteries, electric vehicle chargepoints and smart heating systems. FlexiGrid operates these as a virtual power plant (VPP) and delivers the real-time flexibility essential for a decarbonised system. This brings a whole host of commercial, operational, and environmental advantages including balancing renewable generation locally, managing local grid constraints, reducing the cost to deliver electricity and enabling the supply of cheaper, cleaner renewable energy.

## Solopower

Our 'Solopower' proposition offers local housing authorities a funded solar generation, smart battery storage and air-sourced heat pump solution that addresses the dual challenge of carbon emissions and fuel poverty.

We partner with social housing providers to upgrade the energy performance of social accommodation and their residents at zero upfront cost – Solopower can decarbonise housing electricity by approximately 70% per home, whilst reducing tenant electricity bills by up to 28%.

The financing and delivery of clean technology across the UK housing stock will be essential for meeting the Government's Net Zero 2050 target and alleviating fuel poverty amidst a cost-of-living crisis. The funded solution will offer the social housing sector – which accounts for approximately five million UK homes – an opportunity to meet its carbon reduction and fuel poverty objectives.



# 480,000

Expected minimum number of public chargers required by 2030

Source: Competition and Markets Authority

# 18.3million

Potential number of domestic chargepoints based on homes with access to private, off-street parking

Source: ONS and industry estimates

# 5million

Approximate number of homes provided by social housing sector

Source: ONS

## Our business model

# Offering a unique proposition: an end-to-end integrated service

## What we have



## What we do

### Our strengths

#### A growing smart meter portfolio

Our meter assets generate highly sustainable, annuity-style cash flows and provide a secure foundation for the future growth

of the business. In the UK, c.46% of meters are yet to be exchanged as part of the smart meter rollout.

#### A growing grid-scale energy storage portfolio

We have 140MW of grid-scale battery storage in operation with a further 620MW pipeline of sites either secured or under exclusivity.

#### Engaged people

We are focused on employee retention, training and development, on productivity and, above all, on an unwavering commitment to health and safety. We have a nationwide in-house engineering

and expert consultancy workforce, with a strong track record of service delivery. Fostering innovation and creativity in what we do is also critical to allow us to deliver new and exciting solutions.

#### Robust technology platforms

We have significant IT software and data security capabilities, and the ability to develop new applications and technologies to the ongoing

benefit of our customers. Delivery of our integrated services is supported by our own central cloud-based IT and data platform.

#### Long-standing relationships with our customers

We enjoy multi-level relationships with energy suppliers, developers and enterprises within the UK industrial and commercial sectors. The enduring partnerships we

maintain with our customers are testament to the unrivalled support we provide and our commitment to providing successful and innovative energy solutions.

#### Effective capital management

We continually review our funding position to ensure that we maintain an efficient capital structure, with sufficient capacity and flexibility to maximise growth. We maintain

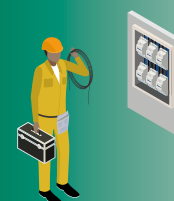
prudent but efficient leverage using internal cash generation, our available debt facility and other additional mechanisms as relevant.

### Our core businesses

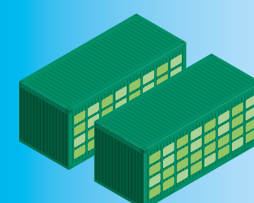
#### Asset management



#### Asset installation



#### Energy management



Underpinned  
by our values

Putting our  
people first



Safety



Innovation



Customer  
excellence





## Who we deliver for

### Our strategic priorities

Providing a fully managed, end-to-end metering and data service to the Industrial & Commercial and Domestic markets, including ownership and operation.

**01.**  
Expanding long-term, resilient and recurring cash flows from carbon reduction assets

Providing direct field-force management and asset installation, targeting the domestic smart meter opportunity. Design, installation and management of utility connections and energy infrastructure.

**02.**  
Customer excellence and efficient delivery

Providing energy-efficient strategies and specialist energy management solutions, including grid-scale battery storage. Investing in renewable energy generation, we continue to pursue several developing opportunities in the areas of electric vehicle charging, heat and behind-the-meter smart solar and storage.

**03.**  
Efficient capital allocation to provide headroom for growth

**04.**  
Sustainable and socially responsible business

▶ See the Operating review on pages 22 to 35

### Creating long-term value for our stakeholders

#### Our shareholders

We deliver attractive and sustainable returns to our shareholders through our growing, sustainable dividend. The Group intends to pay a 30.25p per share dividend in respect of FY 2022 (+10% on FY 2021), over four instalments, with an intended 10% annual increase through to FY 2024.

**30.25p**

dividend for FY 2022, with an intended 10% annual increase until FY 2024



#### Our customers

Delivering customer excellence is a core value underpinning our business. Our breadth of service makes us unique in our industry, and our expertise allows our customers to have confidence that we will deliver appropriate solutions.

**62%**

percentage of Trustpilot reviews earning a top 5-star rating



#### Our employees

A motivated workforce encourages creativity and productivity and is critical to the execution of our strategy. We place great emphasis on creating a positive working environment for all our people, and on providing challenging career opportunities that offer staff the chance to develop.

**#210**

Best Large Companies to work for in the UK



#### Our partners

We work with a wide range of partners over the long term, including suppliers, lenders, governments and regulatory bodies. These relationships are critical in delivering our strategic objectives and business model.

**£420m**

revolving credit facility



#### The environment

Our goal is carbon reduction and we place sustainability at the core of our business. Through training and development, the sustainability culture of the business is instilled in all staff from the moment they join the Company.

**63,495 tonnes**

Our 'handprint': TCOze carbon mitigation achieved by our customers from our energy solutions (see page 50)



Sustainability

Pride

## Our strategy

# Securing our energy future

01.



Expanding long-term, resilient and recurring cash flows from carbon reduction ('CaRe') assets

### 2022 priorities

- Convert the meter order pipeline to add to the existing index-linked annualised recurring revenue (ILARR).
- Target additional domestic smart meter opportunities.
- Grow our half-hourly data services.
- Develop our established portfolio of grid-scale battery storage projects.
- Establish additional pipeline of opportunities across several CaRe asset verticals.

### 2022 progress

- Grew ILARR 13% to £97.1m at 31 December 2022.
- Progressively improved meter installation run rate.
- Ended year with smart meter order pipeline of c.2.17 million units.
- Acquired n3rgy to accelerate capabilities in smart energy data solutions.
- Delivered first three grid-scale battery storage projects totalling 140MW.
- Added further 140MW to grid-scale battery storage pipeline since March 2022.
- Made strategic investment in EV charging infrastructure.

### Future outlook

- Convert the smart meter order pipeline and add to the existing ILARR.
- Target additional domestic smart meter opportunities.
- Further grow our half-hourly data services.
- Develop and deliver our established portfolio of grid-scale battery storage projects.
- Establish a pipeline of public EV charging infrastructure assets.
- Additional pipeline of opportunities across several CaRe asset verticals.

02.



Customer excellence

### 2022 priorities

- Ensure an injury-free organisation.
- Focus on digital conversion of customers to smart meters and continued improvement in guaranteed standards of service.
- Continue to expand installation services into adjacent non-metering activities, such as EV charging and other behind-the-meter solutions.

### 2022 progress

- Industry-leading performance on all key health and safety indicators.
- Continued adherence to COVID-19 protocols, protecting our engineers and customers.
- Average meter installation run rate increased to c.45,000 per month in H2.
- Efficient utilisation of our direct engineering workforce, supplemented by our network of sub-contractors.
- Trainee scheme for new entrants to meter market expanded through our accredited training academy.
- Delivered our first upskill training to meter engineers in the installation of domestic EV chargers.

### Future outlook

- Year-on-year improvement in our core health and safety key performance indicators.
- Continued investment in our capacity, to progressively increase our meter installation run rates.
- Expand domestic installation capabilities further for EV chargers and related home energy solutions.

Our strategic framework is structured into four key priorities, with a focus on continuing to deliver long-term value, serving our customers and protecting the environment.

## 03.

Efficient capital allocation allowing for growth



### 2022 priorities

- Maintain strong liquidity to provide adequate funding to deliver the Group's pipeline of meters and CaRe assets.
- Maintain a prudent but efficient leverage position.
- Grow dividend by 10% annually, until 2024.
- Continue to evaluate an optimal mix of funding options for future capital requirements.

### 2022 progress

- Strong liquidity position with net debt position of £31.2m at 31 December 2022 and undrawn debt facilities of £355m.
- Continued evaluation of the optimal mix of future capital requirements both to deliver the existing pipeline of CaRe assets and to take advantage of additional growth opportunities.
- FY 2022 dividend proposed at 30.25p per share, a 10% increase on FY 2021 in line with policy, underpinned by existing long-term cash flows.

### Future outlook

- Maintain strong liquidity to fund the Group's pipeline of meters and CaRe assets.
- Maintain efficient capital structure and prudent leverage.
- Grow dividend by 10% annually, until 2024.
- Continue to evaluate an optimal mix of funding options for future capital requirements.



## 04.

Sustainable and socially responsible business

### 2022 priorities

- Continue to enhance disclosures in our Sustainability Report.
- Further improvement in ESG ratings.
- Deliver energy efficiency upgrades at a key office site.
- Commence trial of plug-in hybrids for the Group's fleet.
- Embed environmental and biodiversity considerations in the planning of our grid-scale battery storage sites.
- External assessment by 'Investors in People'.
- Deliver the Safety, Health and Wellbeing action plan.

### 2022 progress

- Delivered progress in line with our net zero by 2030 carbon roadmap (see pages 45 to 47).
- Strengthened our ESG ratings and credentials (see page 42).
- Continued to embed the TCFD principles into our strategic planning and everyday processes.
- Continued to assess our alignment with the EU Taxonomy ahead of UK taxonomy implementation.
- Accredited with 'Investors in People' Silver status.
- Launched our Levelling Up Impact report.
- Became an accredited 'Living Hours' Employer.
- Made progress across all safety, health and technical indicators.

### Future outlook

- Continue to progress against our 'net zero by 2030' roadmap (see page 47).
- Further enhance reporting of SMS's ESG credentials.
- Drive energy-efficient processes across our operations.
- Continue to participate in activities that make a difference to local communities.
- Maintain zero cyber security breaches.
- Delivery of behaviour-based safety programme.

## Operating review

# Delivering growth

During 2022, our operational focus was on further growing our pipeline of smart meters and grid-scale batteries and delivering against our existing secured pipelines of asset deployment, most notably across both smart meters and grid-scale batteries. At the same time, we maintained our unrelenting commitment to safety and customer service.

Whilst no business is immune to inflationary cost pressures, the index-linked nature of our metering and data revenues and the efficiency of our delivery model have continued to ensure we manage the capital cost of originating these assets at least in line with our guided expectations.

- 50% increase in our smart meter installation run rate (H2 2022 v H2 2021)
- 13% increase in our ILARR
- Over 110% increase in our fully secured grid-scale battery portfolio
- 140MW grid scale batteries now operational; generating annualised EBITDA performance of £123,000/MW.

We were pleased during 2022 to add a further 100,000 meters to our contracted smart meter order pipeline which ended the year at c.2.17 million, while our deployed smart meter portfolio increased to 2.1 million as a result of installing over 480,000 smart meters during the year. This, alongside an inflation increase, drove our ILARR to end the year at £97.1m. It is worth reiterating that these are the annualised index-linked recurring revenues which flow from our deployed meter and data assets.

**“Efficient delivery has been our mantra – our people have been delivering on our promises for health and safety; customer excellence; and the cost of CaRe asset origination.”**

## +37%

increase in number of smart meters installed year-on-year

## +110%

increase in our fully secured grid-scale battery portfolio (December 2022 v December 2021)

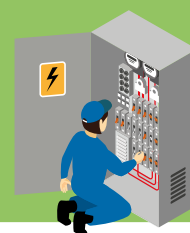
Our smart meter installation run rate increased to c.45,000 per month in the second half of the year and we are now installing c.14% of all smart meters across the UK. We invested substantially in our workforce, particularly in our direct labour, in the first half of the year but continue to manage an efficient balance between direct and sub-contract labour. We expect to continue to increase our smart meter installation run rate in 2023 as we seek to deliver on energy suppliers' mandated requirement for 85% of all meters to be smart by the end of 2025.

We were also pleased to continue to grow our overall portfolio of grid-scale battery projects to 760MW at year end (31 December 2021: 620MW), and since then by a further two 50MW projects under exclusivity to 860MW. Of particular note, we increased the fully secured and 'shovel-ready' proportion of this portfolio to 610MW (2021: 290MW). Within this overall portfolio we were delighted to energise and bring 140MW into commercial operation during the year, with a further 150MW in advanced construction.

### Key focus areas

#### Asset management

The asset management division is focused on growing the long-term, index-linked, recurring revenues from smart meters and data.



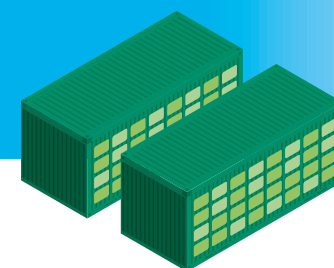
#### Asset installation

The asset installation division is focused on delivery of our CaRe asset pipeline, excellence in health and safety, customer service and operational efficiency.



#### Energy management

The energy management division is focused on the origination, operation and optimisation of commercial-scale CaRe products such as grid-scale battery storage, public EV charging infrastructure and distributed generation and storage; these solutions enable a low-carbon, more flexible smart energy grid and reduce energy consumption and costs for end customers.





## Primary objectives

- Grow ILARR, driven by:
  - recurring rentals from installed smart meter assets; and
  - data services provided to energy suppliers and I&C businesses for industry data flows and half-hourly energy consumption information.
- Ensure market-leading return on investment, by growing our meter and data pipelines whilst efficiently delivering on the capital cost of asset origination.
- Leverage our technology data platforms to enable energy suppliers and end consumers to benefit from a smarter, more flexible, energy system.
- Develop complementary subscription based rental commercial models for behind-the-meter CaRe assets for end consumers and landlords.

## Performance

## Index-linked annualised recurring revenue (ILARR)

**£97.1m +13%**  
2021: £85.9m

## Depreciation-adjusted gross margin

**92% Flat**  
2021: 92%

Capex on meters<sup>1</sup>

**£105.0m +27%**  
2021: £82.4m

## Revenue

**£92.8m +12%**  
2021: £82.9m

## Depreciation-adjusted gross profit

**£85.5m +12%**  
2021: £76.1m

- Deliver our 'Vision Zero' – our goal of zero accidents, healthy work and employee wellbeing.
- Excellence in customer services.
- Install our contracted smart meter asset pipeline and deliver transactional new connection and meter maintenance services.
- Grow our engineering capacity and installation run rate whilst maintaining operational efficiency and full utilisation of the Group's direct labour workforce.
- Develop our engineering capabilities for other behind-the-meter CaRe assets, such as domestic EV chargers, solar, storage and air sourced heat pumps.
- Reduce the carbon footprint of our delivery, in particular from our fleet, in line with our 'net zero by 2030' plan.

## Revenue (external)

**£30.5m +39%**  
2021: £22.0m

## Pre-exceptional gross profit

**£7.0m -12%**  
2021: £8.0m

## Pre-exceptional gross margin

**23% -13%**  
2021: 36%

## Number of engineers inducted through training academy

**399 -24%**  
2021: 524

- Originate, build and operate our grid-scale energy storage portfolio, enabling the energy networks to transition to net zero through the integration of intermittent renewable generation.
- Originate, build and operate EV charging infrastructure for destination, workplace, on-street and fleet locations, enabling the transition to a low-carbon transport system
- Grow our energy management and efficiency delivery programme on behalf of I&C customers and landlords:
  - Solopower: behind-the-meter solar and storage
  - Heat pumps
  - Smart energy controls

## Revenue

**£12.2m +239%**  
2021: £3.6m

## Depreciation-adjusted gross profit

**£6.9m +666%**  
2021: £0.9m

## Grid-scale batteries annualised EBITDA/MW

**£123,000/MW**  
2021: N/A

Capex on grid-scale batteries<sup>2</sup>

**£36.3m +48%**  
2021: £24.5m

## Depreciation-adjusted gross margin

**57% +33%**  
2021: 24%

## Operational grid-scale batteries

**140MW**  
2021: Nil

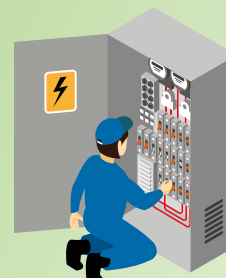
1 2021 measure excludes acquisition of I&C large-power metering and data portfolio.

2 Excludes acquisition-related balances and payments on account to acquire grid-scale battery assets.

## Operating review continued

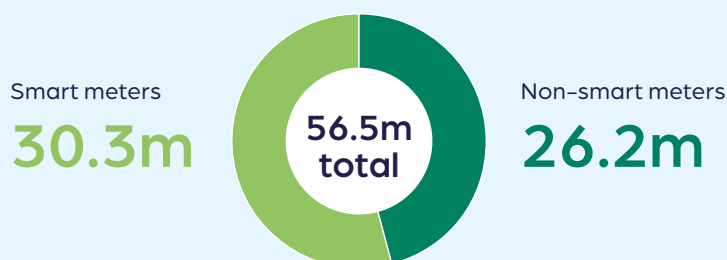
# Asset management

Our smart meter rentals are index-linked and not related to the amount of energy consumed or wholesale energy prices. They therefore provide a highly defensive, predictable and secure infrastructure asset class.



## All meter points

(Domestic & non-domestic, large & small suppliers, both fuels)



Source: BEIS Smart meters in Great Britain, quarterly update September 2022

The UK smart meter rollout continues to present a significant opportunity for us to grow our ILARR, with Ofgem continuing to place annual binding installation targets on energy suppliers to ensure at least 85% of all meters are changed to smart by the end of 2025.

Our industry-accredited services, built on our in-house technology platform METIS and national engineering infrastructure, provide a strong basis from which to efficiently deliver these asset and data solutions to our customers. The industry structure underpinning these accreditations is evolving as a result of smart meter deployment and is set to enable all industry participants, and ultimately end consumers, to benefit from the consumption data available from them and the increasing digitisation of the energy system.

We therefore continue to invest in our METIS platform, not only to meet the requirements of this industry change but also to address the mandated settlement of energy on a half-hourly basis from 2026, which will significantly increase the market size for these services from c.480,000 electricity meters to over 32 million meters by 2026.

However, this increasing opportunity for data services is not just about industry settlement processes— it is about enabling end consumers of energy to benefit by controlling and aggregating the use and generation of energy at different times of day in response to the needs of the grid. Our technology platforms are already beginning to address this long-term and growing market need. Through these assets and data services, we continue to enable the transition to a low-carbon energy system for a greener, more sustainable future for all.

## 2022 performance

**ILARR:** During 2022 we increased our meter and data ILARR from £85.9m to £97.1m, due largely to the application of a 4.3% RPI increase in April alongside the addition of 480,000 meters to our smart meter portfolio – we now own 2.1 million smart meters. The ILARR from this domestic smart meter portfolio increased from £50.1m to £61.0m, with this growth offset by the expected and continued removal of traditional meters. Our data services ILARR increased from £13.9m to £16.0m.

**Pipeline:** During 2022 we added a contract for a further 100,000 meters to our pipeline, which therefore increased on a like-for-like basis to 2.65 million meters. Following the installation of c.480,000 meters during the year we exited with a contracted smart meter order pipeline of c.2.17 million meters, which once installed is expected to add a further c.£48m to our ILARR, excluding the annual indexation also applied on our pipeline. We continue to see additional opportunities to grow this pipeline further, particularly through the extension of minimum contracted volume commitments with existing customers where their customer base grows as a result of the market turbulence over the last year.

We are also developing wider commercial subscription models for the ownership and rental of other behind-the-meter assets to end-consumers and landlords such as domestic EV chargers, solar, storage and air-sourced heat pumps. We are seeking to partner with our existing and new customers to offer these broader CaRe services to end consumers.

#### **SMETS1 Enrolment & Adoption:**

The enrolment and adoption of first-generation ('SMETS1') smart meters into the Data Communications Company (DCC) continued to accelerate through 2022, with now c.65%, SMETS1 meters migrated to the DCC platform. This effectively enables them to remain smart regardless of who the energy supplier is and operate like a SMETS2 meter. The migration of our SMETS1 portfolio has progressed marginally ahead of this industry progress, with now c.80% of our relevant meters transferred. This process has now been extended through to the end of 2023.

**Delivery:** Following from previous Brexit and COVID-19 concerns, SMS made conscious decisions through 2021 and 2022 to further diversify its supply chain (to four meter manufacturing partners), to fix the cost in sterling of a significant proportion of our forward meter purchases and to increase the level of buffer stock we hold in our UK warehouses. Whilst not without some impact on working capital, these decisions have proven prescient. They have ensured that we minimise the impact of inflationary increases on our meter installation and have ensured that stock availability has not been an impediment to delivering or growing our meter pipeline.

This successful management of our hardware supply chain has gone hand in hand with the continued efficiency of our operational delivery, ensuring we have the capacity to deliver on our contracted pipeline and take advantage of further opportunities in the market. At the same time, we have continued to deliver on our return expectations by ensuring that the capital cost per meter installation increases by less than the indexation applied to our rentals.

## Decision-making in practice: acquisition of n3rgy data platform

SMS has been providing half-hourly data services, largely to the Industrial & Commercial market, from both electricity and gas meters for nearly two decades. This part of our business grew further in 2021 following the acquisition of a 'large-power' metering and data portfolio from a large energy supplier. In this market space our data services include collection of consumption data directly from the meter, which we then provide to energy suppliers and end users for energy management, billing and industry settlements purposes.

The regulator has mandated the similar settlement of energy on a half-hourly basis across all smart metered supply points from 2026, significantly increasing the market size from c.480,000 electricity meters to over 32 million meters. However, collection of the consumption data for these smart meters is undertaken by the DCC.

During 2022 we therefore worked closely with, and ultimately acquired, n3rgy – a digital technology platform which enables and facilitates the use of energy consumption, generation and tariff data from smart meters on the DCC platform.

The acquisition, for an initial case consideration of £1.4m, means that SMS can effectively, with consumer permission, access half-hourly consumption data directly from smart meters, therefore enabling us to offer turnkey settlement services to domestic energy suppliers just like we already do in the I&C market. The acquisition, together with the Group's accredited and scalable technology platforms, will enhance and accelerate SMS's capabilities in smart energy data solutions, providing the Group with a strong competitive position in the significant addressable market as the industry moves towards mandatory half-hourly settlement. As a platform for growth, and akin to accelerated IT capex, the Board judged the acquisition to be in the long-term interest of shareholders.

n3rgy also expands the range of data services we are able to provide, for example by enabling third parties and end consumers to have direct access to their energy usage data and costs, facilitating the management of this usage and enabling them to participate in the energy market in new ways. For instance, we are already using this capability to enable end consumers to be paid to use less energy at times of stress on the energy network, through National Grid's Demand Flexibility Service (see page 26).

Before approving the transaction, the Board reviewed papers and challenged management on the business cases, the risks and opportunities presented by the deal and the continued investment in the platform required. The Board took specific cognisance of the alternative third-party routes to obtaining this capability versus such an in-house approach, and the potential timescale and cost of developing the capability internally.

**Customers** – the Board noted that the transaction provided opportunities to expand our data services offering and relationships with domestic energy suppliers and to facilitate the positioning of our business for both mandatory half-hourly settlement and the developing data-driven smart energy grid.

**Employees** – two employees joined the Group as part of the transaction, with third-party development, support and maintenance arrangements put in place prior to completing the transaction to ensure our continued ability to service and grow the platform. An additional £0.8m of contingent consideration will be payable by SMS subject to n3rgy achieving certain performance targets.

## Operating review continued

### Asset management continued



### Demand Flexibility Service – enabling a smarter grid

The Demand Flexibility Service (DFS) has been developed to allow the Electricity System Operator (National Grid ESO) to access additional flexibility when the national power demand is at its highest – typically during peak winter days.

It is an additional tool that the ESO can use to keep the lights on this winter and has been designed to reduce pressure on the grid by providing an incentive for customers to either reduce consumption or shift it to different time periods.

Through two core SMS capabilities, collecting smart meter energy data via n3rgy and using our flexibility aggregation platform, FlexiGrid, we have been supporting energy suppliers and other businesses offering DFS to domestic consumers this winter.

As an Approved Provider of DFS to National Grid ESO, SMS performs a service whereby end-consumers are notified, via our partners, of an upcoming DFS event up to 24-hours before the event takes place. If a consumer decides to opt-in and participate in the event, SMS calculates the actual demand reduction during the event period, relative to their baseline consumption in the same period, by using FlexiGrid to automatically poll data from their smart meters via the n3rgy DCC

adapter. SMS then sends individual demand reduction figures, for every MPAN that participated in the event, to their partners so that incentives, monetary or otherwise, can be passed on to their end-customers. Overall reduction values are simultaneously sent to National Grid ESO, who pay Approved Providers per MWh of demand reduction during the period.

SMS launched the service in December 2022 and, as of 31 January 2023, had been responsible for over 30 MWh of demand reduction across six events with our partners, smart meter app providers Trust Power (Loop) and Hugo Energy. SMS processed data for over 14,000 MPANs in National Grid ESO's second 'Live' event on 24 January 2023. SMS expects end-customer numbers to increase significantly by the end of March, when this service period comes to an end, due to the onboarding of a major energy supplier to the service.

Through participation in this essential new service, SMS is helping National Grid, energy suppliers, technology companies and end-consumers to simultaneously address the combined challenges of energy security, affordability and sustainability. It is also an indication of what can be achieved if time-of-use tariffs and incentives are widely adopted and implemented by industry.

Furthermore, using FlexiGrid's existing capabilities, the entire process can be automated by controlling and aggregating behind-the-meter flexibility assets to import and export energy in response to the needs of the grid. Given its existing capabilities, SMS is extremely well positioned to become a data leader in this space, working on a B2B2C basis with a wide pool of energy industry stakeholders.



# Asset installation

We continued to grow our nationwide engineering services business during 2022, with our in-house engineering labour force increasing by c.50% from c.330 engineers to c.470 engineers over the last year. Alongside this internal engineering resource, we continue to be supported by a wider supply chain such that we have over 600 engineers in total delivering our smart and advanced metering services across the country.



This resource is supported by our in-house accredited training academy, which we see as central to promoting health and safety (H&S) and compliance standards across our business, and our ability to train this engineering capability to extend it into new sectors – such as the installation of domestic electric vehicle charging infrastructure.

We also continue to work with developers for new connections utility infrastructure and metering, and are accredited to provide services across all market segments – partnering with energy suppliers, businesses and public sector organisations to deliver the transition to net zero. A continued and critical feature of our business is the emergency call out and maintenance services we provide to ensure continuity of supply to end consumers.

## 2022 performance

Whilst the Omicron variant of COVID-19 continued to present some challenges, in Q1 in particular, we continued to abide by amended working practices and the related PPE and doorstep protocols where appropriate. However, we were largely able to focus on scaling up our installation activities over the course of the year.

The health and wellbeing of all our stakeholders comes first however, and again we reported zero injuries under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR) and also maintained industry-leading performance on our

other key metrics, including technical quality incidents from our robust auditing regime which was at 15 incidents per 100,000 installations.

▶ See our Health and safety section on pages 56 to 59 for more details.

Beyond H&S, we measure our success across three sets of KPIs: Quality; Quantity; Efficiency.

### Quality:

Helping consumers use less energy has never been more important. We refreshed the knowledge of our field engineers so that they could better tailor energy efficiency advice to each customer, and we supported this with a new range of leave behind materials and by sending each customer a digital link to free energy efficiency advice on our website. We are collaborating with the Retail Energy Code so that we continue to make our consumer conversations more valuable.

In the second half of the year emergency call-outs were much higher than normal. The flexibility provided by our direct and sub-contract workforce however allowed us to minimise disruption and maintain our general standards of service.

We ended 2022 with a net promoter score of +34.1 based on nearly 8,000 reviews on Trustpilot, and we increased our Trustpilot rating to 4.1 stars. The level of upheld complaints was also low at 0.13% of the total number of jobs.

### Quantity:

During the year we were pleased to increase our installation run rate as planned to over 45,000 meters per month in H2 (H2 2021: 30,000 meters per month). This means that we are now installing c.14% of all smart meters across the UK (2021: 9.4%). The industry as a whole has deployed 30.3 million smart meters to date, with 26.2 million left to be deployed – of which 17.7 million need to be installed by the end of 2025 to meet the Government's 85% completion target.

Our vertically integrated model remains key to our success, and the growth in our run rates came as a result of continued investment in our engineering capacity, particularly in our direct labour, in the first half of the year.

As a result of these investments, we successfully increased the run rate and installed 480,000 smart meters during the year but continued to maintain an efficient balance between direct and sub-contract labour. We expect to continue to increase our smart meter installation run rate in 2023 as we deliver on energy suppliers' mandated requirement for the roll out.

We will continue to invest incrementally in our engineering capacity, and we expect to install c.600,000 smart meters in 2023.

## Operating review continued

### Asset installation continued

#### Efficiency:

With a balanced approach to direct and sub-contract labour, we are continually focused on the efficiency of our delivery, primarily measured through:

- the number of completed jobs per day per engineer
- the cost per job
- the number of engineering available days

By close control of these measures and of our back-office activities, and with the commitment of our dedicated workforce, we have been pleased to contain the inflationary increase in the installation cost per meter in line with the indexation we applied to our rentals. Alongside our asset management division's management of hardware costs, this ensures we at least maintain our expected returns on capital, and has ensured we maintain strong gross margins on our transactional installation services.

#### Confident in our continued delivery

We will continue to invest in and grow our delivery capacity incrementally to ensure delivery of our CaRe pipeline over the coming year, particularly in smart meters, and we are confident in our ability to grow the run rate and efficiency of our operation.

To support this, we have embarked on a refresh of our asset deployment technology platforms, with the aim of continually improving their integration into our asset management and ERP systems. By doing this we will continue to improve and digitise the customer experience, and further automate the validation and transfer of data between these systems – ensuring continued efficiency not only in our delivery of smart meters, but also in other CaRe asset classes which we expect to come to the fore over the coming years.

We are already engaged in the delivery on a transactional basis of CaRe assets such as domestic EV chargers, solar and storage, and air-source heat pumps, and are working closely with the asset management division to develop the commercial models for further long-term growth beyond our smart metering pipeline.

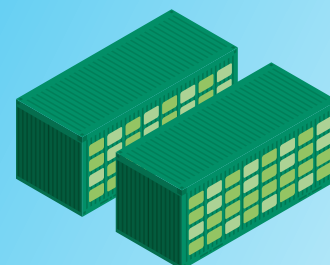
**SMS installations as % of industry**  
(Large suppliers)



Source: BEIS and SMS data

# Energy management

In 2020 SMS launched its CaRe programme, engaging with stakeholders to consider the long-term assets required to transition the UK to net zero. To achieve this UK legislated target requires a fundamental shift to a smarter, more flexible energy system, capable of integrating substantial amounts of intermittent renewable generation whilst accommodating the increasing electrification of transport and heat.



Our energy management division, as well as continuing to support Industrial & Commercial (I&C) customers to manage and reduce their energy consumption, is focused on delivering this growth agenda.

## Grid-scale battery storage

Whilst energy storage has always been a feature of the energy system, an exponential increase in short-term-response grid-scale storage is clearly a vital requirement of the energy transition. This increasing requirement for energy storage is estimated by National Grid to be 18.7GW by 2030 (of which 14.1GW is expected to come from battery storage compared to the c.2.1GW currently deployed), and 38GW by 2050.

This growth is driven by the increasing amount of intermittent renewable generation being connected to the grid, which creates an imbalance between generation and demand and results in price volatility. This imbalance – which has always existed – increases the spread between the cost to power up storage, and the value to discharge that energy. The spreads obtained by these balancing services drive the underlying economic model for our grid-scale battery storage, although we are also able to provide frequency services to the grid where it is value-accretive to do so.

**2022 performance:** This has clearly been a transformational year for our energy management division, and specifically our grid-scale battery business. We grew our portfolio to 760MW at 31 December 2022, of which 610MW has been fully secured. We were also delighted to bring 140MW of grid-scale battery capacity through construction and into commercial operation, trading at our projected capex cost of £380,000/MW, and we currently have a further 150MW in advanced construction.

Whilst it was important to demonstrate our decades of experience in the design and delivery of this kind of electrical infrastructure, it has been equally important to prove the long-term sustainable revenue returns available to these assets. Our first sites have exceeded our previous financial expectations, delivering an annualised EBITDA of over £100k/MW with this performance significantly enhanced by 70% of the revenues coming from the provision of frequency services.

Whilst we expect the revenues from these frequency services to soften over time, we are confident in our long-term guidance of £57,000–£65,000 EBITDA/MW. And, whilst we expect capex costs to increase to nearer £450,000/MW for future projects, the core electrical infrastructure of these sites has a 40-year expected life (with battery cell replacement around every ten years) and the financial returns therefore remain very strong.

Going forward, we expect to continue to build our existing pipeline of projects in this growing market, and to continue to bring those projects in exclusivity through to being fully secured and into construction. We are targeting at least 1.5GW of operational assets by 2030, which would represent a c.10% market share. We have proven capability to originate these projects – from initial site selection to construction and through to ongoing operation, trading, maintenance and asset management – as part of our end-to-end integrated model. For further information on our grid-scale battery storage business and the investor day we held in October 2022 at our first 50MW operational site at Burwell, please see pages 32 to 35 and page 38.

## Energy services

Our traditional consultancy and energy management activities continue to grow and in particular, the roll-out of site-based energy efficiency measures was able to accelerate again post the COVID-19 pandemic. These capital projects are typically built on a data-led approach, as is the case with the smart heating control projects which we have been delivering on behalf of leisure and hospitality customers over the last year.

## Operating review continued

### Energy management continued

The increase in wholesale energy prices has had a substantial impact on many I&C businesses and has strengthened the need to optimise the procurement, management and use of energy. We therefore see significant opportunity across our traditional consultancy and energy efficiency services, which seek to minimise the cost and volume of energy used.

During 2022, we began to develop integrated funded-energy solutions that materially address the net zero agenda and the long-term need to reduce and provide greater certainty over energy costs. By bringing together the individual asset classes we specialise in, such as distributed generation (e.g. solar PV) and storage,

directly connected to commercial properties, we are able to reduce reliance on energy from the grid and optimise the use of energy on-site. This approach can also mean that as other loads are introduced, such as heat pumps or EV charging infrastructure, additional infrastructure upgrade costs can be minimised along with the input price of energy to this new infrastructure.

The urgent need for businesses to address the effect of the increasing cost of energy on their bottom line, the continued necessity of reducing their carbon footprint and our ability to provide these integrated solutions across multiple asset classes provides significant growth opportunity for asset deployment in this sector.

### EV infrastructure

The deployment and funding of EV charging infrastructure sits well with SMS's core skills. We have over two decades of experience in the design and delivery of electrical infrastructure, from small connections to mobile phone masts to some of the largest electrical engineering projects in the country. It is this experience that we have brought to our grid-scale battery business over recent years, and which we are also able to utilise to deploy EV charging infrastructure.

Having developed our knowledge and experience of this sector over recent years through our involvement in projects such as the Virgin Media Park & Charge (VPACH) on-street charging scheme, this

## Decision-making in practice: investment in Clenergy EV

When assessing the market opportunity to install, own and operate EV charging infrastructure, particularly in the public infrastructure charging market, the SMS Board took into consideration a range of factors including our engineering capability, the quality and predictability of returns, and the technology platforms required to deploy and operate such assets.

With respect to technology platforms, whilst SMS clearly had the asset origination and management capability within our existing business, we needed to put in place chargepoint operator (CPO) capability to deploy firmware to EV chargepoint assets and to enable end users to operate and pay for using the infrastructure.

All options were considered, including:

- outsourcing that CPO management to a third party;
- licensing that CPO capability from a third party for SMS to manage / operate;
- developing our own CPO capability;
- investing in an existing third-party CPO platform.

After due consideration, and taking into account our strategic approach across our business to what we consider to be core IP technology requirements to manage assets, the Board felt that in order to manage risk and provide the appropriate level of platform flexibility and integration, our preference would be to invest in a CPO platform. The timescales and costs to develop our own capability were not considered the preferred solution, and having worked closely with Clenergy EV over the last year, we had identified them as our preferred third-party CPO partner.

In June we therefore agreed to take a minority stake in Clenergy, providing us with a direct interest in the development and success of their CPO platform which is now operating over 2,000 chargepoints across the country. SMS has invested an initial £2.0m to acquire a 25% shareholding, has the option to invest a further £2.0m after one year for an additional 26% interest, and has a further option to acquire the remaining shares after five years.

The Board believe that on a standalone basis Clenergy has the opportunity to grow a substantial business managing EV chargepoint infrastructure on behalf of a range of business and infrastructure owner customers across the UK, and potentially beyond. By investing in the business, not only do we seek to enable Clenergy to maximise the opportunity for its own platform, but also to ensure we have the end-to-end turnkey capability to address the deployment and ownership of EV chargepoint infrastructure over the coming years.

This investment therefore complements SMS's existing EV installation capabilities and will enable the Group to deliver a fully end-to-end integrated platform for EV charging infrastructure, a model the Group has already successfully adopted for its meters, data and grid-scale battery assets.



delivery capability is now being aligned to the substantial requirement for destination, workplace, on-street, fleet and domestic EV charging infrastructure on a national basis. Commercial models vary from utilisation-based revenues to lease rental or subscription-based revenues. For utilisation-based models, we recognise that the location, type of charger (e.g.: rapid or slow) and unit rate of energy sold, are all critical considerations which will affect returns and are factors we will take into account when considering capital allocation.

As with our other asset classes, we seek to provide a turnkey solution, bringing funding together with engineering capability and technology platforms that allow us to deploy, manage and optimise our assets. Whilst much of that capability already resides within our METIS platform, during 2022 we also invested in Clenergy EV, a charge point operator (CPO) technology platform. Our partnership with Clenergy allows us to control both the charge of EV's from any chargepoint type using open protocol software and also the revenue collection / payments for use of the chargepoint.

With this end-to-end operational capability in place, we are now investing in the development of a pipeline of activity in this area over the coming years, addressing the public (destination, on-street), workplace and fleet market segments.

We have also begun to extend our direct labour field capability into the domestic EV charging space, both through recruitment of experienced EV installation engineers and by using our training academy to train our meter engineers to address this market. Commercial models will vary from transactional to lease rental or subscription-based revenues.

SMS has been working with external support both to quantify the market size and to gain a deeper understanding of expected EV uptake, customer behaviour, traffic flows, appropriate locations for EV charging infrastructure and utilisation models. We expect the UK market to have c.500,000 public charging points by 2030, and for this



number to grow to close to one million by 2040. The associated capital values (market size) are expected to be in excess of £20 billion. These numbers are consistent with many other forecasts in the market and give SMS comfort as to the size of the opportunity, the utilisation rates and the expected returns for our role as an asset owner.

### Solopower (behind-the-meter smart solar and storage)

Supported by our FlexiGrid technology platform, our Solopower solution aims to reduce carbon emissions radically within the UK's social housing stock through the use and optimisation of solar generation and battery storage. The increase in energy costs and substantial rise in fuel poverty, alongside the need to decarbonise housing, make clear the urgent need for these solutions.

We also seek to extend these solutions to the private market. We have capability in asset financing and subscription-based solutions, and we see the opportunity to extend this capability to air-sourced heat pumps and domestic EV charging.

The UK social housing sector alone accounts for approximately five million homes.

In all of these cases our strategy remains the same: to deliver assets and services which reduce carbon emissions, by using our engineering resources and capability to deploy them, technology platform to optimise and manage them and providing capital where appropriate to fund them, in order to provide long-term secure recurring revenues. These markets also all share two key characteristics: they reduce carbon emissions, and they each provide a substantial growth market opportunity.

## Operating review continued

# Grid-scale batteries: enabling the transition to a low-carbon energy system

The growing need for and reliance on renewable energy to decarbonise electricity grids, alongside national energy security requirements, accelerates the fundamental long-term requirement to match demand with the intermittent supply.

The impact of this shift in the generation and demand mix can already be seen through the rising volatility of UK power prices and peak-baseload spreads over the last five years, which provides an increasing challenge to manage the capacity and frequency of the energy grid. The growing imbalance between instantaneous generation and demand is expected to further exacerbate the volatility spreads.

**UK power price spread**  
(£/MWh)

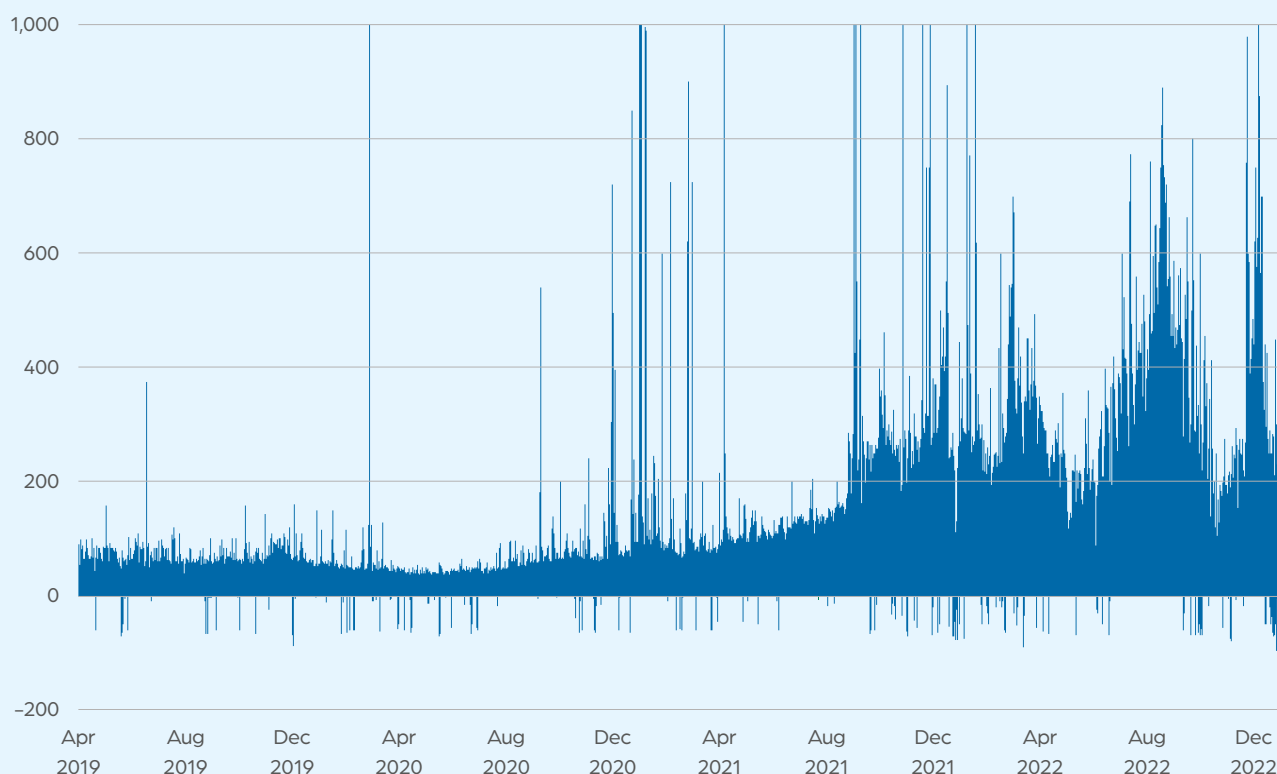


Chart capped at £1000/MWh.

Source: Modo. Spread = Difference between the highest and the lowest price in a day.

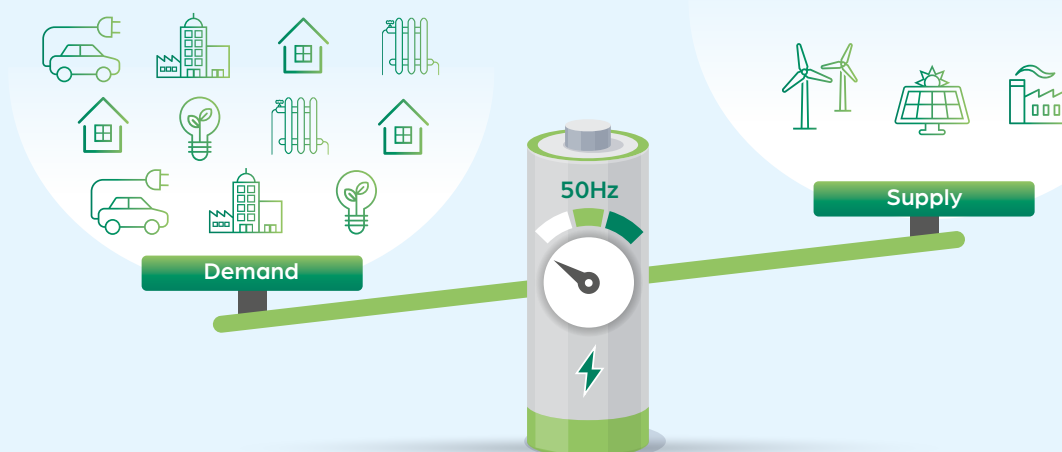
This is where energy storage comes in to play. Grid-scale battery storage is needed to absorb excess energy generation, release power when demand is greater than supply, shift energy across time and locations, and provide real-time grid balancing. Battery storage also seamlessly operates with other demand-side flexible systems, like smart meters, distributed solar and storage, and electric vehicle charging infrastructure that can power down non-essential equipment at times of high system load or power up standby generation when grid prices peak.

National Grid has reflected this increasing requirement for grid-scale battery storage (from c.1.2GW in 2022) in its annual Future Energy Scenarios review. The forecast requirement has consistently grown each year, with the latest National Grid forecast requirement being for 18.7GW of energy storage by 2030, three-quarters of which is expected to come from battery storage. By 2050, the requirement for total storage increases to 38GW, of which almost half is expected to be from battery storage.

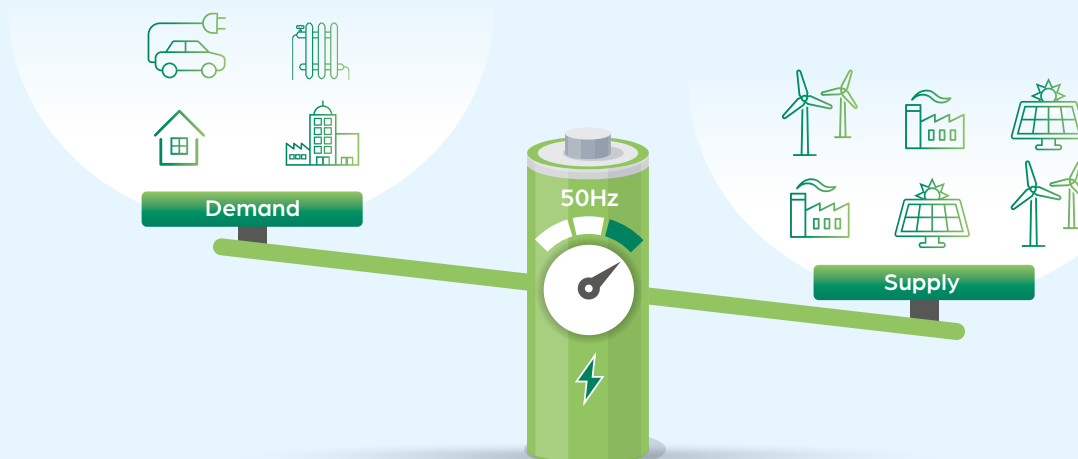
# 14GW

Battery energy storage required by 2030 to remain on track for the UK's net zero target<sup>1</sup>

## Provide incremental generation by discharging batteries



## Absorb incremental generation by charging batteries



<sup>1</sup> Calculated as the average of National Grid's four forecast scenarios in its Future Energy Scenarios 2022.

## Operating review continued

### Grid-scale battery storage continued

We have developed and are executing an existing portfolio which we aim to grow to c.1.5GW (or c.10% market share) by 2030, in line with what we are delivering in the metering and energy data space.

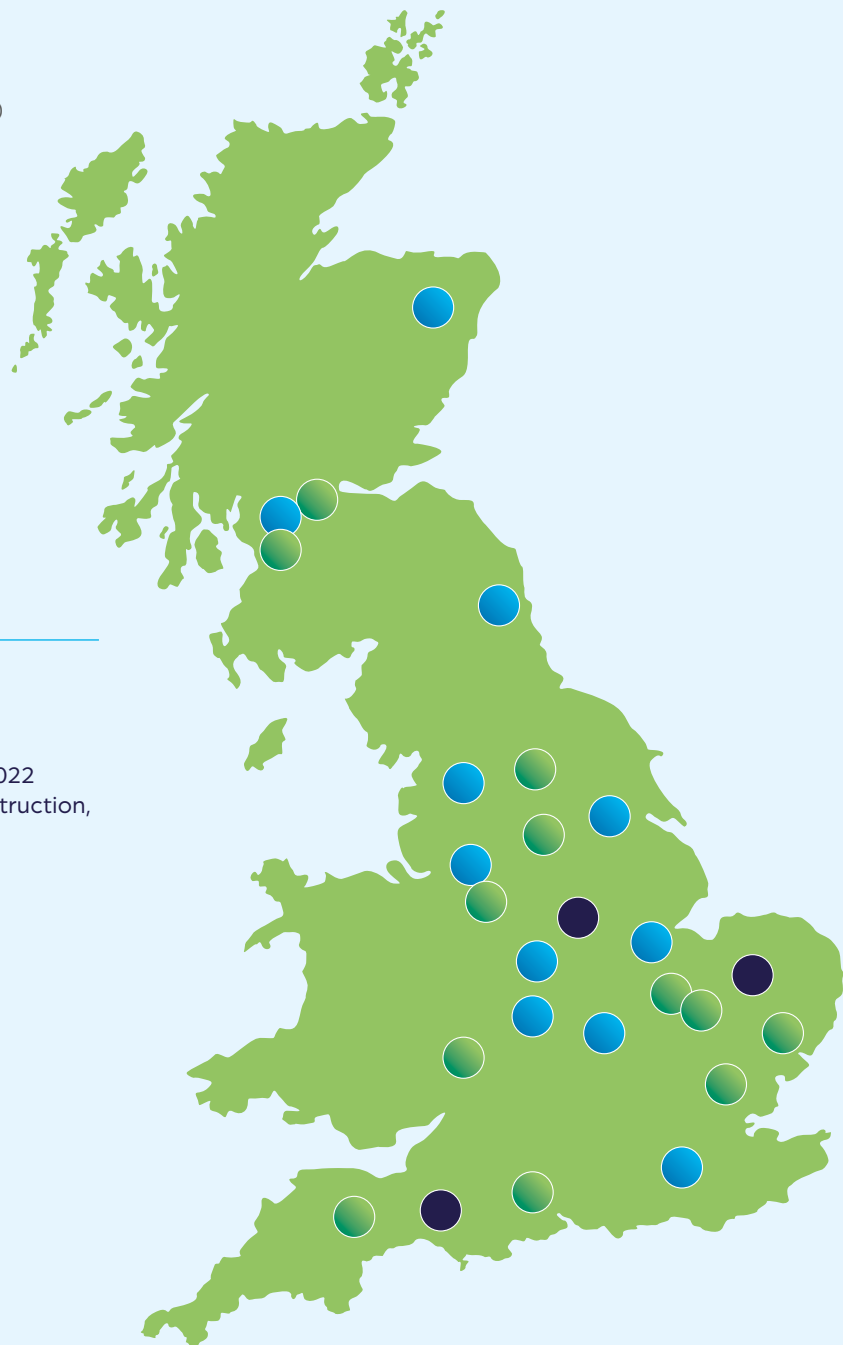
"We aim to grow to a c.10% market share by 2030."

#### SMS portfolio of sites

- Secured sites
- Sites under exclusivity
- Early stage development (in-house)

# 760MW

SMS's portfolio at 31 December 2022 including operational, under-construction, contracted and exclusive projects





In basic terms revenues from grid-scale battery assets are generated from two services: balancing services and frequency services.

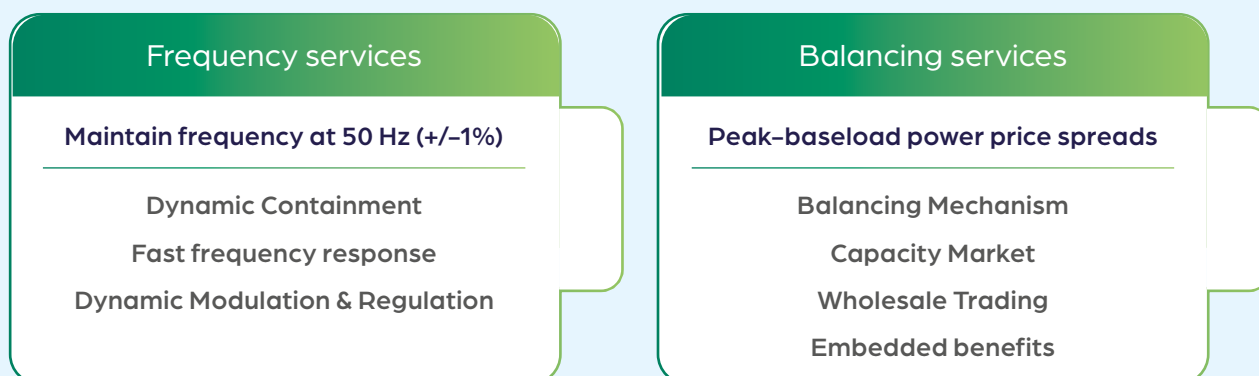
Balancing services are where we manage the timing imbalance between generation and demand by charging the battery when there is excess generation on the grid (and prices are cheap) and discharging when there is excess demand on the grid (and energy prices are high). It is the spread between these peaks and troughs from which we earn revenue.

This is similar to the services pumped hydro stations have provided for many years, but now in a grid that has a greater requirement for fast response times. Frequency services are where the batteries are operated on behalf of National Grid to ensure the grid stays within statutory frequency levels – protecting the grid against load fluctuations, blackouts etc.

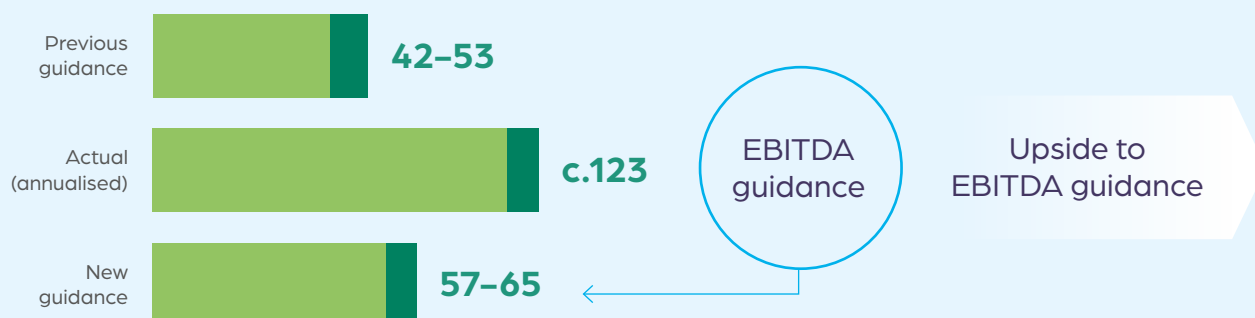
Our operational portfolio has now grown to 140MW and has been generating EBITDA per MW significantly ahead of our initial expectations.

In the development and long-term operation of these projects we take our ESG responsibilities extremely seriously. All our supply chain partners are regularly audited, covering areas such as welfare, responsible sourcing, robust practices and environmental compliance including the recycling of battery cells at the end of their useful life.

## Illustrative revenue streams



## SMS's EBITDA guidance (£'000/MW)



## Sustainability

# Meeting our responsibilities to all our stakeholders

Sustainability underpins our commitment to create long-term value for our stakeholders and achieve our vision to be at the heart of the low-carbon, smart energy revolution that is pivotal to realising a greener, more sustainable world.

We report on our sustainability in the following main areas:

We aim to create a sustainable and safe environment for all where customer excellence is key, innovation is encouraged, and employees are proud. In turn, this nurtures a thriving workplace and a business that supports wider society. We ensure diverse and inclusive environments and promote wellbeing, whilst empowering communities to take control of their carbon footprint and tackle local and global issues.

► For more information on our sustainability performance, see also the SMS Sustainability Report 2022 at [www.sms-plc.com/sustainability/overview/](http://www.sms-plc.com/sustainability/overview/)

## 01.

### Stakeholder engagement

Building strong and trusting relationships with all our stakeholders is critical in managing the business successfully. If we are to achieve our goals we must listen to, and collaborate with, our stakeholders – at all levels, including the Board and management.

► Find out more on page 37



## 02.

### The environment

As a leading smart energy infrastructure company in the UK, we are acutely aware of the impact we can have on the environment. Each of our products and services is aimed at reducing carbon emissions and we are actively working towards becoming a net zero company by 2030.

► Find out more on page 42



## 03.

### Our people

We care. We create a positive and inclusive working environment, where each and every employee shares our values. We are passionate about using our capabilities and resources to make a positive impact, and the continuous development of our people is critical to this.

► Find out more on page 51



## 04.

### Health and safety

For us, being sustainable also means being safe, secure and reliable. Our commitment to health and safety underpins all our business practices and ensures that our employees and customers are protected.

► Find out more on page 56



## 05.

### Ethical business practices

We believe in behaving responsibly and with integrity. This is underpinned by our Code of Conduct and supported by our policies and procedures.

► Find out more on page 60



# 01. Stakeholder engagement

## Engaging our stakeholders

Effective stakeholder engagement is critical to the long-term success of our business. We seek to understand each stakeholder group – what they find important and what how we can be of value to them. This helps us make better decisions when setting strategy and in our day-to-day operations.

Our key stakeholder groups are set out on pages 38 to 41. We summarise how we engage with them and the main topics of discussion and key outcomes during 2022. Further detail on how the Board engages with stakeholders is set out on pages 86 to 89.

## Section 172 statement


The Group has complied with the requirements of section 414CZA of the Companies Act 2006 by including certain information within the Strategic and Governance reports to inform members of the Company how the Directors have considered the matters set out in section 172(1)(a) to (f) of the Companies Act 2006 when performing their duty under section 172 to promote the success of the Company. The Directors consider, both individually and together, that they have acted in the way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole.

## Principal decisions

Principal decisions are those operational and strategic decisions which are considered to be material to:

- The SMS corporate group
- Stakeholder groups (the table on pages 38 to 41 details how we define our stakeholder groups).

On the pages listed in the table below we have provided examples of how the Board duly considered the impact on stakeholders when making principal decisions during 2022:

Principal decision	Page	Key stakeholders impacted
Strategic investment in n3rgy data platform	25	  
Strategic investment in Clenergy EV	30	  
Approval of a one-off discretionary cost-of-living payment to most staff	52	 

## Sustainability continued

### Stakeholder engagement continued

#### Shareholders

▶ See the Corporate governance report for further information



#### Why effective engagement is important

Our shareholders provide capital for our business, which we utilise to originate sustainable products and solutions.

The long-term strategic plans for the business necessitate strong relations with, and support from, shareholders.

We ultimately seek to promote an investor base that is aligned with the long-term success of the Group. We endeavour to foster an open and transparent relationship with our shareholders, and potential new investors, to enable them to make effective investment decisions.

#### Form of engagement

- Discussions at the Annual General Meeting.
- Investor roadshows following results announcements.
- Continuous availability of the Chairman to discuss matters of concern.
- Participation in investor conferences.
- Capital Markets Day and site visits.
- Ad-hoc meetings between institutional shareholders and the executive leadership team.

Our programme for investor engagement is detailed in the Corporate governance report on pages 87 to 89.

#### Key topics of engagement during 2022

- Development of our existing carbon reduction products; meters and grid-scale batteries.
- The timing and scale of opportunities in other carbon reduction products including EV charging infrastructure and behind-the-meter solar and storage.
- Impact on SMS's meter order pipeline of the recent turbulence in the UK energy market and the failure of several independent energy suppliers.
- Progress made in 2022 towards achieving our 2030 net zero target.
- Grid-scale battery storage site visit.

#### Burwell grid-scale battery site visit

We were pleased with the response to our Capital Markets Day in June 2021 and so, in October 2022, we followed this up with a site visit to our first 50MW grid-scale battery storage project at Burwell. The Group has built a strong portfolio of grid-scale battery storage within a short period of time, and we wanted to give our stakeholders the opportunity to meet the grid-scale battery storage team, learn more about this asset class and see how these assets operate in real life. We developed the agenda and presentation materials taking account of feedback we had received from shareholders, analysts and advisers.

The presentation included an overview of grid-scale battery storage and insight into the battery lifecycle and how these assets are optimised. We also showed videos from Barry Hatton (Director of Asset Management UKPN) who explained the importance of grid-scale batteries for balancing the grid, and from Daniel Greten (Head of Trina Storage EMEA) who discussed the manufacturing and sourcing of the batteries. The presentation was followed by a tour of the Burwell plant.

The event was well attended and received by existing shareholders, potential investors and other stakeholders. More than 15 investors attended the presentation live on the day and many more have since viewed the recording on the Company's website.

▶ View the site visit presentation at [www.sms-plc.com/investors/results-reports-presentations/](http://www.sms-plc.com/investors/results-reports-presentations/)

"Thoroughly enjoyed the event and found the day to be extremely useful, putting now firmly into place all the things you have. We remain absolutely happy holders."

A shareholder



## Customers

▶ See the Operating review for further information



### Why effective engagement is important

Serving our customers is a key part of our purpose and we aim to provide an exceptional customer experience. To deliver this, we listen and engage, and strive to become a trusted partner.

Maintaining open and honest relationships with our customers allows us to remain commercially competitive and secure both new and recurring long-term contracts.

As the energy and utilities industry continues to navigate the UK smart meter rollout, it is important that we work collaboratively with energy suppliers to ensure we are meeting their service needs in an efficient and effective way.

### Form of engagement

- Listening and responding to customer feedback.
- Clear and structured lines of engagement for core customer groups.
- All customers are assigned a strategic account director – a single point of contact with whom items can be discussed.
- For larger customers, dedicated contact centres are used to co-ordinate with end consumers.
- Separate specialist teams are allocated for planning and scheduling, commercial billing and general account management, ensuring regular communication is maintained.
- Regular service reviews to ensure we are addressing feedback from customers in a timely manner.

### Key topics of engagement during 2022

We now ask all consumers for whom we have installed a meter to review our service via Trustpilot. This gives us much more feedback allowing us to continually improve our service. 62% of reviews award us the top 5-star rating.

We have continued to enhance our digital channels to make it easier for consumers to make bookings and c.60% of bookings are now digital. We still offer the traditional option of voice for those who prefer it.

## Employees

▶ See the Our people section



### Why effective engagement is important

Our employees are critical to our business success. We understand the impact their positive contribution can make, and encourage this through listening, supporting them and acting on feedback and also via new initiatives – all the while ensuring their wellbeing is paramount.

We believe that engaged, healthy and safe employees encourage creativity and productivity, and are critical in attracting, developing, and retaining valuable talent, fostering customer loyalty, and impacting positively on organisational performance and stakeholder value. This is paramount in enabling us to deliver our strategy and achieve our mission, vision, and purpose.

It is therefore crucial that we continue to build a positive culture, where employees are listened to, and are inspired to perform their best work, with our five core values and behaviours displayed by all.

### Form of engagement

- An open and collaborative management structure with direction set from the Executive.
- 'Employee Voice' a bi-monthly forum (with representation across the Group at all levels from different departments and locations).
- LOV (Living Our Values) Awards.
- ESG monthly forum.
- Five Employee Resource Groups (dedicated online communities where employees can connect on shared interests)
- Short videos on topics including hybrid working, our Share Incentive Plan, and the results of the Investors in People assessment.
- Use of a bespoke SMS intranet site (with a dedicated Wellbeing page and resources).
- Quarterly employee newsletters.
- Annual performance and development reviews for all.
- Corporate induction for all new employees.
- Ad-hoc company presentations by the executive leadership team, together with regular videos and email communications.
- Various Group wellbeing initiatives.
- Employee engagement surveys (Best Companies and Investors in People).
- 'You Said. We Did' infographics following our engagement surveys, to update employees on progress.
- 'Your Thought is Sought' employee suggestion scheme.

### Key topics of engagement during 2022

We engaged with our employees on two significant projects during the year:

- continuation of hybrid working for office-based employees; and
- establishment of a further two Employee Resource Groups (menopause and LGBTQ+).

## Sustainability continued

### Stakeholder engagement continued

#### Suppliers

▶ See the Operating review for further information



##### Why effective engagement is important

Our wide range of partners provides us with the goods and services we rely on to deliver for our customers. This includes physical plant and equipment (most notably meter assets), engineering services, and legal and professional consultancy, to name but a few.

Reliable supplier relationships are thus crucial in delivering our business model and strategy. Maintaining positive and open engagement is a key priority.

Health and safety is at the heart of everything we do and this extends to services provided to us by our third-party partners.

##### Form of engagement

- Comprehensive onboarding process by skilled procurement and legal professionals, using Groupwide procurement procedures and policies.
- Two-way communication process.
- Prompt payment practices.
- For larger suppliers, ongoing engagement through regular meetings and feedback sessions. Performance may also be measured against key performance indicators.
- Where relevant, thorough tender and bid processes are carried out.

##### Key topics of engagement during 2022

Following a successful tender conducted in late 2021, SMS continued its journey towards a reduced carbon footprint by partnering with an alternative service provider providing shipments of goods to our engineer base. The new locker network has allowed SMS to double the amount of product shipped outbound, supporting the growth in our installation programme. Health and safety remains at the heart of all we do and so the new locker network also provides a more ergonomic solution for our engineers.

As in recent years, SMS has experienced some product shortages due to continued global freight restrictions. The relocation of our warehouse to a much larger site has however allowed for greater purchases to be made to support our installation roll out plan and so has mitigated some of these challenges.

Policies and procedures around onboarding of vendors and ensuring prompt payment have continued to be adhered to. The development of our Electronic Quality Management system is allowing far greater reporting to support our ESG goals and aspirations.

#### Regulatory bodies

▶ See the Operating review for further information



##### Why effective engagement is important

The primary government regulator for the gas and electricity market in the UK is the Office of Gas and Electricity Markets ('Ofgem'). Ofgem is the regulatory body by which our key customers are governed.

In conjunction with other associations, groups and alliances, Ofgem provides comprehensive industry codes of practice that govern the operational, technical and health and safety issues associated with the installation and management of metering assets, to which both SMS and its customers must adhere.

Maintaining regulatory compliance is crucial to our business success amongst customers who place substantial reliance on our reputation as a full-service provider.

##### Form of engagement

- Attendance at regular meetings.
- Active participation in consultations and workshops.
- Representation on several boards and panels, including the Association of Meter Operators and the Smart Metering Operations Group.
- Regular compliance reviews and audits, both internally and externally, in respect of the certifications and accreditations which we hold under MCoP and MOCOP, amongst others.

##### Key topics of engagement during 2022

We continue to participate in gas, electricity infrastructure and metering forums critical to the industry. These include several linked to the Retail Energy Code, which brings together several existing codes of practice and updates the governance of existing gas and electricity retail arrangements. As part of this, we have supported our energy supplier customers in understanding the code and the potential implications for their operations.

We continue to participate in a new implementation working group set up by XoServe, which is focused on developing the role of hydrogen across the UK gas network. In time, SMS will be involved in developing the technical and training standards for this.

We continue to sit on several panels of the Institute of Gas Engineers and Managers, participating in the review and enhancement of key technical standards.

SMS continues to be a committee member of the Association of Meter Operators.

Recurring annual audits across infrastructure and metering were carried out with successful outcomes and no identified material non-compliance issues.

## Lenders/financiers

▶ See the Financial review for further information



### Why effective engagement is important

Our lenders are providers of critical funding, supporting the achievement of the Group's operational and strategic goals.

An open and transparent dialogue is key to allow efficient responses to the business's changing needs.

### Form of engagement

- Provision of quarterly financial and management reporting.
- Regular meetings.
- Ad-hoc phone calls and emails as needed, ensuring proactive communication.

### Key topics of engagement during 2022

Meetings were held with the Group's syndicate of banks to provide an update on the 2022 budget and performance.

## Government bodies

▶ See the Market overview for further information



### Why effective engagement is important

We engage with several government bodies including the Department for Energy Security and Net Zero (formerly part of BEIS) and the Data Communications Company (DCC).

These government bodies use our expertise and experience to assist in the formulation and delivery of key energy policies, which have a direct impact on our customers and our own business.

We maintain an open and transparent dialogue and develop an awareness of the key decisions being made within the industry which are likely to impact our business. This engagement allows us to forward-plan and remain competitive.

### Form of engagement

- A regular meeting programme with BEIS, including attendance at round tables and working groups.
- Review and provision of formal responses on consultations issued by BEIS and other government bodies.
- Extensive engagement with the DCC.
- Representation on both the Smart Energy Code (SEC) Operational Performance panel and Smart Meter Device Assurance scheme to help govern the activities of the DCC and hold programme suppliers to account.

### Key topics of engagement during 2022

We continued working with meter manufacturers and industry to explore how second-generation smart meters ('SMETS2') can be made reusable. This is expected to come to fruition in 2023.

We were successful in securing five BEIS-funded projects as part of their £65m overarching programme to enable large-scale and widespread electricity system flexibility through smart, flexible, secure, and accessible technologies and markets.

We also helped BEIS to define options for consideration when introducing new 4G communication hubs. We played a thought leadership role, prior to formal consultation that will aim to define how the new communication hubs will be funded and deployed.

## Sustainability continued

# 02. The environment

2022 saw intense challenges to energy around the globe with ripple effects for sustainability across communities and the environment alike. The issue of security of energy supply brings focus to our core purpose of bringing low-carbon energy to all and drives us to continuously evolve our services to be at the forefront of the energy transition.

### Sustainability governance Environmental, social and governance (ESG) disclosures

We continue to pursue best practice within our ESG processes and disclosures, seeking to develop in line with our specific material issues, and ensuring relevant information is available as ESG rating agencies evolve. We have continued to see our efforts reflected in our improved ESG scores and have sought to engage with new partners to support our ESG ambitions.

In line with our strategic focus, in 2022 we:

- continued to improve supporting scores from 6.6 to 7.1 from MSCI, achieving an 'AA' rating;
- improved our S & P Global score to 50, moving us from the 85th to the 93rd percentile;
- maintained a 'B' rating on our Carbon Disclosure Project (CDP) submission;
- await review of our Sustainability score of 26.6;
- benchmarked our performance against Science Based Targets;
- continued to be a supporter of the Task Force on Climate-Related Financial Disclosures (TCFD) – more details on our TCFD journey can be found on page 43;
- had our net zero target recognised by The Climate Pledge and the UN Race To Zero campaign, demonstrating our ambition and achievements;
- submitted our UN Global Compact annual 'communication of progress', demonstrating alignment with the UN principles;
- maintained our Green Economy Mark; and
- assessed the extent of our alignment with the EU Taxonomy – 70% of revenue and 94% of capital expenditure aligns with the EU Taxonomy and Green Economy Mark classifications.

### Health, Safety and Sustainability Committee

We report on our Health, Safety and Sustainability (HSS) Committee, including its role and responsibilities and key activities in the year on page 81. This committee is pivotal in facilitating the sharing of best practice across the Group and ensuring we have the capacity and capabilities to deliver on our goals. The Committee is supported by our ESG Working Group, which comprises members of senior management across key supporting functions and ensures our objectives and activities are relevant and achievable.



### Assessing and addressing climate-related risks and opportunities

SMS first embarked on a journey to implement the recommendations of TCFD in 2020. As an organisation at the leading edge of the low-carbon transition, we are acutely aware of the importance of evaluating the impacts of climate change on our activities now and into the future. In 2022, we enhanced our climate change exposure

evaluation by applying an emissions scenario to evaluate our near, medium and long-term exposure to the physical risks of climate change. Further details of this assessment can be found in the 2022 Sustainability Report.

We will continue to develop our approach to analysing climate risks with outputs reviewed by both our ESG Working Group and HSS Committee to ensure consideration is embedded into our decision-making.

We are committed to updating and sharing information related to our climate risks and opportunities with our stakeholders. Our CDP disclosure outlines our current aligned activities and further details our journey to best practice as we fully embed the TCFD principles into our strategic planning and everyday processes.







## The four core TCFD elements are summarised below:

TCFD disclosure aspect	SMS response
<b>Governance</b> Governance of climate-related risks and opportunities	<p>The Board has oversight of climate-related issues through three key channels: active performance evaluation and management through the Health, Safety and Sustainability (HSS) Committee, system governance through our audit processes, and our risk and opportunities frameworks. Each of these channels enable oversight, and the ability to ensure the integrity and integration of climate issues into all business decisions at top level.</p> <p>Our HSS Committee monitors short, medium and long-term sustainability risks, alongside their probability and impact and our corresponding mitigation strategies.</p>
<b>Strategy</b> Actual and potential impacts of climate-related risks and opportunities on business strategy and financial planning	<p><b>Opportunities:</b></p> <p>SMS is well placed to support the UK Government's ambition to be net zero by 2050. We can do this by continuing to leverage our well-established energy services as the UK transitions to a more sustainable and low-carbon economy. We continue to develop new opportunities aimed at mitigating climate change and these are embedded in our business strategy for the short, medium and long term. See pages 12 to 17.</p> <p><b>Risks:</b></p> <p>We are keenly aware of the potential impacts of fuel costs and taxation linked to the cost of operating our fleet and building estate. To mitigate against future increases in carbon taxation, SMS has committed to reduce emissions to net zero by 2030. Our net zero roadmap includes transitioning from internal combustion engine to electric vehicles and installing on-site renewable generation.</p> <p>We have also identified areas of potential physical climate-related risk, such as extreme weather events which could affect our physical locations, road-based employees, and our supply chain. In 2022, SMS carried out a quantitative and qualitative physical climate change exposure evaluation across our facilities (buildings and battery sites) utilising a recognised climate scenario, SSP-4.5.</p> <p>Whilst climate-related change will have a profound effect on business in the broader sense, the risk is very low for SMS specifically, with key risks and opportunities detailed within our Sustainability report and CDP disclosure.</p>
<b>Risk management</b> The processes used to identify, assess and manage climate-related risks	<p>We have carried out qualitative and quantitative explorations of potential areas of concern utilising best practice guides as a framework, including detailed climate exposure evaluation of our physical assets including offices, warehouses and battery sites. Further information can be found within the Sustainability Report.</p> <p>Climate risk is integrated into our Group risk register and monitored by the Audit Committee; see the Risk report on pages 62 to 69 for details on the Group's risk management processes.</p> <p>Climate risk currently has a low-risk rating and is therefore not considered a principal risk for risk reporting purposes.</p>
<b>Metrics and targets</b> The metrics and targets used to assess and manage relevant climate-related risks and opportunities	<p>Our Scope 1, 2 and 3 emissions are disclosed within our emissions reporting table, including further descriptions of sources. See page 48.</p> <p>Our 'net zero by 2030' target, progress and roadmap demonstrate our commitment to reducing emissions. Transition milestones are embedded into our financial and strategic business planning. See more details in our Sustainability Report at <a href="http://www.sms-plc.com/sustainability/overview/">www.sms-plc.com/sustainability/overview/</a>.</p>

## Sustainability continued

### The environment continued

## Our contribution to the United Nations Sustainable Development Goals

SMS strategy	SMS objectives	UN Global Compact Principles	SDGs
<b>Putting people first:</b> Create a sustainable and safe environment for all, nurturing a thriving workplace and business that supports wider society. We ensure diverse, inclusive environments and promote wellbeing, whilst empowering communities to take control of their carbon footprint and tackle local and global issues.	<ul style="list-style-type: none"> <li>• Work with our employees to drive down our injury rate.</li> <li>• Reduce gender pay gap.</li> <li>• Continually review and improve provision of comprehensive, competitive and equitable reward and benefits, and ensure all employees are paid at least the Real Living Wage.</li> </ul>	<p><b>Principle 1:</b> Businesses should support and respect the protection of internationally proclaimed human rights</p> <p><b>Principle 3:</b> Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining</p> <p><b>Principle 6:</b> The elimination of discrimination in respect of employment and occupation</p>	  
<b>Sustainable futures:</b> Inspired by our core value of 'sustainability', we are leading the UK's transition to a low-carbon future; and this work is supported by our commitment to 'net zero by 2030' in our own business. We assist our clients and wider consumers with their carbon reduction journeys through the funding and delivery of sustainably focused services.	<ul style="list-style-type: none"> <li>• Reduce environmental impacts across our operations.</li> </ul>	<p><b>Principle 7:</b> Businesses should support a precautionary approach to environmental challenges</p> <p><b>Principle 8:</b> Undertake initiatives to promote greater environmental responsibility</p> <p><b>Principle 9:</b> Encourage the development and diffusion of environmentally friendly technologies</p>	 
<b>Operating responsibly and ethically:</b> We will uphold our moral and legal obligations through responsible and ethical practices, ensuring the integrity and transparency of all our activities: from our supply chain to our people, and from our operations to our customers and wider society.	<ul style="list-style-type: none"> <li>• Maintain our ISO-certified management systems.</li> <li>• Engage Tier 1 vendors to identify their ISO14001 status, and work with key suppliers to obtain improvements within their ISO14001 accreditation or their environmental policy.</li> <li>• Maintain zero cyber security breaches.</li> </ul>	<p><b>Principle 2:</b> Make sure that they are not complicit in human rights abuses</p> <p><b>Principle 4:</b> The elimination of all forms of forced and compulsory labour</p> <p><b>Principle 5:</b> The effective abolition of child labour</p> <p><b>Principle 10:</b> Businesses should work against corruption in all its forms, including extortion and bribery</p>	

Further details under each of our targets can be found within the 2022 Sustainability Report.

## UK/EU taxonomy

The EU taxonomy ('the Taxonomy') enables the classification of business activities as 'environmentally sustainable'. The aim of the Taxonomy is to provide transparency to both investors and businesses and to prevent greenwashing. The Taxonomy supports sustainable investors and investments, by providing clear quantitative demonstrations of business activities and revenues against specific criteria.

Under the EU's Taxonomy, a business must pass three key tests to be classed as environmentally sustainable. It must:

- make a substantial contribution to one or more of the Taxonomy's environmental objectives;
- do no harm under all environmental objectives; and
- comply with the minimum safeguards covering social and governance standards.

We have assessed the extent of our alignment with the EU Taxonomy, in order to support our investors and prepare for the UK Taxonomy. Our assessment shows strong correlation between all our services and the Taxonomy requirements, summarised in the table below.

We will continue to align with the requirements of the Taxonomy as these develop, and disclose our alignment, assessing the technical screening criteria and revenue from applicable activities.




## Our net zero ambition

Our 'net zero by 2030' target will see us drastically reduce our organisational carbon emissions. It encompasses Scope 1 and 2 carbon emissions that derive from our building estate as a result of heating, cooling and electricity use, and the consumption of fuel by our tracked fleet. Our ambition is to achieve a 100% absolute reduction in these emissions by 2030, which aligns with the level of ambition required to limit global warming to 1.5°C.

Our net zero target currently excludes the emissions associated with operating our grid-scale battery storage sites, the first of which became operational in January 2022. Once we have achieved a full year of data we will establish a baseline from which we can set an intensity-based target that aligns with the Science Based Targets Initiative (SBTi) in 2023.

## 2022 progress

In line with our net zero strategy, during 2022 we implemented a range of sustainability upgrades at one of our core sites in Cardiff. This project has focused on reducing energy requirements through upgrading the building fabric to improve thermal performance, generating renewable energy with 30kWp capacity of solar photovoltaic and providing a level of self-sufficiency with battery energy storage. The final step will involve the installation of an air-source heat pump and mechanical cooling and ventilation system that will mitigate the effects of increasing summer temperatures. Upon completion, this project is expected to reduce building emissions by up to 70%, exceeding Science Based Target requirements, and will serve as a blueprint for upgrading modest office buildings to achieve significant decarbonisation and climate change adaptation.

SMS Service Category	% of total revenue
 <b>Asset installation – Smart utility services</b> Design, installation and management of utility connections and energy infrastructure.	<b>42%</b>
 <b>Asset management – Smart metering and data services</b> Installation, operation and management of meter and energy infrastructure assets and related data services, which facilitate a greener and more flexible energy system.	<b>79%</b>
 <b>Energy management – Smart energy services</b> Ongoing delivery of energy management and carbon reduction solutions, including the operation of CaRe assets, enabling long-term sustainability and lower carbon emissions.	<b>100%</b>
<b>Total EU Taxonomy aligned % Group Activities</b>	<b>73%</b>
<b>% of total capex</b>	<b>94%</b>

## Sustainability continued The environment continued



### Our journey to net zero carbon



- Company cars at the end of their lifecycle replaced with PHEV or EV where possible
- Scoping of site sustainability upgrades
- 11 plug in hybrid vans received



- Transition a 100 fleet vehicles to mild hybrid vehicles
- First site sustainability upgrades complete
- Continuation of sustainability upgrades and renewable energy installation across sites

Our net  
zero  
journey

2021

2022

2023



- Implemented EV salary sacrifice scheme
- Extended the scope of our ISO 50001 EnMS
- The first EV van received
- Appointment of a net zero energy manager
- Sustainability site works commence





Our fleet net zero transition saw 11 hybrid vans received at the end of 2021 tested as trial vehicles to evaluate their viability, distance capabilities and suitability for our business purposes. Following the trial, we have decided to move forward with replacing the first quota of Internal Combustion Engine (ICE) vehicles with mild-hybrids, which use a battery-powered electric motor in support of a conventional petrol or diesel engine to improve fuel economy and reduce emissions. This marks another milestone in our net zero roadmap, as these vehicles will allow us to continue to improve the efficiency of the fleet before transitioning fully to zero-emission vehicles.

We launched in 2021, the DriveGreen Scheme, a salary sacrifice scheme that has supported a further 11 car drivers migrating to full EV cars or PHEVs.

### 2023 outlook and priorities

The first half of 2023 will see the sustainability upgrades at our office in Cardiff finalised, leading us into the next phase at our second site which will include determining the bespoke solutions we need to implement based on the completed 3D performance simulation modelling of the building.

In the first half of 2023 we will also be welcoming 100 mild hybrid vans into our fleet and trialling one full EV van. This full EV van will be fully fitted with all the equipment carried by a dual-fuel engineer to ensure true-to-life evaluation of performance. The trial will enable us to evaluate the currently available EV technology, focusing on distance capabilities, charging arrangements and infrastructure required to enable a full roll out.

- Continue to transition ICE fleet vans to mild hybrid or full electric vehicles



- 2030 Target: All core sites to have completed sustainability upgrades
- 2030 Target: All domestic fleet to have transitioned to EV and will emit 0g CO<sub>2</sub> /km per vehicle

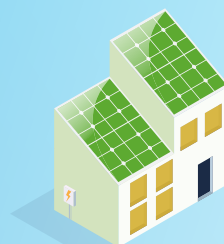
2024

2025

2030



- 2025 Target: All domestic fleet to have transitioned to PHEV and EV, or adhere to maximum of 60g CO<sub>2</sub>/km per vehicle



### Target Beyond 2030:

SMS to focus on reducing Scope 3 carbon emissions across the value chain



## Sustainability continued

### The environment continued

#### Our environmental performance

##### Emissions reporting

Our footprint is the carbon produced by our operational activities. We utilise the internationally recognised GHG Protocol to ensure comprehensive and standardised data calculations. Our reporting covers all emissions from our business activities, and all sites and operations during calendar year 2022. Full methodology can be found on our website.

Our Scope 1 calculation looks at the energy consumed by our fleet vehicles, gas and oil consumed across our offices, warehouses and training centre, and fugitive emissions from air conditioning. Our Scope 2 calculation looks at our electricity consumption. Scope 3 accounts for the emissions generated within our value chain.

In 2022 we worked with our assurance providers to ensure accuracy and completeness of our Scope 1, 2 and 3 carbon reporting. Further details can be found within our Sustainability report and the assurance statement is available on our website.

The table below incorporates our mandatory Streamlined Energy and Carbon Reporting (SECR) reporting, together with material voluntary disclosures:

	2022	2021	2020	Commentary
<b>Total Scope 1 (TCO<sub>2</sub>e)</b>	<b>3,142.5</b>	<b>2,124.2</b>	<b>1,796.8</b>	<b>Scope 1 comprises the direct emissions from our operations.</b>
Company-owned vehicles	<b>3,054.9</b>	1,988.0	1,690.0	Our owned and tracked fleet vehicles.
Gas	<b>69.3</b>	78.5 <sup>3</sup>	77.9 <sup>3</sup>	Gas heating serves six of our properties across the UK.
Burning oil	<b>1.9</b>	2.2	1.5	Oil heating is used in one office building.
F-gas	<b>16.4</b>	55.5	27.4	F-gas is the refrigerant used in air conditioning for cooling workspaces and server rooms.
<b>Total Scope 2 Location-based (TCO<sub>2</sub>e)</b>	<b>1,233.2</b>	<b>190.6</b>	<b>152.4</b>	<b>Scope 2 comprises the indirect emissions associated with our operations.</b>
Electricity (Buildings)	<b>122.0</b>	137.5 <sup>2</sup>	152.4	Electricity lights, heats and powers our operations across warehouses, offices and training centres in the UK and Ireland.
Electricity (Battery sites)	<b>1,111.2</b>	53.1	0.0	Net electricity used to operate cooling and communication systems at our grid battery site.
<b>Total Scope 2 Market-based (TCO<sub>2</sub>e)<sup>1</sup> (including green energy contracts)</b>	<b>2,100.5</b>	<b>173.4<sup>2</sup></b>	<b>68.3<sup>2</sup></b>	<b>We source green contracts for our electricity where possible.</b>
<b>Total Scope 3 (TCO<sub>2</sub>e)</b>	<b>4,258.5</b>	<b>1,022.3</b>	<b>851.0</b>	<b>Scope 3 comprises emissions from up and down our value chain, including those of suppliers and service providers.</b>
<b>Category 1: Purchased Goods &amp; Services</b>				
Water supply <sup>1</sup>	<b>0.5</b>	0.5 <sup>2</sup>	1.1	The utilities which serve our warehouses, offices and training centres with water, emit carbon through their supply operations.
<b>Category 3: Fuel- and energy-related activities (not included in Scope 1 or Scope 2)</b>				
Diesel upstream supply <sup>1</sup>	<b>715.3</b>	482.6 <sup>2</sup>	405.0 <sup>2</sup>	Upstream emissions for the production of diesel to supply employee-owned vehicles and company-owned fleet.
Petrol upstream supply <sup>1</sup>	<b>15.5</b>	0.0	0.0	Upstream emissions for the production of petrol to supply employee-owned vehicles and company-owned fleet.
Business travel upstream supply <sup>1</sup>	<b>15.2</b>	7.2 <sup>2</sup>	12.5 <sup>2</sup>	Upstream emissions for the production of petrol and diesel to supply employee-owned vehicles.
'Well to tank' gas <sup>1</sup>	<b>11.8</b>	13.4 <sup>3</sup>	10.1 <sup>3</sup>	Upstream emissions for the production processes of gas for use on our sites.
'Well to tank' burning oil <sup>1</sup>	<b>0.4</b>	0.5	0.3	Upstream emissions for the production processes of burning oil for use on a site.
'Transport and distribution' electricity <sup>1</sup>	<b>112.8</b>	16.9	13.1	Upstream emissions of purchased electricity for use on our sites.
Generation of purchased electricity that is sold to end users	<b>2,949.0</b>	0.0	0.0	Upstream emissions of purchased electricity for our grid-scale batteries which is sold back to the grid.

## 2022 'footprint'

We saw a significant increase in smart meter installations during 2022, which resulted in an increase of 54% in our fleet-related carbon footprint on the previous year, as an additional 175 vehicles were added to the fleet to service this demand. We have continued to de-couple business growth from emissions and have been successful in improving overall fuel efficiency with the amount of carbon emissions emitted per vehicle reducing by 5% since 2019.

The full operation of our first battery site in Burwell and the commissioning of our second site in Barnsley in 2022 has changed the landscape of our business emissions. The emissions resulting from the net consumption of electricity from our battery assets, also known as the operational emissions, are now reported under our Scope 2.

The development of batteries will support the integration of more renewable sources of electricity into the grid and will enable a low-carbon energy system for all in future. As this is realised we will see a sustained reduction in emissions generated by our battery sites.

	2022	2021	2020	Commentary
<b>Category 5: Waste generated in operations</b>				
Waste <sup>1</sup>	3.6	3.3	2.3	The processing of our waste from our sites.
Water treatment <sup>1</sup>	0.9	0.9 <sup>2</sup>	2.3	The utilities which serve our warehouses, offices and training centres with water emit carbon through their supply and waste water treatment operations.
<b>Category 6: Business travel</b>				
Vehicle business travel	57.9	27.5 <sup>2</sup>	48.9 <sup>2</sup>	Business travel in employee-owned vehicles.
<b>Category 7: Employee commuting</b>				
Employee teleworking <sup>1</sup>	374.2	469.5 <sup>2</sup>	355.4 <sup>2</sup>	The carbon emissions associated with energy used to power office equipment and for heating by employees working from home.
<b>Category 8: Upstream leased assets</b>				
Emissions from leased buildings <sup>1</sup>	1.4	–	–	Emissions from energy consumption at shared leased office spaces.
<b>Total Scope 1, 2 &amp; 3 (TCO<sub>2</sub>e) (Scope 2 Location-based)</b>	<b>8,634.2</b>	<b>3,337.1</b>	<b>2,800.2</b>	
Carbon intensity Scope 1, 2 (TCO <sub>2</sub> e/£m)	32.3	21.3	18.9	
Carbon intensity Scope 1, 2 & 3 (TCO <sub>2</sub> e/£m)	63.7	30.8	27.2	Shows the amount of emissions produced to achieve the revenue realised, per £m.
Operational energy consumption (MWh)	19,446.5	9,728.9	8,108.1	This is the total energy consumption of our operations, spanning activities included in Scope 1 and 2 (excluding F-gas).

1 Data disclosure is voluntary under SECR, but included for completeness of Scope reporting under the GHG Protocol. As our business grows, we are developing our ability to decouple operational growth and energy consumption. See our Sustainability Report for a full breakdown of all metrics.

2 We have improved the accuracy of our reporting through the addition of new and best practice emissions sources, updated methodologies, receiving actual consumption data from service suppliers and newly released carbon conversion factors, which has led to a restatement of data within the table.

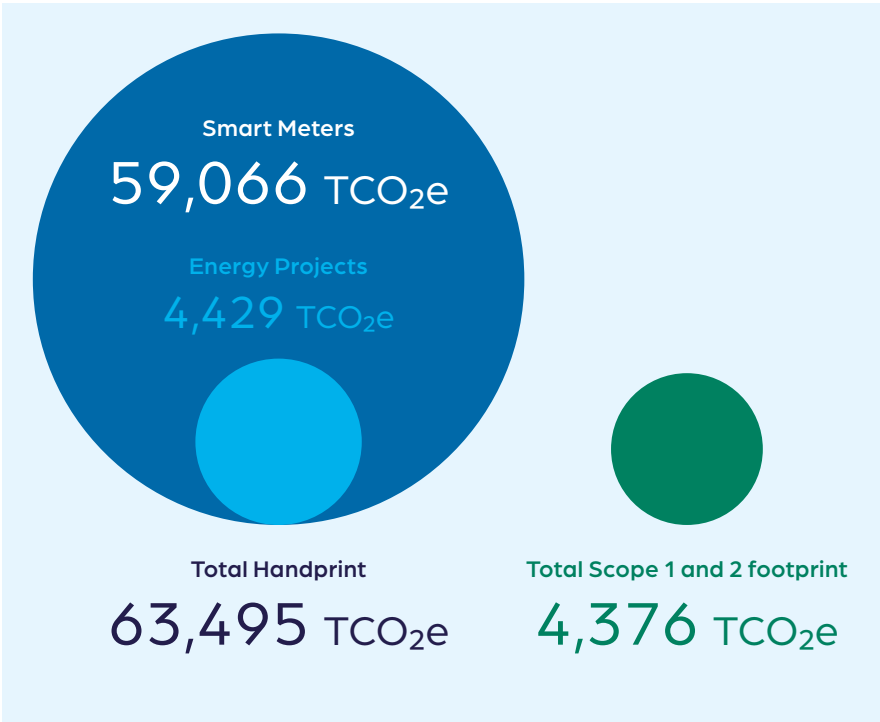
3 Figure has been corrected based on supplier information which has led to a restatement of data within the table.

Sustainability continued  
The environment continued

Our 'handprint'

To reach an understanding of our total sustainability we take a holistic view of our company sustainability, which includes quantifying both the positive impacts from our products and services (our handprint), and the negative impacts from our business operations (our footprint). We use this 'net positive' perspective to align our strategy for business growth, financial benefits and sustainability gains: investing in the development of assets and services which deliver carbon reductions for our customers and their end consumers.

Our 'handprint' is the carbon mitigation achieved by our customers through the impact and delivery of our energy services and solutions, such as smart meters. We use savings data from smart meter energy research and from delivered energy efficiency projects to calculate our total handprint.





## 03. Our people

### Health and wellbeing

We proactively support a holistic wellbeing agenda at SMS. Good health and wellbeing are paramount. We believe the happiest colleagues are those who are engaged and included, whose wellbeing is priority, and who feel part of the Company's mission and purpose. We therefore provide a host of wellbeing-focused benefits for all employees including access to an employee assistance programme which offers 24/7 confidential support; SmartHealth, a free support package for employees including online GP appointments and access to health experts; the My Healthy Advantage app, which gives access to a wealth of health and wellbeing resources, and Medicash, which supports employees with day-to-day medical expenses.

As part of 'putting our people first,' it is important to us that employees are not only supported whilst at work but also in their lives outside work. This includes supporting employees through their life changes as they grow their families, develop their careers, or encounter difficulties. We therefore have a bespoke wellbeing intranet page with resources across three pillars: mental, physical, and financial health, and have enhanced wellbeing policies, some of which include fertility treatment, maternity, and adoption leave.

In 2022, we launched bespoke internal training workshops for line managers on employee health and wellbeing to equip them with the knowledge and tools to support their employees through life challenges. And we upskilled a further eleven of our employees to become accredited mental health first-aiders taking our number of trained employees to 31.

To support effective leadership and management across the Company and to further embed and maintain health and wellbeing as part of everyday activities, our bespoke ILM/CMI recognised Management Development Programme includes a module titled 'Being A Mindful Manager', which over 100 managers have completed.

We also offered all our employees the opportunity to attend an external training course on 'Talking Wellbeing' delivered by Mindful Employer. This three-hour workshop is designed to improve the understanding of mental health conditions, build team and individual resilience, and develop the skills and confidence to have constructive discussions about mental health within the workplace. 80 of our employees participated.

## Sustainability continued

### Our people continued

#### Our activities

Throughout 2022 we partnered with a number of organisations and launched initiatives to raise employees' awareness across a range of topics and signpost them to further specialist support.

For example, we:

- relaunched the SMS Wellbeing page on our intranet which provides lots of free support and advice, with external signposting;
- renewed our two-year voluntary pledge to Mindful Employer and their Charter for Employers Positive about Mental Health;
- invested again in the Tommy's Pregnancy and Parenting at Work programme;
- supported Baby Loss Awareness Week 2022 and National Fertility Awareness Week;
- supported Mental Health Awareness Week, National No Smoking Day, World Mental Health Day, and International Men's Health Week;
- joined the Employers Initiative on Domestic Abuse;
- joined the National Suicide Prevention Alliance;
- supported National Schizophrenia Awareness Day; and
- committed to being a Menopause Friendly Employer.

#### Decision-making in practice: discretionary cost-of-living payment

We were aware of the impact of the rising cost of living on our staff as we approached winter, and in November 2022, we made a one-off discretionary payment to all but our highest paid employees to help them through this time.

The Board approved this payment after balancing the interests of employees and shareholders. The payment demonstrates one of our core values – putting our people first. The Board judged this action would be in the long-term interests of the Company and would help meet its responsibility to the Group's staff.

*"Given the current climate of finances and how much everything has shot up in price, SMS couldn't have timed the payment for all staff below senior management any better. I know a lot of staff will have been having serious concerns due to the time of year, Christmas, and needing to use more energy. Personally I've never worked for a company that thinks about its staff like this. I'm sure we have all had a nice voucher at work and maybe been given a flyer on a Friday, but the amount of money SMS has shared back into the business direct to its staff is outstanding! Whoever was involved in this decision has made more of an impact than they realise, and they have satisfied a lot of families affected by the country's situation."*

**Matthew Hopkins**  
Field Service Delivery Manager.

#### Employee engagement

At SMS, we are committed to putting our people first – a philosophy embedded within our company culture and our five core values. We can only do this by actively listening to our employees and encouraging feedback and discussion on the topics that matter most to them.

We hold a bi-monthly forum, The Voice, which gives our people a platform to express their views and make suggestions on how we can make SMS a great place to work. We also launched 'Your Thought is Sought', our employee suggestion scheme.

We carried out our third external employee engagement survey from Best Companies. The response rate once again rose, and we were delighted to retain our 'One to Watch' accreditation from Best Companies for good levels of employee engagement.



We also consulted with our staff on hybrid working using a survey. This informed our hybrid working policy which we then introduced using a short video which gave staff helpful guidance on how to maintain wellbeing and keep SMS culture and values alive.

#### Recognition and reward

We have been a 'Living Wage' employer since 2020. The Living Wage is scheduled to go up in May 2023, but to give further support to our employees on entry-level salaries, we brought in the increase six months early, increasing their rates to £10.90 per hour from 1 November 2022.

As well as being a 'Living Wage' employer, in 2022 we also became an accredited 'Living Hours' employer. This reflects our commitment to provide our employees with the security of hours that they need.

To reinforce our culture, we also continued our Living Our Values (LOV) Awards which, each quarter, recognise staff who have consistently displayed one or more of the five SMS core values and associated behaviours.



## Industry recognition

- Winner 'Entrepreneur of the Year' – AIM Awards 2022 – Alan Foy (former CEO)
- Winner 'Best Investor Relations Officer' – The Investor Relations Society Best Practice Awards – Dilip Kejriwal, Head of Investor Relations
- Winner 'Best Corporate Website' – Corporate and Financial Awards 2022
- Winner 'Net Zero Leaders Award' – The Energy Live Consultancy Awards 2022
- Shortlisted 'Large Consultancy of the Year' – The Energy Live Consultancy Awards 2022
- Winner 'Best Diversity & Inclusion Initiative' – the S1 Awards 2022
- Finalist 'Best Employer' – the S1 Awards 2022
- Finalist 'Best In-House Recruitment Team' – the S1 Awards 2022
- Short-listed 'Best for Diversity & Inclusion' – the WM People Top Employer Awards

## Website

We launched our new Group website, integrating our refreshed brand and creating an online space that reflects the full scale of our ambition. We wanted our website to bring our people and culture to the very forefront of our brand.

## Talent management and development

We strive for best practice when it comes to leading, developing, and supporting our people and therefore we invited Investors in People to assess us. We were delighted to achieve Silver accreditation across the Group.

Over the year we built on our activities to develop our people at all levels within the organisation:

- we continued the rollout of our Talent Management and Succession Planning Framework which helps us find and then develop, nurture, and retain our future leaders;
- we developed more of our managers and team leaders through our bespoke Management Development Programme which is recognised by the Institute of Leadership & Management (ILM) and the Chartered Management Institute (CMI);
- we launched new training courses; topics requested included resilience leadership, and giving and receiving feedback; and
- we expanded our apprenticeship offering, with twelve of our people obtaining their apprenticeship qualification in 2022, and we currently have a further 21 working towards their professional qualification.

## Equality, diversity, and inclusion

In October, we unveiled our 'Levelling Up Impact Report', which has been developed in partnership with The Purpose Coalition. The report, which was presented to business leaders and MPs in Westminster, outlined how we are making a positive social and environmental impact, which has become even more important amid the current cost-of-living challenges.

The Levelling Up Goals provide a framework to help organisations identify gaps in access to opportunity, address common socio-economic barriers that prevent people from achieving their potential, and hence help narrow regional inequality and improve overall living standards in the communities in which they operate.

The way we embrace diversity and inclusion in our recruitment and people management was recognised when SMS won 'Best Diversity & Inclusion Initiative' at the S1 Awards. We are also proud to announce that we have signed up to a company partnership with the Women's Engineering Society. This partnership helps us to support women in engineering careers and to encourage young girls to view engineering as a career option. We have also introduced a reverse mentoring programme via Disability Connect. Disability Connect provides organisations with disabled mentors who help raise awareness of the issues disabled people face in the workforce and provide insight that we will use to ensure SMS is accessible and welcoming to all.

## Sustainability continued

### Our people continued



### Giving something back

As part of our commitment to 'Levelling Up' and sustainability, we have targeted our social responsibility efforts at those communities that need help the most, particularly in deprived areas close to where we operate as a business around the UK. For example, a team of SMS volunteers spent the day at Bolton NICE foodbank, which provides support to children, families, and individuals who are experiencing difficulties. Also, members of our HR team volunteered at Wesley Primary School, situated near our training academy and contact centre site in Bolton, as part of a social community activity.

We have also confirmed our commitment to support charities within local communities close to some of our offices, and for the next three years we will donate £90,000, between Beatson Cancer, Velindre Cancer Centre, The Bluebell Wood Hospice and Bolton Hospice. Following this commitment, we will undertake a company-wide survey to decide which new charities will receive our support.

### Giving something back

We are mindful of our responsibility not only to our employees, but also to the communities within which they live. With this in mind, in 2022 we enhanced our support for our local communities through several initiatives:

- Three of our senior leaders became mentors on our continued programme with the Aleto Foundation charity. This is focused on identifying and developing the next generation of leaders from BAME communities who may historically have found it challenging to access opportunities due to their backgrounds.
- We committed to support charities within the local communities close to our offices and for the next three years will donate £90,000.
- We matched the charity fundraising efforts of many employees through one-off corporate donations to their chosen causes.
- SMS employees volunteered their time to provide career advice at several local schools, the HR team helped improve a school play area near Bolton, and a group of our senior managers volunteered their time at the Bolton NICE foodbank and at a Cardiff nursing home.
- We participated in various local school engagement activities such as mock interview days, careers fairs, and career networking.
- We continued to support Career Ready with their mentoring programme.

### Awards, accreditations, awareness

#### New

- Investors in People Silver accreditation
- Living Hours Employer
- Member of Women's Engineering Society (WES)
- Social Mobility Pledge
- Member of Employers' Initiative on Domestic Abuse
- Member of the National Suicide Prevention Alliance
- Cornerstone Employer within South Yorkshire
- Young Person's Guarantee Employer within Glasgow
- Best Companies One to Watch 2022 (2nd year in a row)
- Made our commitment to become a Menopause Friendly Employer

#### Maintained

- Accredited Living Wage Employer status
- Disability Confident Leader status (Level 3)
- Race at Work Charter signatory
- Employers Network for Equality & Inclusion accreditation
- Mindful Employer pledge
- Member of the Tomorrow's Engineers Code to increase the diversity and number of young people entering engineering
- Partnership with Tommy's Pregnancy and Parenting at Work
- Member of the Pregnancy Loss Pledge

## Gender pay gap reporting 2022

SMS supports and encourages gender diversity amongst its workforce and welcomes the requirement for gender pay gap reporting, introduced to increase pay transparency, and is committed to diversity and inclusion throughout the business.

### Gender within SMS<sup>1</sup>

Overall, the SMS Group workforce is 30% female and 70% male. As we are part of the historically male-dominated engineering industry, it is no surprise that our organisation has such a wide gender split (weighted towards men), and that a gender pay gap exists.

The mean gender pay gap in hourly pay for the SMS Group is 22.4%, and the median gender pay gap is 37.2%.

Specifically within SMS:

- most of our employees are engineers, and this is a profession with more men than women;
- there are more men than women in senior roles;
- there are more women in part-time roles; and
- there are more women in lower-paying roles.

It is worth noting that most of these issues are prevalent throughout the UK and internationally, so are not unique to SMS.

As can be seen via 'Engineering UK' (published online via Women's Engineering Society) who provide workforce statistics, in March 2022:

- Women make up 16.5% of all engineers, compared to 10.5% reported in 2010.
- This represents a 6 percentage point increase in the proportion of women in the engineering workforce.
- The actual number of women working in engineering roles also increased from 562,000 in 2010 to 936,000 in 2021.

The percentage of female employees has decreased in the lower middle pay quartile by 11% as during the data set period, there was a significant increase in headcount in engineering roles, which is predominantly a male dominated field, and the upper middle pay grade has 2% more women. However, there continued to be significantly more male employees (in senior roles) in the upper middle and top quartiles, which exacerbates our gender pay gap. That said, for the SMS Consolidated Group, the mean hourly pay gap has decreased and thus improved by 1.2% which is a positive.

During 2022, we promoted 13 women internally into management and senior level positions and appointed 4 women externally into management level positions.

### Taking action – our strategy

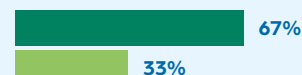
SMS supports and encourages a culture of gender diversity amongst its workforce. It is through the contribution of 'Our People' from of all backgrounds that ensures our business is successful, as only a diverse, inclusive, and engaged workforce will produce the solutions we need to tackle the varying challenges faced by our business, and industry leading thinking will transition the energy market.

We are prioritising the following areas for action: diversity and inclusion will remain a strategic driver. We will utilise external accreditations and memberships for support (i.e. WES), together with internal tools including the SMS voluntary EDI monitoring form, with a focus on increasing completion rates. We will also continue to use our group pay and reward framework. This will help ensure there is no bias towards either gender from the point of recruitment, through to salary conversations and progression opportunities. We continue to actively promote gender balance within the SMS Group and explore how we can continue to attract women into our organisation, to create a more even gender balance, specifically within our engineering workforce.

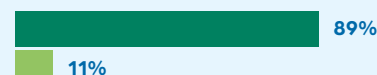


### Gender breakdown<sup>1</sup>

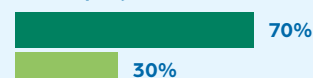
#### Board of Directors



#### Senior management<sup>2</sup>



#### All employees



#### Key



<sup>1</sup> We collected our data on 5 April 2022, when the total workforce for the consolidated Group consisted of 388 women and 896 men (including Non-executive Directors).

<sup>2</sup> Senior management is defined as employees (including executive directors) who have responsibility for planning, directing and controlling the activities of the Group.



## Sustainability continued

# 04. Health and safety

### Key highlights

- Zero injury RIDDORs, including during the construction of our grid-scale battery storage sites.
- Maintained certification for the ISO 9001, 14001, 27001, 45001 and 50001 standards.
- Successfully extended the scope of ISO 50001 to include additional SMS sites.
- Extended the scope of Safe Contractor accreditation to include SMS Connections and CH4 Ltd.
- IOSH Contractor Management Training commenced.
- More live dashboards for monitoring performance.

Overall, 2022 was a positive year for safety, health, environment and quality (SHEQ) performance across the Group. We continued to build on the momentum of the previous years with wide-ranging improvement targets across our SHEQ metrics. Our rolling action plans ensured we stayed on course and again we delivered some excellent results.

The contractors on our multiple grid-scale battery storage sites have also overcome many challenges, most notably weather-related, during the construction phases on our sites. Again, we are pleased to report zero RIDDORs on our five construction sites during 2022.

**“We remain committed to being a safe, secure and reliable organisation which protects the safety and wellbeing of our people and our customers.”**



## Accidents and incidents

For 2022, we are again delighted to report zero injury RIDDORs. Our rates for other less serious incidents were in line with last year's outstanding results.

- No injury RIDDORs were reported, resulting in an Accident Frequency Rate (AFR) of zero for the second year running.
- Lost Time Incident Frequency Rate (LTIFR) at 0.21 per 100,000 hours worked (2021: 0.17).
- Non-Lost Time Incident Frequency Rate (NLTIFR) at 0.53 per 100,000 hours worked (2021: 0.52).
- Total Recordable Incident Frequency Rate (TRIFR) at 0.74 per 100,000 hours worked (2021: 0.69).
- Group technical performance has improved significantly over the year finishing at 15 incidents per 100,000 installs (2021: 28). This is commendable given the significant increase in installations and the associated works in the year.

## Grid-scale battery storage

During 2022, the construction and operation of our grid-scale battery storage (GSBS) sites continued at pace. We currently have three sites under construction and three operational. The sites have been closely monitored by the SHEQ and GSBS teams and we are again pleased to report that there have been no significant injuries or incidents on any of the GSBS sites in the period.

The collaborative ethos that exists between all stakeholders has ensured that the site workers are safe and healthy, and the works are having minimal impact on the public and the local environment. We are also pleased with the biodiversity improvements that are either in place at our live sites or planned at our sites under construction. Planning is also underway for lessons learned forums with our contractors as we strive to continually improve our understanding of how best to construct and operate our assets.

## Occupational health

We continue to maintain a strong focus on occupational health, particularly mental health, and have a number of tools and services at our disposal to assist our employees. We are also acutely aware of the pressures facing our emergency services nationally and have invested heavily in emergency response training for our employees as well as equipment within each of our workplaces. This will ensure that we can deal with many of the issues that we would otherwise normally rely on the emergency services to cover. Our employees have come forward in significant numbers to volunteer for the various training packages on offer and again demonstrated their total commitment to playing their part in keeping our workplaces as safe and healthy as possible.

Mental health issues remain a global concern and we have continued to focus on these and related issues. By drawing on the latest evidence and using examples of good practice from around the world we are highlighting and informing our employees on steps they can take to maintain and improve mental health. We are also working with our stakeholders to deepen the commitment given to mental health, reshape the environments that influence mental health, and strengthen the systems that care for mental health. These efforts will ensure that our people remain healthy and are fully aware of the multitude of conditions that are directly and indirectly related to mental health. Our support to our employees is unwavering.

## Employee forums

At SMS, we have a number of employee forums that contribute to our ongoing SHEQ improvement journey. The forums are led by other functions including human resources, compliance and operations. They allow employees to raise and discuss SHEQ issues openly with feedback provided from SHEQ if required. The business also benefits from the many ideas that are presented at the forums by employees. A recent example of this is a high-impact messaging service, using Microsoft Teams, that was implemented after discussions on communications at a forum.

## Industry campaigns and communications

Our communication programme is a crucial part of our SHEQ management system. Throughout the year, we participated in industry campaigns and delivered a range of internal communications via our numerous media platforms. In 2022, we introduced two new communication channels designed for speedy delivery of messaging, high impact and effective collaboration. These channels supplement what we already have in place and ensure that our employees are kept up to date on health and safety issues by various means.

Unfortunately, Gas Safety Week 2022 was cancelled due to the death of Her Majesty Queen Elizabeth II. Our participation in the campaign is an annual highlight and we decided to dedicate the time and resource to other improvement initiatives including a new award for safety and quality for our engineering workforce. This was well received and maintained a focus on safety and quality long after the usual Gas Safety Week activities.



## Sustainability continued

### Health and safety continued

#### Systems

Our embedded systems are key to continual improvement and this year we have further utilised Power BI for our reporting. The Power BI dashboards offer up-to-date information on performance and enable us to focus on any areas that require attention immediately. We have dedicated resource monitoring and improving all our systems with detailed action plans and targets. This year has seen wide-ranging improvements to our Technical Helpdesk, Compliance, Fleet, SHEQ and Technical reporting dashboards which enable swift interventions when risks are flagged. Work is continuing to further develop the dashboards and metrics to keep pace with changes and new business streams.

#### ISO certifications

The business maintained all its ISO certifications in 2022 with no significant non-conformance recorded during the audit processes. Our management reviews, held in the first quarter every year, are the starting point of our annual ISO journeys. These forums bring together a cross-section of the workforce and are used to instil the behaviours required to operate a modern, evolving integrated management system.

**“We again reported zero injuries under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.”**

## Fleet, SHEQ and Technical dashboards



## Health and safety policy

The annual review of our health and safety policy and associated arrangements was carried out in April 2022 and published on the Company's intranet. The policy, which is a statement of intent, drives improvements across our management systems and other related processes. For example, a number of working groups were established during 2022 to review personal protective equipment (PPE), training and our fleet. The outputs from the groups included new higher-grade PPE, an induction training review and a revised procedure for company vehicles.

The SHEQ targets and objectives are revised annually based on the previous year's performance and any other notable events. Once approved by the Health, Safety and Sustainability Committee, they are cascaded through the business and published monthly for internal and external consumption. We are constantly on the lookout for new and emerging risks and participate in various industry groups where existing and new business streams are discussed. For example, in 2022 we visited the site of a proposed hydrogen village and look forward to further developments in the use of hydrogen across the UK.

## 2023 and beyond

As usual, our priority for 2023 is to keep our people and those affected by our undertakings safe and healthy. Our ambitious targets and action plans will continue to drive improvements across the business. We continually adapt to new work streams. In 2022 our grid-scale battery storage facilities moved to an operation and maintenance status and we are now preparing for a major leap forward in domestic settings that will include electric vehicle charging points, heat pumps and solar photovoltaic. We have also embarked on a major sustainability-focussed refurbishment of our Cardiff office.

We remain committed to being a safe, secure and reliable organisation and look forward confidently to 2023.



## 05. Ethical business practices

### Our five core values

Safety, customer excellence, innovation, pride and sustainability underpin our commitment to 'putting our people first' and drive the behaviours we wish to see demonstrated throughout our business practices.



Our core values and behaviours



## Putting our people first

### Our core values and behaviours

Our Code of Conduct provides the foundation on which our standards are built and our approach to environmental, social and governance issues, detailed further on our website at [www.sms-plc.com/corporate/sustainability](http://www.sms-plc.com/corporate/sustainability), sets out clear expectations of how to conduct business in an ethical way.

Ethical, fair and diligent governance underpins all our business activities. This is supported by extensive training and the continuous education of our people, from a full corporate induction through to ongoing learning and development.

Our key policies which recognise, support and protect our employees' human rights – and thus drive our ethical business practices – cover the following areas:

- anti-bribery and corruption
- modern slavery

- whistleblowing (detailed further on page 89)
- data protection
- equal opportunities, diversity and inclusion (detailed further on page 53)
- health and safety (detailed further on pages 56 to 59)
- discipline
- grievance
- dignity at work.

Although not fully inclusive of everything we do, the following table demonstrates the key policies that we currently implement and monitor in this area:

	Related policies	Key themes	Implementation and review	Reporting
Human rights	SMS Code of Conduct Equal opportunities, diversity and inclusion policy Dignity at work policy	We respect the rights and dignity of all people when conducting our business.  Our focus is on ethical business practices for our people, customers and wider communities.	Our policies and approach are embedded in our culture. They are communicated at induction, through our employee handbook and via e-learning modules.	Employees are required to immediately report any instances of a breach in human rights to our Group HR Director.  During the year, there were no reported breaches.
Anti-bribery and corruption	Anti-bribery and corruption policy	This policy includes guidance to employees on the giving, receiving and recording of business gifts and hospitality, together with other areas of specific risk, and is reviewed regularly to ensure it remains fit for purpose.	All employees are required to accept and adhere to the policy.  We do not deal with prospective contractors or suppliers known to pay, or suspected of paying, bribes. This helps prevent bribery and other forms of corruption.	Any breaches of policy are reported to our General Counsel and investigated.  During the year, there were no reported cases of bribery or corruption.
Modern slavery and human trafficking	Modern slavery policy Modern Slavery Statement	We do not tolerate modern slavery within our immediate business or wider supply chain.  Although the risk of modern slavery and human trafficking in relation to SMS is low, we do monitor our supply chain to ensure we fully understand and mitigate the risk.	Contracts with new suppliers require a warrant to us that they are compliant with the terms of the Modern Slavery Act 2015.  Existing agreements in place for our Tier 1 vendors already cover modern slavery.  Key staff training is regularly reviewed.	Any breaches of this policy are reported to our General Counsel and, where required, to the relevant authorities.  During the year, there were no reported breaches.  The Company's Modern Slavery Statement can be found on our website at <a href="http://www.sms-plc.com/modern-slavery">www.sms-plc.com/modern-slavery</a>
Political donations	Charitable and political donations policy	The Company prohibits political donations other than those approved by the Board.	Donations are monitored by the General Counsel.	There were no political donations made in the year.

## Risk report

# Risk governance and management

Our established risk management framework, and the wider system of internal control, continues to adapt in line with our growing business and the challenging macroeconomic environment. The Board has overall responsibility for governance, risk management and internal control. In support of this, we operate robust risk management processes, which are embedded within everyday business activities throughout the Group. The risk management framework on page 63 highlights the main responsibilities for the management and oversight of risk within the Group.

The macro-economic environment presented several external challenges during the year, including continued volatility within energy markets, high inflation and the remaining impact of the pandemic. The ongoing conflict in Ukraine has placed additional pressure on the global energy supply chain. Rising energy prices, subsequent cost-of-living increases, and the risk of supplier insolvency remain key challenges.

Our customer exposure is inherently mitigated due to the Supplier of Last Resort (SoLR) process, whereby Ofgem directs a gas or electricity licensee to take over responsibility for a failed energy supplier's customer portfolio. This protects future metering charges, which are raised to the newly appointed energy supplier regardless of whether they are an existing contracted customer with the Group, and so caps our financial exposure at amounts already accrued or billed, but not yet settled.

In addition, we have robust commercial billing arrangements, an established credit control function and significant available funding under our debt facility which help to absorb market shocks like this. The Board closely monitors the situation and receives regular reports on the Group's cash and debtor positions.

Group internal audit continued to work closely with the Audit Committee, executive leadership team and departmental teams throughout 2022 to support the continuous improvement of risk management processes within the Group. This work included facilitating regular risk workshops, which are used to:

- identify new risks and review and update existing risk ratings;
- identify appropriate new mitigating actions; and
- assess progress towards completion of identified mitigating actions.

The Board and Audit Committee receive regular reporting on the outputs from risk management activities. During 2022, Group internal audit performed several internal audit reviews of specific risk areas including cyber security, grid-scale batteries, treasury management, financial controls over billing and fixed asset management and disaster recovery planning.

## Understanding our risks

The organisational risk management framework comprises the recording and management of 'top-down' strategic risks, which are discussed by the Board and executive leadership team, as well as 'bottom-up' risks, which capture potential operational issues at a departmental level. Our risk assessment model considers:

- the probability of a risk crystallising; and
- the potential impact if the risk did crystallise.





## Risk management framework

### Board/Audit Committee

The Board is responsible for setting the tone at the top and monitoring business performance. This includes regularly reviewing risks that could impact achievement of the Group's strategic and organisational objectives.

The Board is supported by an effective corporate governance structure, including the Audit Committee, which has specific delegated authority to review the effectiveness of the Group's internal control mechanisms, financial reporting, internal audit and risk management processes.

### Executive leadership team

The executive leadership team is responsible for reviewing and managing the strategic risks within the Group and for providing oversight on departmental operational risks. It provides leadership and direction to employees on risk-taking activity.

The executive leadership team also has primary responsibility for driving the development and enhancement of the risk management processes used within the Group.

### Group internal audit

Group internal audit develops and delivers the annual risk-based Group Internal Audit Plan, which is aligned to the strategic risks contained within the corporate risk register. This annual plan, which includes a three-year outlook, is approved by the Audit Committee.

Group internal audit provides oversight and advice on risks and controls to departmental teams as they manage the risks in their areas.

### Safety, health, environment and quality (SHEQ) and compliance teams

The SHEQ and compliance teams are responsible for ensuring compliance with codes of practice, such as the Code of Practice for Meter Asset Managers and Approved Meter Installers ('MCoP') and the Electricity Meter Operations Code of Practice Agreement ('MOCO P').

The SHEQ team, in conjunction with the executive leadership team and the Board, is instrumental in setting the tone at the top in relation to safety matters.

The SHEQ team is responsible for obtaining and maintaining the Group's ISO certifications, which are supported by business assurance reviews.

### Departmental management

The management teams in each department within the Group are responsible for the day-to-day management of risks within their area, ensuring that risks are appropriately identified, prioritised and mitigated.

These principal risks and uncertainties have been scored and placed on the risk heat map on the next page, which is a matrix of probability and impact. Our model considers each risk from two different perspectives:

- the extent of inherent risk (before mitigating controls have been implemented); and
- the extent of residual risk (after mitigating controls have been applied).

The heat map provides a picture of residual (mitigated) risk at the corporate level and allows us to assess the effectiveness of our internal control environment and take further action as appropriate. The matrix also enables the Group to focus its internal audit activity.

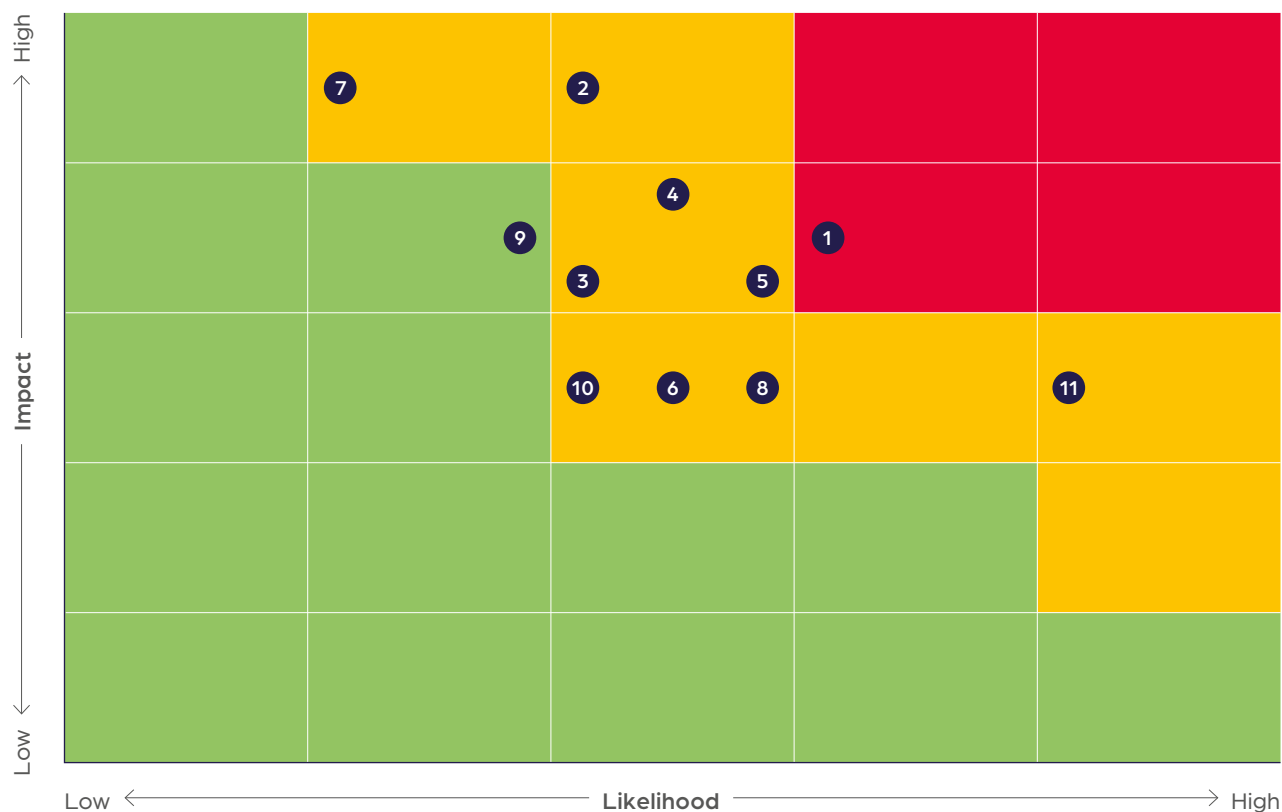
We continually evaluate our principal risks in line with our strategic priorities and the prevailing industry and market conditions. Our risk management activities include:

- frequent risk workshops to update corporate and departmental risk registers;
- detailed reporting of significant strategic risks to the Board; and
- consideration of new and emerging significant global, industry and economic risks.

## Risk report continued

### Risk governance and management continued

## Our principal risks



Our principal risks are assigned a red, amber or green status depending on the perceived overall severity after allowing for effective mitigation. After categorisation, risks are treated as follows:

- Some action may be required, and risks are routinely monitored by management.
- Action is required to mitigate the risk through improved control with oversight from executive leadership.
- Mitigating actions are required immediately. Oversight is provided by the Board, Audit Committee and executive leadership directly.




- 1 Potential breach of cyber security
- 2 Major incident risk
- 3 Speed of organisational change (near term)
- 4 Business continuity and disaster recovery
- 5 Metering and grid-scale batteries supply chain
- 6 Funding and working capital management
- 7 Loss of environmental, social and governance (ESG)-related and regulatory accreditations
- 8 Potential breach of General Data Protection Regulation (GDPR)
- 9 COVID-19
- 10 Our people
- 11 Stability of energy suppliers





All risks are assigned mitigating actions with an appropriate business owner and are supported by an executive sponsor to ensure accountability. Our principal risks remain unchanged from those reported in last year's Annual report and accounts. The risk rating for our funding and working capital management risk has increased from green to amber due to the changing macro-economic environment. This risk continues to be monitored by Board.

# Our principal risks and uncertainties

Set out below are the principal risks and uncertainties which could have a material impact on the Group. The numbers correspond to the net mitigated risk identified on the heat map. These risks are continually monitored by the Board. The table shows whether the Board considers that the likelihood or impact of the risks materialising is increasing, decreasing or unchanged and also sets out the mitigating actions that have been taken by the Group.

## Risk exposure key

-  Risk unchanged
-  Risk decreased
-  Risk increased





Detailed risk	Potential impact	Existing mitigating controls
<b>1. Potential breach of cyber security</b> Critical information technology systems could be subject to a major external or internal cyber-attack, causing a breach of information security regulations and/or service disruption.  Risk level  Risk exposure trend 	<ul style="list-style-type: none"> <li>Financial penalties under information security regulations</li> <li>Financial loss</li> <li>Unauthorised access to systems and data</li> <li>Service disruption</li> <li>Loss of customer and/or supplier confidence</li> <li>Loss of accreditations and certifications</li> </ul>	<ul style="list-style-type: none"> <li>ISO 27001 accreditation</li> <li>Formal cyber security policy, including phishing response procedure, communicated to all SMS staff</li> <li>Mandatory security awareness training for all SMS staff</li> <li>Physical controls in place including firewalls and encryption</li> <li>A dedicated information security team</li> <li>An independent Board-level Information Technology Committee</li> <li>Managed Security Service Provider arrangement provides a dedicated Security Operation Centre (SOC)</li> <li>Annual audit by independent third party of cyber security procedures against internationally recognised framework</li> </ul>
<b>2. Major incident risk</b> A major incident could occur, with severe consequences for people, the environment, revenue and company reputation.  Risk level  Risk exposure trend 	<ul style="list-style-type: none"> <li>Injury or loss of life</li> <li>Loss of business operations</li> <li>Financial penalties or lost revenue</li> <li>Reputational damage</li> <li>Breach of IT systems and loss of data</li> </ul>	<ul style="list-style-type: none"> <li>Incident response and communications plan</li> <li>Dedicated incident management response team</li> <li>The Board has overall accountability for compliance with health and safety standards and is provided with regular management reporting</li> <li>Group wide ISO certifications</li> <li>Independent regulatory reviews</li> <li>Business continuity and disaster recovery plans</li> <li>Maintenance of high-quality and mandatory training standards, driven by job roles</li> <li>Rolling internal technical assurance audit programme</li> <li>Penetration testing across the Group's IT estate</li> </ul>

## Risk report continued

### Our principal risks and uncertainties continued





Detailed risk	Potential impact	Existing mitigating controls
<b>3. Speed of organisational change (near term)</b> Speed of organisational growth in the short term without sufficient and appropriate growth in infrastructure.  Risk level  Risk exposure trend 	<ul style="list-style-type: none"> <li>• Insufficient engineering capacity/resource available</li> <li>• Limitations on organisational back-office and support functions</li> <li>• Metering supply and warehousing operations cannot meet demand</li> <li>• IT infrastructure does not scale up quickly enough to meet business needs</li> </ul>	<ul style="list-style-type: none"> <li>• Capacity planning system to support the Group's engineering workforce</li> <li>• Robust forecasting processes closely aligned to commercial and operational management teams</li> <li>• Well-established supplier onboarding processes</li> <li>• Strategic and targeted recruitment activity for engineers</li> <li>• Subcontractor call-off arrangements in place across UK</li> <li>• IT strategy closely aligned to organisational strategy for growth and future business modelling and includes regular needs assessment</li> <li>• Dedicated senior roles in place to lead growth in carbon reduction ('CaRe') verticals</li> <li>• Economies of scale from warehouse amalgamation</li> </ul>
<b>4. Business continuity and disaster recovery – resilience of IT infrastructure and failure of critical business systems and processes</b> Failure of core and/or critical information technology systems could result in operational interruption.  Risk level  Risk exposure trend 	<ul style="list-style-type: none"> <li>• Temporary loss of IT infrastructure/critical business systems and processes</li> <li>• Loss or corruption of data</li> <li>• Detrimental impact on customer service</li> <li>• Potential loss of revenue through inability to meet customer orders or issue invoices</li> </ul>	<ul style="list-style-type: none"> <li>• Business continuity plan in place across the Group</li> <li>• Monitoring of industry data flows and escalation of issues should they arise</li> <li>• Disaster recovery plans and testing schedules in place for critical IT systems</li> <li>• Failover facility available for immediate redeployment of staff, enabling key operations to be maintained</li> <li>• Alternative UK sites available to manage core business operations</li> <li>• Most of the workforce able to work from home to support the Group's customers</li> <li>• N+1 (parallel redundancy) backup to ensure an uninterruptible power supply and system availability</li> <li>• Current IT roadmap to 2025</li> </ul>
<b>5. Metering and grid-scale batteries supply chain</b> The Group relies on a limited number of critical suppliers for meters and grid-scale batteries, and failure of critical suppliers could have significant operational and financial implications.  Risk level  Risk exposure trend 	<ul style="list-style-type: none"> <li>• Delays in importing meters and grid-scale batteries</li> <li>• Stock shortages and inability to fulfil customer orders or projects on time</li> <li>• Business continuity issues</li> <li>• Increased commodity prices</li> <li>• Legal and financial exposure</li> <li>• Unenforceable contracts and financial penalties</li> </ul>	<ul style="list-style-type: none"> <li>• Growth in the Group's supplier base continues to mitigate the risk of over-reliance on critical suppliers</li> <li>• Business continuity arrangements in place</li> <li>• Centralised in-house legal function protects commercial interests through robust contracting process</li> <li>• Enhanced stock control processes mitigate the risk of being unable to fulfil customer orders in the event of failure of a critical supplier</li> <li>• Monitoring of stock levels in warehouses to ensure sufficient meter stock is held to meet customer obligations</li> <li>• Dedicated senior roles with responsibility for stock and logistics and delivery of grid-scale battery storage projects</li> <li>• Enhanced due diligence on grid-scale battery suppliers</li> </ul>



Detailed risk	Potential impact	Existing mitigating controls
<p><b>6. Funding and working capital management</b></p> <p>Suitable funding arrangements are critical to enable the continued growth of our asset portfolio, particularly in relation to 'CaRe' assets. Poor management of core elements of working capital, particularly during peak activity periods, could lead to inability to meet creditor requirements and cause a negative financial impact.</p> <p>Risk increased in 2022 as now drawing on the loan facility.</p> <p>Risk level </p> <p>Risk exposure trend </p>	<ul style="list-style-type: none"> <li>• Default on debt obligations</li> <li>• Credit or debt facilities are withdrawn</li> <li>• Inability to meet existing customer or trade commitments</li> <li>• Increased supply chain costs</li> <li>• Lack of funding to take advantage of emerging business opportunities (including for CaRe assets)</li> </ul>	<ul style="list-style-type: none"> <li>• Credit control function and robust commercial billing arrangements</li> <li>• Regular and formal review of key management information on cash and debt positions</li> <li>• Revolving credit facility of £420m through to December 2025</li> <li>• Regular long-term forecasting of funding required</li> <li>• Board monitoring of the funding required to meet the Group's growth plans</li> </ul>
<p><b>7. Loss of ESG-related and regulatory accreditations</b></p> <p>Loss of accreditations or failure to comply with key regulatory requirements could lead to an inability to deliver our core services, leading to a loss of revenue or reduction in banking facilities.</p> <p>Risk level </p> <p>Risk exposure trend </p>	<ul style="list-style-type: none"> <li>• Not achieving our ESG or regulatory accreditations</li> <li>• Inability to conduct business</li> <li>• Financial penalties</li> <li>• Reputational damage</li> <li>• Loss of trained and qualified engineers</li> <li>• External investigation(s) and/or audits</li> </ul>	<ul style="list-style-type: none"> <li>• The Board has overall accountability for compliance with safety, health and environmental standards and is provided with regular management reporting</li> <li>• Board-approved sustainability strategy with a clear roadmap to achieving 'net zero' status by 2030</li> <li>• Dedicated Health, Safety and Sustainability Committee, supported by ESG Working Group</li> <li>• Regular sustainability reporting to relevant agencies and other external stakeholders including release of annual Sustainability Report</li> <li>• Well-established Group technical assurance team in place, including an experienced compliance function with deep industry insight and expertise</li> <li>• Dedicated training academy for field service engineers</li> <li>• Rolling training plan in place for all engineering staff to maintain and upgrade certifications</li> <li>• Extensive assurance activity performed across the Group, by specialist assurance teams</li> <li>• Regular external independent and routine audits performed by regulators</li> <li>• Effective HR onboarding process for new staff, including engineering team</li> </ul>

## Risk report continued

### Our principal risks and uncertainties continued

Detailed risk	Potential impact	Existing mitigating controls
<b>8. Potential breach of General Data Protection Regulation (GDPR)</b> There could be a breach of GDPR through an internal failure to follow protocol and policy or as a result of data integrity and retention issues.  Risk level  Risk exposure trend 	<ul style="list-style-type: none"> <li>Financial penalties under GDPR</li> <li>External investigation(s) by the Information Commissioner's Office</li> <li>Loss of customer and/or supplier confidence</li> </ul>	<ul style="list-style-type: none"> <li>The General Counsel is an expert in data protection and is the appointed Data Protection Officer (DPO)</li> <li>The DPO monitors internal GDPR compliance and, through a series of internal and external communication platforms, informs and advises staff and third parties of our obligations and expectations under GDPR</li> <li>Annual GDPR training for all SMS staff</li> <li>IT security monitoring controls, including a SOC and Netskope monitoring of external communications</li> </ul>
<b>9. COVID-19</b> The ongoing development of COVID-19 globally presents a risk to the business, with the Group's primary concern being the welfare of its people, customers and end consumers.  Risk level  Risk exposure trend 	<ul style="list-style-type: none"> <li>Health and wellbeing of workforce, customers and consumers</li> <li>Short-term financial constraints</li> <li>Business continuity issues</li> <li>Cessation of non-essential travel</li> <li>Potential detrimental impact on the supply chain</li> <li>Delayed and/or slow delivery of the Group's contracted pipelines in smart meters and grid-scale batteries</li> <li>Counterparties could default on contractual obligations</li> </ul>	<ul style="list-style-type: none"> <li>Personal protection equipment (PPE) worn as required</li> <li>Employees encouraged to be fully vaccinated</li> <li>Regular communications with employees and customers</li> <li>Recurring revenue streams on the Group's existing meter and data asset base provide a resilient business operating model able to withstand short-term economic shock</li> <li>Most of the workforce are able to work and support the Group's customers from home (including those in shielding categories)</li> <li>Temporary closure of offices and warehouses, in periods where this is necessary</li> <li>Maintenance of gas and electricity supply on an emergency basis for customers</li> <li>Credit control function with regular counterparty monitoring</li> <li>Regular review of corporate forecasts and scenario modelling</li> </ul>

Detailed risk	Potential impact	Existing mitigating controls
<p><b>10. Our people</b></p> <p>An inability to attract, retain and motivate the right people could have a material adverse effect on the business and ultimately lead to a failure to deliver on its strategic objectives.</p> <p>Risk level <span style="color: yellow;">●</span></p> <p>Risk exposure trend <span style="color: green;">▶</span></p>	<ul style="list-style-type: none"> <li>• High levels of employee turnover</li> <li>• Loss of employees with specialist skill sets to competitors</li> <li>• Low employee morale</li> <li>• Failure to take advantage of emerging business opportunities</li> <li>• Lack of business continuity</li> </ul>	<ul style="list-style-type: none"> <li>• Recruitment, due diligence and onboarding processes (contracts include probationary periods)</li> <li>• Succession planning for key leadership and business roles</li> <li>• Talent and performance management frameworks linked to our values and behaviours</li> <li>• Benchmarking of roles with the external market in terms of remuneration and reward</li> <li>• Harmonised terms of employment, ensuring fairness and consistency across the Group</li> <li>• Competitive rewards and employee benefits package aligned to pay and reward framework</li> <li>• Regular, supportive one-to-one meetings between people leaders and their direct reports</li> <li>• Regular employee satisfaction surveys, review of results by management and implementation of actions to address themes</li> <li>• Equal opportunities, diversity and inclusion policy</li> <li>• Gender pay gap reporting</li> <li>• Sponsorship approved for key roles</li> <li>• Proactive cost-of-living increases (particularly for entry level roles)</li> </ul>
<p><b>11. Stability of energy suppliers</b></p> <p>Rising wholesale energy costs could result in multiple energy suppliers entering administration or becoming insolvent, leading to unpaid debts and loss of pipeline revenue.</p> <p>Risk level <span style="color: yellow;">●</span></p> <p>Risk exposure trend <span style="color: green;">▶</span></p>	<ul style="list-style-type: none"> <li>• Customers (energy suppliers) enter administration or become insolvent</li> <li>• Unpaid debts not transferred as part of the SoLR process are irrecoverable</li> <li>• Loss of contracted smart meter order pipeline and future revenue potential</li> </ul>	<ul style="list-style-type: none"> <li>• Experienced credit control function and robust commercial billing arrangements</li> <li>• Regular and formal Board review of key management information on the Group's cash and debtor positions</li> <li>• Monitoring of market developments, through formal and informal channels</li> <li>• Contracts in place with larger energy suppliers, which has already resulted in some positive results from the SoLR process</li> </ul>

## Financial review

# Strong operational and financial performance

## Financial highlights

"We have delivered growth across all our key revenue and profit measures."

**Gail Blain**  
Chief Financial Officer



## Alternative performance measures<sup>1</sup>

### Index-linked annualised recurring revenue (ILARR)

**£97.1m** +13%  
(2021: £85.9m)

### Pre-exceptional EBITDA

**£63.8m** +21%  
(2021: £52.8m)

### Underlying profit before taxation

**£24.5m** +34%  
(2021: £18.3m)

### Underlying basic earnings per share

**16.06p** +67%  
(2021: 9.60p)

## Statutory performance measures<sup>1</sup>

### Revenue

**£135.5m** +25%  
(2021: £108.5m)

### Statutory EBITDA

**£57.1m** +23%  
(2021: £46.3m)

### Statutory profit before taxation

**£16.0m** +92%  
(2021: £8.3m)

### Statutory basic earnings per share

**11.16p** +248%  
(2021: 3.20p)

<sup>1</sup> Refer to page 74 for definitions and details of the Group's alternative performance measures, which include ILARR, pre-exceptional EBITDA, underlying profit before taxation and underlying basic earnings per share.



We have again delivered strong financial results in 2022 while continuing to invest in our revenue generating asset base.

Operational performance was strong in 2022. We saw continued growth in our meter installation run-rate, and the performance of our first 50MW grid-scale battery site exceeded our initial expectations. This has driven growth across all our key revenue and profit measures. 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.

Over the year we continued to invest in our established revenue-generating carbon reduction (CaRe) assets, growing our meter assets and developing our portfolio of grid-scale battery sites. At the same time, we also made smaller but strategic investments to develop our capabilities in energy data management and electric vehicle charging infrastructure. In 2022, we in total invested £172.6m net cash in investing activities (2021: 121.7m).

We ended the year with net debt of £31.2m (31 December 2021: net cash £117.7m) and £355m available on our debt facility. We are therefore in a strong position to continue to deliver our meter and grid-scale battery pipelines.

## 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.

## Financial review continued

### 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

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.

The Strategic report on pages 1 to 75 was approved by the Board of Directors on 14 March 2023 and signed on its behalf below.

On behalf of the Board

**Gail Blain**

**Chief Financial Officer**

14 March 2023

## Financial review continued

### Definitions of alternative performance measures

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

<sup>1</sup> 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.



## Reconciliation of statutory to underlying results

SMS uses alternative performance measures, defined on page 74, 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
<b>Index-linked annualised recurring revenue</b>	<b>97.1</b>	85.9	13%
<b>Group revenue</b>	<b>135.5</b>	108.5	25%
<b>Statutory profit from operations</b>	<b>20.1</b>	13.5	
Amortisation of intangibles	4.2	4.1	
Depreciation	32.9	28.7	
<b>Statutory EBITDA</b>	<b>57.1</b>	46.3	23%
Exceptional items <sup>1</sup> (EBITDA-related)	6.6	6.5	
<b>Pre-exceptional EBITDA</b>	<b>63.8</b>	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 <sup>2</sup>	(2.3)	(2.3)	
<b>Underlying profit before taxation</b>	<b>24.5</b>	18.3	34%
Exceptional items <sup>1</sup> (EBITDA)	(6.6)	(6.5)	
Exceptional items <sup>1</sup> (interest)	–	(1.7)	
Amortisation of intangibles excluded in underlying profit before taxation	(1.8)	(1.8)	
<b>Statutory profit before taxation</b>	<b>16.0</b>	8.3	92%
Taxation	(1.1)	(4.5)	
<b>Statutory profit after taxation</b>	<b>14.9</b>	3.8	292%
Amortisation of intangibles excluded in underlying profit after taxation	1.8	1.8	
Exceptional items <sup>1</sup> (EBITDA and interest)	6.6	8.2	
Tax effect of adjustments	(2.0)	(2.4)	
<b>Underlying profit after taxation</b>	<b>21.4</b>	11.4	88%
Weighted average number of ordinary shares (basic)	<b>133,241,113</b>	118,330,817	
<b>Underlying basic EPS (pence)</b>	<b>16.06</b>	9.60	67%
Weighted average number of ordinary shares (diluted)	<b>133,857,082</b>	118,972,527	
<b>Underlying diluted EPS (pence)</b>	<b>15.98</b>	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
<b>Statutory gross profit</b>	<b>70.0</b>	59.4	18%
Depreciation included in cost of sales	29.3	24.7	
<b>Depreciation-adjusted gross profit</b>	<b>99.4</b>	84.1	18%
Depreciation-adjusted gross margin	<b>73%</b>	77%	

# Governance

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## Chairman's introduction to governance



"We are firm believers in the importance of maintaining the highest standards of corporate governance."

**Miriam Greenwood**  
Non-executive Chairman

### Dear Shareholder

On behalf of the Board, I am pleased to introduce our Corporate governance report for this year.

The Board's focus over 2022 was on overseeing the delivery of the Group's strategy to build its base of long-term revenue-generating assets and develop new carbon reduction (CaRe) asset classes. As well as monitoring the growth in the Group's grid-scale battery portfolio, the Board approved two strategic investments to improve the Group's capabilities in smart energy data and electric vehicle charging infrastructure.

There were two key changes to the Board during the year. Tim Mortlock, who had been Chief Operating Officer and a full Board member since 2019, took over as Chief Executive Officer in March 2022. We also welcomed Gail Blain to the Board when she took over as Chief Financial Officer from Gavin Urwin in December 2022. Both Tim and Gail have many years' experience with SMS and have been central to driving the Group's strategy.

We are firm believers in the importance of maintaining the highest standards of corporate governance. We continue to adopt the Quoted Companies Alliance's Corporate Governance Code (the QCA Code) and I am pleased to confirm that the Board has applied the principles and complied with all the provisions of the QCA Code throughout FY 2022. This is set out in our Corporate governance report on pages 80 to 89.

Whilst the Company does not currently adopt the UK Corporate Governance Code, it endeavours to stay up to date with its requirements and continues to adopt elements of it, where appropriate.

I am also delighted that MSCI upgraded SMS from A to AA rating in its January 2023 update to their MSCI ESG Ratings. MSCI's report stated that SMS falls into the highest scoring range on corporate governance practices, indicating that these practices are generally well aligned with shareholder interests.

The Board continues to look for ways in which it can improve and develop. We therefore commissioned an external review of the Board's effectiveness. The review concluded that the Board was effective and provided independent oversight and strong leadership to the business. The report raised a number of recommendations for further improvement which we will be taking forward in the coming year. You can read more about this in the Nomination Committee report on page 96.

Finally, I would like to thank our shareholders for their support. I, along with the Board, will be available to meet with shareholders and respond to any questions at our Annual General Meeting and I look forward to seeing you there.

**Miriam Greenwood**  
Non-executive Chairman  
14 March 2023

### Key governance activities in the year included:

- Approval to purchase a further 320MW of grid-scale battery storage sites from the Group's established pipeline
- Approval to acquire n3rgy Data Limited to enhance the Group's capabilities in smart energy data solutions
- Approval to acquire a 25% interest in Clenergy EV Ltd, a software business with a chargepoint operator platform
- Appointment of Tim Mortlock as Chief Executive Officer
- Appointment of Gail Blain as Chief Financial Officer and Executive Director
- Monitoring the potential impact of rises in energy costs, inflation and interest rates on the business
- Review of progress against the Group's 'net zero by 2030' roadmap
- Approval of LTIP
- Approval of a one-off discretionary cost-of-living payment to the majority of staff

## Board of Directors



**Miriam Greenwood OBE DL**

Non-executive Chairman



**Tim Mortlock**

Chief Executive Officer



**Gail Blain**

Chief Financial Officer



**Graeme Bissett**

Senior Independent  
Non-executive Director



### Date of appointment

Non-executive Director  
February 2014

Chairman 23 June 2020

### Background and experience

With qualifications as a barrister and in corporate finance, Miriam has spent more than 30 years working for a number of leading investment banks and other financial institutions and has been a non-executive director of several publicly listed and private companies. Miriam has extensive experience in the energy and utilities industry. She was, for nine years until 2013, a non-executive director of the Gas and Electricity Markets Authority (Ofgem) and, for seven years until recently, chair of the Expert Panel for the Gas Network Innovation Competition.

### External appointments

Miriam is a non-executive director of Aquila Energy Efficiency Trust Plc. In addition, she holds non-executive director positions at Gulf International Bank (UK) Limited, the UK subsidiary of Gulf International Bank, at Eclipse Shipping Limited and at River and Mercantile Group plc, where she also chairs the remuneration committee. Beyond board roles, Miriam is a member of both the Council of Advisers and Committee of the Authority on the RIIO-2 price control and to the Mayor of London's Energy Efficiency Fund. A Deputy Lieutenant of the City of Edinburgh, Miriam was awarded an OBE for services to corporate finance.

### Date of appointment

Director 17 September 2019

Chief Executive Officer  
1 March 2022

### Background and experience

A Chartered Director, Tim has over 20 years' experience in the energy and utility industry across utility connections, smart metering, data and energy services. Tim was previously part of the UPL business (acquired by SMS in 2014 and now SMS Energy Services Limited) almost from its inception and, prior to taking up his current role as Chief Executive Officer he was Chief Operating Officer.

Tim has expert knowledge of electricity and gas smart metering, having been responsible for setting up UPL's electricity metering business following deregulation in 2004.

### External appointments

None.

### Date of appointment

1 December 2022

### Background and experience

Gail is a member of the Institute of Chartered Accountants of Scotland with over 15 years' experience working across various industries, latterly focusing specifically on the energy and utility sector. Prior to being appointed Chief Financial Officer, Gail spent six years as Group Financial Controller and has been instrumental in supporting SMS through its growth over this time.

Before joining the Company, Gail held a variety of financial and management positions at Aggreko PLC and BAA Group, working at both a corporate and operational level.

### External appointments

None.



### Date of appointment

1 June 2016

### Background and experience

Graeme is an experienced corporate financier and qualified Chartered Accountant, having previously been a partner with Arthur Andersen LLP and finance director of international groups. He has formerly served on the boards of a number of other companies, including Macfarlane Group plc, Interbulk plc, Belhaven Group plc, Scottish Futures Trust Limited and Anderson Strathern LLP, and was formerly a member of Court at the University of Glasgow.

### External appointments

Graeme is a non-executive director of Cruden Holdings Limited, Calnex Solutions plc, and Aberforth Split Level Income Trust plc. He also undertakes a number of pro-bono appointments, including as trustee of The Scottish Association of Citizens Advice Bureau, The Entrepreneurial Scotland Foundation and Pitlochry Festival Theatre.





### Ruth Leak

Independent  
Non-executive Director

A N R I H

### Date of appointment

29 May 2019

### Background and experience

Ruth most recently served as chief information officer for the Letters and Network division of Royal Mail, where she was also chair of Royal Mail's Disability Steering Group, encouraging open communication and respect for diversity at all levels as well as seeking technology-based solutions for challenges in the workplace. Prior to Royal Mail, Ruth had operational roles with Procter & Gamble, and then worked in consultancy and the retail sector including as part of the start-up team behind the British online supermarket Ocado.

### External appointments

Ruth also serves as a non-executive director and chair of the Quality Committee at the Financial Ombudsman Service. She is also an active member of the 'Women in Technology' mentoring programme operated by Reed.



### Jamie Richards

Independent  
Non-executive Director

A N R I H

### Date of appointment

23 April 2020

### Background and experience

Jamie is a Chartered Accountant and has 25 years' experience in fund management, banking and corporate recovery with a focus on the infrastructure and renewable energy sectors. He was a partner, executive committee member and head of infrastructure at Foresight Group for 18 years. Previously, he worked at PwC, Citibank and Macquarie, in both London and Sydney.

### External appointments

Jamie's other current roles are as a non-executive director and audit committee chair for the investment trust US Solar Fund plc and as alternate chairman of the investment committee of Community Owned Renewable Energy, an investment programme targeting UK solar farms for community ownership.



### Craig McGinn

Group Company Secretary,  
General Counsel and  
Data Protection Officer  
for the Group

### Background and experience

Craig is a qualified corporate and banking lawyer with over 25 years of experience and has responsibility for the management of all legal matters affecting the Group, for ethical risk matters and for supporting the Board in setting and maintaining the highest standards of corporate governance. He is a Qualified Solicitor in Scotland, England and Wales and a member of the International Association of Privacy Professionals (IAPP). Craig joined SMS in October 2016 having previously been a partner in the international legal firm CMS Cameron McKenna LLP, and at Dundas & Wilson prior to its merger with CMS.

### External appointments

During 2022 Craig was appointed as a non-executive director to the Beatson Cancer Charity which is an unremunerated role.

### Key to Committees

- A** Audit
- N** Nomination
- R** Remuneration
- I** Information Technology
- H** Health, Safety and Sustainability
- Chair**

## Corporate governance report

### Board structure

#### Overall framework

The Board has a clear corporate governance framework comprising Board-reserved matters, various Committees with their terms of reference, and appropriate delegated authorities ensuring decision-making at appropriate levels within the Group.

#### Board of Directors (the 'Board')

It is the Board's role to ensure that the Group is managed for the long-term benefit of all its stakeholders, by providing effective leadership and direction to the business. It sets the Group's strategy and shapes its purpose. The Group's culture and values are cultivated from the top down, with each Director leading by example. The Board is responsible for balanced and efficient decision-making, and for overseeing the overall financial performance of the Group. Corporate governance is a critical component of the Group's strategy and the Board's focus on continual improvement of processes, controls and risk management, alongside supporting the continued growth of the business, is vital in the ever-evolving corporate governance regime adhered to.

The Company is led by a strong and experienced Board, which brings a depth and diversity of expertise to the leadership of the Company, essential to support delivery of the Group's strategy over the medium to long term. The Board has an appropriate balance of skills, experience and knowledge of the Group and its markets to enable it to discharge its responsibilities effectively.

▶ See page 97 for more details on the Board's composition



#### Board Committees

The Board delegates certain matters to five Board Committees, being the Audit, Nomination, Remuneration, Information Technology and Health, Safety and Sustainability Committees.

Each Committee has its own terms of reference, approved by the Board, which are reviewed annually and are available on the Company's website at [www.sms-plc.com/investors/aim-rule-26](http://www.sms-plc.com/investors/aim-rule-26). The Group Company Secretary acts as Secretary to each of the Committees.

##### Audit Committee

Has oversight of the Group's system of internal control and risk management, and monitors and reviews the integrity of the Group's financial reporting and the relationship with the external auditor.

Comprises all Non-executive Directors. The Chief Executive Officer and Chief Financial Officer attend by invitation.

▶ **Audit Committee report**  
pages 90 to 95

##### Nomination Committee

Monitors and reviews the composition and balance of the Board and the Committees and makes recommendations to ensure SMS has the right structure, skills and experience in place for the effective management of the Group.

Comprises all Non-executive Directors and the Chief Executive Officer.

▶ **Nomination Committee report**  
pages 96 to 97

##### Remuneration Committee

Determines the remuneration for Executive Directors and oversees the Group's overall remuneration policy, strategy and implementation.

Comprises all Non-executive Directors. The Chief Executive Officer and Chief Financial Officer attend by invitation.

▶ **Remuneration Committee report**  
pages 98 to 112

##### Information Technology Committee

Reviews and approves the information technology strategy and monitors priorities and/or structures implemented throughout the Group, including allocation of resources and the impact of and opportunities arising from emerging changes in technology.

Comprises all Non-executive Directors. The Chief Executive Officer, Chief Financial Officer and Chief Information Officer attend by invitation.

##### Health, Safety and Sustainability Committee

Provides oversight to ensure that the Group adopts a consistent and comprehensive approach to health and sustainability through the exhibition and promotion of transparent and responsible behaviours and practices, and through engagement with key stakeholders both internally and externally.

Comprises all Non-executive Directors. The Chief Executive Officer, Chief Financial Officer and representatives from the Group's sustainability team attend by invitation.

## Board Committee updates

During 2022, the terms of reference for each of the Board Committees were reviewed with minor amendments made.

There were no changes to the Committees. Further details of their activities in the year can be found below and in their respective reports on pages 90 to 112.

## Information Technology Committee

The Information Technology Committee is chaired by Ruth Leak, an information technology specialist, and comprises all the Non-executive Directors. The Chief Executive Officer, Chief Financial Officer and Chief Information Officer attend by invitation.

The Information Technology Committee is responsible for the review and approval of the SMS information technology strategy. It reviews and monitors the ongoing allocation of resources and funding required to implement this strategy and oversees the development and implementation of those information technology projects deemed to be of significant importance to the Group. It also acts as a forum for consideration of which current developments in technology have the potential to offer value to SMS. The Committee ensures appropriate information technology standards and procedures are in place, including those related to the Data Protection Act 2018 and, in close liaison with the Audit Committee, it ensures that information and technology risks are identified, assessed and managed with actions implemented as appropriate.

The Committee met three times in 2022. During the year, the Committee undertook the following key activities:

- reviewed the information systems strategy, which sets out the overall approach to technology, data and digital required to support the wider business strategy over the next three years;
- discussed and supported management's plans to commence implementation of a new platform to support the 'Sales to Service' lifecycle, including the platform to be used for customer contact management, scheduling and field service management; and
- reviewed the progress being made on improving the security and resilience of the IT estate, including enhanced backup solutions, platform migration and other significant control improvements in the cyber security domain.

## Health, Safety and Sustainability Committee

The Health, Safety and Sustainability (HSS) Committee is chaired by Miriam Greenwood and comprises all the Non-executive Directors. Other individuals such as the Chief Executive Officer, Chief Financial Officer, representatives from the Group's sustainability team and external advisers may be invited by the Chair to attend, as and when appropriate and necessary.

The HSS Committee is responsible for the review and approval of the SMS health and sustainability strategy and implementation of the Group's approach to health and sustainability throughout the business, including the creation of policies and procedures. It reviews and monitors the ongoing allocation of resources and funding required to implement this strategy and oversees the development and implementation of those projects deemed to be of significant importance to the Group. The Committee reviews the health and sustainability performance of the

Group by monitoring key performance indicators and by monitoring the operational, environmental and legal impact on health and sustainability of decisions taken. The Committee reviews and assesses the quality of any public reporting to external stakeholders on health and sustainability matters, most notably reviewing and if appropriate recommending to the Board for approval the annual Sustainability Report. In close liaison with the Audit Committee, it ensures that health and sustainability risks are identified, assessed and managed with actions implemented as appropriate.

The Committee met once during 2022. During the year, the Committee undertook the following key activities:

- reviewed the proposed ESG targets for material operational aspects including health and safety, human resources, sustainability, governance, purchasing and cyber security;
- following the announcement of the Group's 'net zero by 2030' target in 2020, the Committee closely monitored progress against the Group's roadmap and associated milestones. This included a review of projections of long-term carbon performance;
- the Committee received an overview of performance across core health and safety, and human resources indicators and initiatives; and
- the Committee received updates on the Group's activities to analyse its exposure to climate change, including on definition of scope and timescales, and on areas for further investigation.

## Corporate governance report continued

### Roles and responsibilities

The Board members have separate and clearly defined roles and responsibilities, as set out in the table below. Each member of the Board has a range of skills and experience that is relevant to the successful operation of the Group.

Role	Responsibility
<b>Chairman</b>	Responsible for leading the Board and its governance, ensuring the effective engagement and contribution of all Non-executive and Executive Directors. Ensures that Board meetings take place with a culture of openness and challenge, with sufficient time made available to debate the matters tabled. Sets the agenda to take full account of the issues and concerns of the Directors and ensures that the links between shareholders, the Board and management are strong.
<b>Chief Executive Officer</b>	Responsible for the day-to-day leadership, management and control of the Group, across all Group businesses; and for recommending the Group strategy to the Board and ensuring that the strategy and decisions of the Board are implemented via management. Acts in accordance with the authority delegated from the Board.
<b>Chief Financial Officer</b>	Responsible for the day-to-day financial management and sustainability of the Group and for providing general support to the Chief Executive Officer, including in relation to the financial and operational performance of the business.
<b>Senior Independent Director</b>	Provides a sounding board for the Chairman, acts as an intermediary for the other Directors when necessary and is available to meet with shareholders.
<b>Independent Non-executive Directors</b>	Constructively challenge the Executive Directors and monitor the delivery of the Group strategy within the risk and control environment set by the Board.
<b>Company Secretary</b>	Supports the Chairman and Chief Executive Officer and is available to all Directors for advice and support. Informs the Board and Committees on governance matters and is responsible for development.

### Independence of the Non-executive Directors

The Non-executive Directors fulfil a vital role in corporate accountability and have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully discussed and critically examined, not only to make sure they are in the best long-term interests of shareholders, but also in order to take account of the interests of customers, employees and other stakeholders.

The Board considers each of the Non-executive Directors, being Miriam Greenwood (Chairman), Graeme Bissett, Ruth Leak and Jamie Richards, to be independent.

The roles of Chairman and Chief Executive Officer are separate and there is a clear division of responsibilities between the two roles.

Graeme Bissett is the Senior Independent Non-executive Director. He is available to shareholders if they have concerns which have not been resolved via the normal channels of

Chairman, Chief Executive Officer or Chief Financial Officer, or where communication through such channels would be inappropriate.

### Election of Directors

All the Directors are subject to election by shareholders at the first Annual General Meeting (AGM) after their appointment to the Board and, in response to shareholder feedback, were and shall continue to be subject to annual re-election.

### Additional appointments

The Chairman and Non-executive Directors have other third-party commitments including directorships of other companies as set out in their biographies. The Company is satisfied that these associated commitments have no measurable impact on their ability to discharge their responsibilities effectively. The Executive Directors have no third-party commitments.

### Independent advice

All Directors are able to take independent professional advice in the furtherance of their duties, if necessary, at the Company's expense.

All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed, and that applicable rules and regulations are complied with. The appointment and removal of the Company Secretary is a matter for the Board as a whole. All Directors are supplied with information in a timely manner in a form, and of a quality, appropriate to enable them to discharge their duties.

In addition, the Company Secretary ensures that the Directors receive appropriate training where necessary. Regular training is provided on relevant topics such as health and safety, AIM Rules and the Market Abuse Regulation, and these programmes run continuously through the year. All Directors are encouraged to keep themselves up to date with regard to changes in industry, practice and regulations and the Company continuously assesses its training programmes to ensure they are relevant and up to date.



## How the Board operates

### Meetings and attendance

Board meetings are scheduled to be held eight times each year. Between these meetings, additional Board meetings and Board Committee meetings may be held as and when required.

Directors are provided with detailed and comprehensive papers in advance of each Board or Committee meeting, and meeting packs are accessed from a Board portal. For each scheduled Board meeting, the papers include updates on financial and operational performance together with additional papers on specific topics as relevant.

In 2022, the Board held eight scheduled meetings. At each meeting the Board received reports from:

- the Chief Executive Officer on health and safety, strategic, operational and business developments, and investor relations;
- the Chief Financial Officer on the financial performance of the business: budget, funding and capital; and
- management on specific topics as relevant.

A part of each Board meeting is dedicated to the discussion of specific strategy matters. Any conflicts of interest are declared at the start of each Board meeting and appropriate action is taken where necessary to ensure independent judgement is not overridden. A majority of the Board are considered independent, which helps to address any conflicts of interest that may arise. There were no registered potential conflicts during 2022.

The Chairman also holds meetings with the Non-executive Directors during the year without the Executive Directors being present. These meetings provide the Non-executive Directors with a forum in which to share experiences and discuss wider business topics.

The attendance of Directors at scheduled Board and Committee meetings in the year to 31 December 2022 is set out below.

	Board Maximum 8	Audit Committee Maximum 3	Remuneration Committee Maximum 6	Nomination Committee Maximum 2	Information Technology Committee Maximum 3	Health, Safety and Sustainability Committee Maximum 1
<b>Executive Directors</b>						
Alan Foy <sup>2</sup>	●	—	—	—	—	—
Tim Mortlock <sup>1</sup>	●●●●●●●●	●●●	●●●●●●	●	●●●	●
Gavin Urwin <sup>1,3</sup>	●●●●●●●●	●●●	—	—	●●●	●
Gail Blain <sup>4</sup>	—	—	—	—	—	—
<b>Non-executive Directors</b>						
Miriam Greenwood	●●●●●●●●	●●●	●●●●●●	●●	●●●	●
Graeme Bissett	●●●●●●●●	●●●	●●●●●●	●●	●●●	●
Ruth Leak	●●●●●●●●	●●●	●●●●●●	●●	●●●	●
Jamie Richards	●●●●●●●●	●●●	●●●●●●	●●	●●●	●

1 Tim Mortlock and Gavin Urwin attended the Audit, Information Technology Committee and Health, Safety and Sustainability Committee meetings by invitation. Tim Mortlock also attended the Remuneration Committee meetings by invitation.

2 Alan Foy resigned as Chief Executive Officer on 28 February 2022. He attended all the Board meetings that took place up to this date.

3 Gavin Urwin resigned as Chief Financial Officer on 1 December 2022. He attended all the Board and Board Committee meetings that took place up to this date.

4 Gail Blain was appointed as Chief Financial Officer on 1 December 2022. No Board or Board Committee meetings took place between that date and 31 December 2022. She however attended one Board meeting and Audit Committee meeting as an observer prior to her appointment.

## Corporate governance report continued

### Matters reserved for the Board

The Board is responsible to shareholders for the proper management of the Group, and has identified key financial and operational areas that require regular reporting, and which enable the performance of senior management to be reviewed and monitored.

These are set out in a formal schedule of matters reserved for the Board, which is reviewed on a regular basis to ensure it remains fit for purpose. The schedule outlines all matters requiring specific consent of the Board, including approval of:

- the Group's annual budget;
- the Group's strategy;
- acquisitions, disposals and capital expenditure or investment projects above certain thresholds;
- the Annual report and accounts and any reports or information to be issued to shareholders of the Company;
- the Company's share-dealing policy;
- the appointment of the Company's independent auditor;
- the Company's dividend policy and borrowing powers;
- any material changes to the Company's accounting policies or insurance policies;
- remuneration of Directors, executive officers and senior employees;
- alterations to the constitutional documents of the Company;
- the adoption of any new, or amendments to, major employee benefit plans;

- legal actions brought by or against the Group above certain thresholds;
- political and charitable donations; and
- the scope of delegations and appointments to Board Committees and subsidiary boards.

Responsibility for the development of policy and strategy and operational management is then delegated to the Executive Directors and senior management team.

### Board activities

Board activities are structured to develop the Group's strategy and to enable the Board to then support management on the delivery of the strategy within a transparent governance framework. The Board also regularly discusses governance, risk and reputation management, and financial performance.

The Company Secretary is responsible to the Board for the timeliness and quality of information provided to it.

The information below is a non-exhaustive list of the key areas of focus for the Board and topics discussed during the year to 31 December 2022:

- **Fit for growth** – the Board oversaw the preparation and approval of the 2023 budget and reviewed the Group's updated corporate forecast following the budget process. Discussion of business development opportunities and engagement in evaluating the ongoing strategic direction for the business remained key focus areas, with ongoing review of the Group's investment in grid-scale battery storage and exploration of developing carbon reduction ('CaRe') asset classes. The Board reviewed and approved the decisions to acquire N3rgy and invest in Clenergy EV. Following announcement of the Group's 'net zero by 2030' target in 2020, the Board has tracked progress against the planned roadmap.

- **Performance** – at every meeting, the Board discussed the Chief Executive Officer's report on performance of operations, the Chief Financial Officer's report on financial performance, and quarterly market metrics. Performance was assessed against the approved budget and variances understood in the context of market and industry developments.

- **Governance** – the Board discussed the following: appointment of Tim Mortlock as Chief Executive Officer, appointment of Gail Blain as Chief Financial Officer, full-year preliminary results, Annual report and accounts, Notice of AGM and dividend recommendation, investor site visit to Burwell, half-yearly results, matters reserved for the Board, Committees' terms of reference, Board effectiveness review and gender pay gap reporting.

- **Risk and regulatory** – the Board received annual compliance and risk reports and the year-end assessment of internal control systems, risk and risk tolerance.

## Internal control

The Board has overall responsibility for the Group's system of internal control and risk management and for reviewing the effectiveness of this system. It is supported in this work by the Audit Committee, which reviews the effectiveness of the Group's risk process and internal control systems. Such systems can only be designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can therefore only provide reasonable and not absolute assurance against material misstatement or loss.

Business performance is regularly reviewed by the Board through the monitoring of:

- progress towards strategic objectives;
- the Group's financial performance, including budgeting and forecasting, financial reporting, analysis of variances against plan and the taking of appropriate management action;
- capital investment; and
- principal risks and the process by which these are evaluated and managed on a continuous basis.

The Board has reviewed the effectiveness of the Group's risk management and internal control systems, including financial, operational and compliance controls. A robust assessment of the principal risks faced by the Group has also been undertaken.



## Board review

Each year, the Company carries out a review of the Board's operations, its Committees and individual Directors. This process gives the Directors the opportunity to identify areas for improvement both jointly and individually.

As part of reviewing the Board, the Senior Independent Director also leads an assessment of the Chairman's performance.

### FY 2022 Board evaluation

For 2022 the Board commissioned an external review by an independent consultant, Satori. Details of this review are given in the Nomination Committee report on page 97.

## Corporate governance report continued

### How the Board engages with stakeholders

Engaging with our stakeholders strengthens our relationships and helps the business make better decisions, which enable it to deliver on its commitments.

Much of the day-to-day decision-making and stakeholder engagement is carried out at a business level. Further details are set out on pages 38 to 41. The Board is regularly updated on wider stakeholder engagement by the Executive Directors and via the reports it receives from senior management in the Board and Committee papers, allowing Board members to stay abreast of the topics that matter most to stakeholders and to the business. This enables the Board to understand and consider these issues in its decision-making. We explain here how, during the year, the Board engaged with our stakeholders.

Material matters requiring the Board's consideration are outlined on page 37.

#### Suppliers



Supplier information is typically reported to the Board by exception, upon the specific request of one or more Board members or concurrent with a significant event or change. All material supply contracts also require Board approval.

#### Lenders/ financiers



Through regular financial reporting, the Board receives information about the Group's revolving credit facility and our compliance with key covenants. The Chief Financial Officer reviews and approves quarterly reports that are issued to the Group's lending agent in accordance with the terms of the Group's facility.

During the year, both Executive Directors participated in meetings with the Group's syndicate of banks to provide an update on the 2022 budget and performance, and discuss the Group's growth strategy. This direct engagement promotes an open and transparent relationship, which is key in supporting the continued growth of the business.

#### Government and regulatory bodies



The Board receives information about the Company's regulatory and technical compliance, including progress on the UK smart meter rollout and the first-generation smart meter ('SMETS1') Enrolment and Adoption programme, as part of its regular operational reporting.



## Shareholders



The Board receives updates from the Head of Investor Relations where relevant and appropriate, providing an overview of market sentiment, share price performance and key meetings held with investors.

The Chairman hosted meetings with major shareholders in 2022 to provide a general update on the business. Such meetings provide a more open line of engagement between Board members and key investors and it is intended that these will take place on a regular basis.

On 4 October 2022, the Chief Executive Officer hosted a presentation and site visit for investors to our first operational grid-scale battery facility at Burwell. The wider Board was extensively involved in the preparation process for this event, reviewing and advising on the presentation and supporting script. The event was very well received and gave investors much greater insight into this important new asset class for the Group. See page 38 for more details on the event.

The Board and management regularly receive and respond to queries from shareholders on a wide range of ESG topics. During the year, the views of investors helped inform the Board's decisions on certain ESG developments, including the incorporation of various best practices in further defining the Group's ESG framework such as commencing a review of our EU Taxonomy alignment and enhancing disclosure of our ESG credentials.

The AGM is also an important opportunity for the Board to share directly with shareholders the performance and strategic direction of the Company. See further details in the section entitled The Board's relationship with shareholders on page 89.

## Customers



Most of the Company's engagement with customers is at the operational level. The Chief Executive Officer holds regular calls with senior representatives of our largest customer accounts, as part of overall contract governance and monitoring. The Board receives regular updates from the Chief Executive Officer and the senior management team on sales and service delivery. The Board also reviews material customer contracts prior to finalisation.

Over the year, the Board monitored the impact of the rises in energy costs, inflation and interest rates on the Group's customers. The Chief Financial Officer provided regular updates to the Board on the status of the Group's customer debt at risk of non-collection, and subsequent potential impact on net profit.

## Employees



The Board closely monitors and reviews the results of the Group's employee engagement activity, as well as any other feedback it receives, to ensure alignment of interests.

During the year, the Remuneration Committee received an update on gender pay reporting. The results of the 2022 Best Companies external employee engagement survey were shared and the proposed action plan, together with progress made on actions following the 2021 survey, were discussed.

The Board Committee meetings also provide an opportunity for employee engagement, with attendance by senior employees to present updates, host discussion and obtain feedback to share with the business.

## Corporate governance report continued

### Shareholder activities in the year



<b>March 2022</b>	Full-year 2021 results presentation
<b>March 2022</b>	Full-year 2021 results roadshow
<b>May 2022</b>	Liberum Green Economy conference
<b>May 2022</b>	Investec ESG conference
<b>May 2022</b>	AGM
<b>June 2022</b>	Peel Hunt Industrials & Support Services conference
<b>July 2022</b>	H1 2022 trading update and calls with investors
<b>Sept 2022</b>	H1 2022 results presentation
<b>Sept 2022</b>	H1 2022 results roadshow
<b>Oct 2022</b>	Burwell grid-scale battery storage site visit
<b>Nov 2022</b>	Investec Best Ideas conference
<b>Nov 2022</b>	Berenberg Pan-European Discovery Conference
<b>Jan 2023</b>	FY 2022 trading update and calls with investors

### The Board's relationship with shareholders

The Board recognises the importance of maintaining open, transparent and two-way communication with shareholders. This ensures a mutual understanding of objectives: for shareholders to understand the Group's strategy, and for the Board to be aware of shareholders' feedback and any issues raised.

During 2022 the Executive Directors, assisted by the investor relations team, attended several meetings, conferences and roadshows to maintain regular communication with both institutional and private investors. The feedback from such investor engagement was regularly reported to the Board.

The Group's Non-executive Directors have also been available to meet shareholders should they wish to raise issues. During the year, the Group Chairman and the Chief Executive Officer met with major shareholders. A variety of topics were discussed.

The Board receives regular updates from the investor relations team, Chief Executive Officer and Chief Financial Officer on shareholder engagement. These updates include share price performance, composition of the shareholder register, key topics of discussion with shareholders, peer group comparison, and feedback from analyst reports and from brokers and public relations partners.

On the day of interim and full-year results announcements, equity research analysts are invited to attend management's presentation, which is followed by a question-and-answer session addressed by the Chief Executive Officer and Chief Financial Officer. One-to-one and group meetings are then held with existing institutional shareholders and potential new investors.

Results and news releases on topics such as contract wins, significant accreditations, acquisitions and new strategic initiatives are published via the London Stock Exchange Regulatory News Service and on the Company's investor website at [www.sms-plc.com/investors](http://www.sms-plc.com/investors). The Group's website also provides a full spectrum of history, news, business developments and investor relations topics, including a repository of past presentations and announcements.

We will continue to disclose information appropriately to satisfy the needs of shareholders and investors, thereby enhancing understanding of our business.

### Annual General Meeting

The 2022 AGM will be held in May 2023 in Glasgow. Full information will be provided in the Notice of AGM, to be posted separately to shareholders, and will be available to download from the Company's website at [www.sms-plc.com/investors/shareholder-information](http://www.sms-plc.com/investors/shareholder-information).

The AGM is an important forum for shareholders, particularly private shareholders, to hear more about the general development of the business. The Chairman and the Chairs of the Audit and Remuneration Committees will be present at the AGM, giving shareholders an opportunity to ask questions, engage with members of the Board and learn more about the Company.

The Chairman is also available to answer questions throughout the year, upon request by investors. If investors have any matters that they wish to raise outside the forum of the AGM this can be done using the contact details on the Group's website.

## Other matters

### Promoting an ethical corporate culture

Various indicators are used to monitor and provide insight into the Group's culture, including employee engagement, health, safety and wellbeing measures and diversity indicators. See pages 51 to 59 for further details. The Group's culture is assessed through compliance reviews, internal audits and the provision of formal and informal channels for employees to speak up, including a whistleblowing hotline that allows employees to make disclosures in confidence. The Company ensures action is taken to address behaviour that falls short of the Company's expectations. The Board believes that in a business like the Group, which is growing rapidly both in employee numbers and size of operations, a mix of informal and formal channels provides a fast and robust process to address matters raised by the workforce.

If Directors have concerns about the operation of the Board or the management of the Company that cannot be resolved, their concerns are recorded in the minutes of the Board meetings. On his or her resignation, a Non-executive Director also has the opportunity to provide a written statement to the Chairman, for circulation to the Board, if he or she has any concerns about the operation of the Board or the management.

### Whistleblowing

The Group encourages staff to report any concerns which they feel need to be brought to the attention of management concerning any possible impropriety, financial or otherwise. The Group has put in place a whistleblowing procedure where employees can confidentially report any concerns or wrongdoing. This procedure may be used to report incidents of fraud, bribery and corruption, discrimination, bullying or harassment, and any environmental concerns or breaches of the Group's health and safety or quality compliance.

The Group provides the Audit Committee with information in relation to matters reported, any subsequent investigation and follow-up actions. All issues raised are fully investigated and appropriate action taken.

There were two whistleblowing reports made in the year ended 31 December 2022, and both instances were investigated by our General Counsel. One report was found to have no substance, while the other report was substantiated and senior management took appropriate action to rectify the situation.

### Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report on pages 1 to 75. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial review on pages 70 to 75.

The Directors confirm that, having considered various scenarios of future performance and forecast capital expenditure, they are satisfied that the Company and the Group have adequate resources to continue in business for the foreseeable future (for the period from the balance sheet date to 31 December 2024). For this reason, they consider it appropriate to adopt the going concern basis in preparing the financial statements.

On behalf of the Board

**Miriam Greenwood**  
Non-executive Chairman  
14 March 2023

## Audit Committee Report



Members and attendance	Meetings
Graeme Bissett (Chair)	● ● ●
Miriam Greenwood	● ● ●
Ruth Leak	● ● ●
Jamie Richards	● ● ●
<b>Attending by invitation</b>	
Chief Executive Officer	● ● ●
Chief Financial Officer <sup>1</sup>	● ● ●
Head of Internal Audit	● ● ●
External auditor	● ● ●

<sup>1</sup> Gavin Urwin attended all three Audit Committee meetings, all of which took place prior to his resigning as Chief Financial Officer on 1 December 2022.

### Main activities in 2022

- Review and approval of interim and year-end financial statements and supporting schedules, including management papers on significant areas of judgement.
- Review of reports prepared by the external auditor, including its annual audit plan and a report on the year-end financial statements.
- Review and approval of the Group's annual Internal Audit Plan and oversight of the evolution of the Group's risk management and internal audit policies and procedures.
- Review of the recognition and reporting of the Group's key transactions in the year, including a business combination, several asset acquisitions, an investment in an associate and the development of new business verticals.
- Monitoring the impact on the Group of energy price rises in the market and the increases in inflation and interest rates, including management's reporting of these through market communications and the Annual report and accounts.

### Role of the Committee

- Monitoring the integrity of the financial statements, including reviewing significant financial reporting issues and judgements alongside the findings of the external auditor.
- Advising the Board on the appropriateness of the 'fair, balanced and understandable' statement in relation to the Annual report and accounts.
- Overseeing the relationship with the external auditor, the external audit process and the nature and scope of the external audit, including the auditor's appointment, effectiveness, independence and fees.
- Overseeing the nature and scope of internal audit and co-ordination with the activities of the external auditor.
- Reviewing the effectiveness of the Group's systems for internal financial control, financial reporting and risk management.

### Audit Committee membership

The Committee comprises all the independent Non-executive Directors. It was chaired during the year under review by Graeme Bissett, who is a Chartered Accountant with recent and relevant financial experience. Jamie Richards is also a Chartered Accountant and has held senior executive positions, which included financial responsibility. The other independent Non-executive Directors who served during the year are all deemed to have the necessary ability and experience to understand financial statements.

The Committee meets at least three times a year, generally just prior to Board meetings, to facilitate immediate and efficient reporting to the Board, with additional meetings where necessary. The external auditor, the Head of Internal Audit, the Chief Executive Officer and the Chief Financial Officer attend Committee meetings by invitation. The Committee also meets privately with the external auditor without management being present. The Chairman of the Committee maintains a regular dialogue with the Chief Financial Officer and her team, and with the Head of Internal Audit.



## Objectives and responsibilities

The Committee's key objectives are: to provide effective governance over the Group's financial reporting and the performance of the external auditor; to provide oversight of the Group's systems of internal financial control; and to report to the Board on these matters.

In fulfilment of these objectives the Committee:

- reviews the effectiveness of the Group's internal financial, operational and compliance controls and risk management processes, including arrangements for employees to raise concerns (in confidence);
- reviews the annual internal audit programme and considers the findings of any internal investigations and management's response;
- reviews SMS's financial statements and announcements and considers whether these statements and announcements provide a fair, balanced and understandable view of the strategy, business model and performance of the Group and of the associated risks;
- considers the appropriateness of accounting policies and significant accounting judgements and the disclosure of these in the financial statements; and
- recommends the appointment of the external auditor, approves their remuneration and oversees their work and overall effectiveness, including their relationship with management.

## Internal control and risk management

The Committee has primary responsibility for the oversight of the Group's internal control, including the risk management framework and the work of the Group internal audit function.

The Group has in place an internal control environment to protect the business from the material risks which have been identified. Policies and procedures, including clearly defined levels of delegated authority, are clearly communicated across the Group. Management is responsible for establishing and maintaining adequate

internal controls and the Committee has responsibility for monitoring the effectiveness of these controls. It achieves this through reports received from the Company and from both the internal and external auditors.

Risk registers are maintained and regularly reviewed by management. The Board, including the Audit Committee, considers the principal risks, the nature and extent of the Company's risk management framework and the risk profile that is acceptable in order to achieve the Company's strategic objectives.

The Group's system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and it must be recognised that it can only provide reasonable and not absolute assurance against material misstatement or loss.

During the year, the Committee did not identify, nor was it advised of, any failings or weaknesses in the internal control systems or risk management processes that were determined to be significant.

## Whistleblowing

The Board has overall responsibility for monitoring the Group's whistleblowing arrangements. It has delegated this to the Committee, which updates the Board on a regular basis on all significant whistleblowing matters raised. The Committee receives reporting by exception when there has been a whistleblowing case raised to a line manager, the Group General Counsel or through the Group's independent whistleblowing hotline.

There were two whistleblowing reports made in the year ended 31 December 2022, and both instances were investigated by our General Counsel. One report was found to have no substance, while the other report was substantiated and senior management took appropriate action to rectify the situation.

The Committee is satisfied that the Group's whistleblowing policies and procedures, detailed further on page 89, are effective, facilitate the independent investigation of reported matters and allow appropriate follow-up action to be taken.

## Internal audit

The Group internal audit function is independent and objective and its role, as defined in the Internal Audit Charter, is to add value and improve the organisation's operations and controls. The Head of Internal Audit reports functionally to the Audit Committee and administratively to the executive leadership team. The Chair of the Audit Committee meets with the Head of Internal Audit periodically without executive management present to set annual objectives and discuss any significant or emerging issues. Group internal audit uses a risk-based approach to conduct several strategic and operational audits throughout the year and these are reported and discussed at each Audit Committee meeting. Monitoring the scope, extent and effectiveness of the Group's internal audit activities is an agenda item at each Committee meeting. Group internal audit is also responsible for confirming that management actions and improvement points raised within each audit report have been implemented effectively and in a timely manner.

Throughout 2022, Group internal audit worked with the Board, the executive leadership team and members of management to support the continued development of a robust risk management framework upon which it can place reliance for identifying areas of risk to be considered for inclusion in the annual Internal Audit Plan.

A full risk-based annual Internal Audit Plan for 2022, which included a three-year outlook, was reviewed and approved by the Committee in November 2021. The programme focused on addressing several key risk areas including cyber security, grid-scale batteries, post-acquisition performance, treasury management, payroll, financial controls over billing and fixed asset management and disaster recovery planning. Reviews were carried out, findings reported to the Committee, recommendations tracked and their close-out monitored. No significant weaknesses were identified from the reviews undertaken by Group internal audit during the reporting period and throughout the financial year.

## Audit Committee Report continued

Following the commencement of trading of our first grid-scale battery site, internal audit carried out a review of the electricity trading process and the associated controls, and of the financial reporting of grid-scale battery performance. No significant weaknesses were identified.

The Internal Audit Plan for 2023 was approved by the Committee in November 2022.

The Committee has remained in active discussion with Group internal audit about the existing risks the Group faces as it continues to grow, including those in relation to carbon reduction ('CaRe') verticals, the impact of industry and regulatory changes, systems development and pervasive external risks such as cyber and data security. See further details in the Our principal risks and uncertainties section on pages 65 to 69.

### Going concern

The Committee reviewed management's paper on going concern. The Committee assessed and challenged the Group's forecasts and cash flow projections, including consideration of various possible outcomes of future performance and forecast capital expenditure and the potential impact of uncertainties. The Committee also considered the Group's financing facilities and future funding plans. Based on this, the Committee is satisfied that the financial statements should be prepared on a going concern basis.

### Financial reporting

The Committee has reviewed with both management and the external auditor the annual financial statements, focusing on: the overall truth and fairness of the results and financial position, including the clarity of disclosures shown in the statements and their compliance with best-practice requirements; the appropriateness of the accounting policies and practices used in arriving at those results; the resolution of significant accounting judgements or of matters raised by the external auditor during the course of the annual statutory audit; and the quality of the Annual report and accounts taken as a whole, including disclosures on governance, strategy, risks and remuneration, and whether it gives a fair, balanced and understandable picture of the Group.

The Committee also considered the use of alternative performance measures by the Group, including the appropriateness of their current use and their disclosure in the financial statements and Strategic report.

### Process

In reaching its conclusions the Audit Committee considered the thorough process in place to create the Annual report and accounts 2022, including:

- the involvement of the Committee in the preparation of the Annual report and accounts 2022 which enabled it to provide input into the overall messages and tone;
- the input provided by Group senior management and the process of review, evaluation and verification to ensure balance, accuracy and consistency;
- the review by the Committee of management's papers on critical accounting judgements and assumptions, detailing the approach taken and conclusions reached;
- the opportunity for the Non-executive Directors to meet the external auditor without any executive of the Group being present via the private sessions of the Committee;
- review of the external auditor's report on the Annual report and accounts 2022, presented to the Committee prior to final sign-off;
- review and consideration of the draft Annual report and accounts 2022 in advance of the final sign-off; and
- the final sign-off process by the Board.

## Fair, balanced and understandable – what does this mean?

Below are the key considerations the Committee has in mind when assessing these three components:

### Fair

- Is the whole story presented?
- Is the narrative reporting in the front of the Annual report and accounts 2022 consistent with the reporting in the financial statements?
- Are the key messages in the narrative reporting reflective of the financial reporting?
- Is there sufficient information included to understand the underlying performance of the Group and its divisions?

### Balanced

- Is there a good level of consistency between the narrative reporting in the front and the financial reporting in the back and is the messaging in each consistent when read independently of each other?
- Does the narrative reporting reflect both the positive and negative aspects of performance?
- Are both the statutory and alternative performance measures explained clearly with appropriate prominence?
- Are the key judgements referred to in the narrative reporting and the significant issues reported in the Audit Committee report consistent with the disclosures of key estimation uncertainties and critical judgements set out in the financial statements?
- How do the significant issues identified compare with the risks that the external auditor plans to include in its report?

### Understandable

- Is there a clear and understandable structure to the report?
- Are the important messages highlighted appropriately and consistently throughout the document?
- Is the narrative within the Annual report and accounts 2022 straightforward and transparent?
- Is the layout clear with good linkage throughout?

## Audit Committee Report continued

### Significant matters considered in relation to the Annual report and accounts 2022

Significant areas considered by the Committee in relation to the 2022 Financial statements are set out in the below table:

Area of judgement	Matter considered	Action
<b>Appropriateness of capitalisation of overheads and other expenses within meter assets</b>	SMS continues to carry out a significant level of in-house installation of meter assets, certain costs of which are capitalised and depreciated as part of fixed asset depreciation.	<p>The Committee considered management's capitalisation process and the assumptions and judgements used when determining which costs are directly attributable to bringing the meter assets into use and are therefore eligible for capitalisation.</p> <p>The Committee was satisfied that the costs identified by management for capitalisation were appropriate, being directly attributable labour costs and an appropriate allocation of overheads.</p>
<b>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</b>	<p>Due to the uncertainties associated with the timing of the 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.</p> <p>Several factors are considered in assessing the expected pace of the smart meter replacement programme, including the number of smart meters still to be installed and the churn of assets.</p>	<p>The Committee considered the judgements made by management, including the quantum and disclosure of relevant amounts.</p> <p>The Committee confirmed with management that there have been no changes to accounting estimates with regard to meter assets. The Committee considered market and UK Government developments regarding the smart meter rollout and concluded that this was reasonable.</p> <p>The Committee considered the accounting estimates and judgements used to arrive at the expected useful economic life of the traditional meter assets and their carrying value at 31 December 2022.</p> <p>Losses on disposal of de-appointed meters have been recognised after allowance for termination income and, following management's impairment assessment of traditional meter assets, no impairment charge was recorded at the end of the year. The financial statements provide detailed commentary on the estimates and judgements involved and on the financial effect. The Committee considers that the position presented in the financial statements provides a reasonable view of the carrying value of traditional meter assets.</p> <p>The Committee is satisfied that charges for losses on disposal, net of termination income, and for impairment of this asset class, should be recorded as exceptional items, as this classification will assist understanding of the performance of the continuing meter estate comprising Industrial &amp; Commercial (I&amp;C) meters and domestic smart meters (as distinct from the effect of discontinued traditional meter assets). The Committee is also satisfied that amounts arising in relation to the loss of first-generation smart meter assets ('SMETS1' meter assets) should be recorded as exceptional items, on the basis that these disposals are attributable to the temporary industry transition period.</p> <p>Overall, the Committee is satisfied that the approach taken by management to review the expected useful life and estimate the carrying value of meter assets is appropriate and the assumptions applied are sensible and supportable.</p>

## Climate change

The Audit Committee discussed the impact of climate change on the Group. 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 31 December 2024. Qualitative exploration 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.

## External auditor

Ernst & Young LLP (EY) has remained in place as auditor since 2015, when the practice was appointed following a formal tender process undertaken by the Group for FY 2015. The external auditor is required to rotate the audit engagement partner every five years. Kevin Weston began his appointment as engagement partner from FY 2017 and therefore FY 2021 was his last year. A new engagement partner, Paul Copland, was appointed with effect from FY 2022.

## External auditor appointment, independence and effectiveness

The Committee's primary responsibility is to make a recommendation on the appointment, reappointment and/or removal of the external auditor. The Committee considers a number of areas when reviewing the external auditor appointment, namely the auditor's performance in discharging the audit, the scope of the audit and terms of engagement, auditor independence and objectivity, and auditor remuneration.

Every year, the Committee assesses the effectiveness of the audit process and the external auditor. In carrying out its assessment in 2022 it considered:

- feedback from the Chief Financial Officer and her team, who monitor the external auditor's performance, behaviour and effectiveness during the exercise of its duties;
- all key external auditor plans and reports, which were discussed and challenged;
- the regular engagement with the external auditor during Committee meetings and ad-hoc meetings, including meetings without any member of management being present;
- how the auditors support the work of the Committee and how the audit contributes insights and adds value;
- the Committee Chair's discussions with the Senior Statutory Auditor ahead of each Committee meeting; and
- the independence and objectivity of the external auditor.

The Committee also reviewed the proposed audit fee and terms of engagement for FY 2022. Details of the fees paid to the external auditor during the financial year can be found in note 3 to the financial statements.

The Committee recognises that the independence of the external auditor is an essential part of the audit framework and the assurance that it provides. The external auditor confirms its independence at least annually. As a matter of principle, the Group's auditor is not engaged for non-audit services, thus ensuring that its independence and objectivity are not impaired.

Having completed this review, the Committee concluded that the audit process, independence and quality of the external auditor was satisfactory, and has recommended to the Board that EY be reappointed as the Company's auditor for FY 2023. Accordingly, a resolution proposing EY's reappointment will be tabled at the forthcoming Annual General Meeting.

## Graeme Bissett

**Chair of the Audit Committee**

14 March 2023



## Nomination Committee Report



### Members and attendance

Members and attendance	Meetings
Miriam Greenwood (Chair)	●●
Graeme Bissett	●●
Ruth Leak	●●
Jamie Richards	●●
Tim Mortlock	●

### Main activities in 2022

- The appointment of Tim Mortlock as Chief Executive Officer to succeed Alan Foy from 1 March 2022.
- The appointment of Gail Blain as Chief Financial Officer to succeed Gavin Urwin from 1 December 2022.
- Review of the succession plans for Executive and senior management roles, including potential candidates for such roles, their backgrounds and experience, and how such candidates would contribute towards the Company's objectives.
- Consideration of succession plans for Non-executive directors approaching nine years appointment to the Board.

### Nomination Committee membership

The Nomination Committee is currently made up of one Executive Director, namely the Chief Executive Officer, and all the Non-executive Directors, each of whom is independent.

The Committee is chaired by the Chairman, unless the matter under discussion is his or her own succession. Other Directors are invited to attend as appropriate and only if they do not have a conflict of interest. The Committee is also assisted by executive search consultants as and when required.

During 2022, the Committee met on two occasions. In addition, several informal meetings and discussions were held as part of the process to appoint a new Chief Executive Officer and Chief Financial Officer.

### Role of the Committee

Appointments to the Board are the responsibility of the full Board, upon the recommendation of the Nomination Committee and after appropriate external search/consultation, bearing in mind the Board's existing balance of skills, knowledge and experience, the specific role/capability needs identified, and with due regard to diversity, including gender. Succession plans are regularly reviewed by the Committee in order to ensure an orderly progression/refreshment of senior management/Board members and maintain an appropriate balance of skills, experience and diversity both within the Company and on the Board.

### Succession planning

An integral part of the work of the Nomination Committee is to establish and maintain a stable leadership framework and to proactively manage changes. Ensuring the right leaders are in place enables the organisation to compete effectively in the marketplace and therefore to meet its various obligations to its stakeholders. The Nominations Committee has managed succession programmes for both the Board and senior management, ensuring that the necessary skills, expertise and experience are present.

Early in 2022 Alan Foy, who had served on the Board since the listing of the Company in 2011, stepped down as Chief Executive Officer. The Committee oversaw a search for a new Chief Executive Officer, and we were delighted that Tim Mortlock assumed the role ensuring continuity and minimising disruption to the business. After consideration against potential market candidates the Committee recommended that Tim Mortlock should be appointed as Chief Executive Officer and his appointment was confirmed on 1 March 2022.

During October 2022, Gavin Urwin informed the Board of his intention to resign as Chief Financial Officer. As part of the succession strategy Gail Blain, then Group Financial Controller, had been identified as the natural successor to Gavin Urwin. On the recommendation of the Nomination Committee after assessing other potential candidates in the market, Gail Blain was appointed as Chief Financial Officer and joined the Board on 1 December 2022. Gail has a wealth of experience, has been at the heart of SMS's financial strategy and has played a pivotal role in delivering the Group's strategy over the past six years.

In readiness for the ninth anniversaries of appointments to the Board, the Committee has started the search to identify my successor as Chairman (and Chair of the Nominations Committee) and a successor for the Audit Committee Chair. The Nominations Committee has engaged Russell Reynolds to conduct the external search. The Committee requested that a diverse long-list of candidates, in respect of gender, ethnicity and background, be produced.

## Board inclusion and diversity

The Nomination Committee focuses on the leadership required for SMS to fulfil its purpose, achieve its vision and execute its strategy. This requires a clear focus on inclusion and diversity to maximise the skills and capabilities from which SMS can benefit. Our policy is to have a broad range of skills, backgrounds and experience on the Board.

Alongside the Board, the Committee continues to champion the benefits of diversity, be it religious, ethnic or gender diversity, or diversity of social backgrounds or cognitive and personal strengths at Board, Committee and senior management level. We are pleased that half of the Board of Directors of SMS are female, but we are aware that gender representation is not the only means by which a board achieves diversity. We also understand the need to improve gender, racial and other imbalances throughout our organisation, but particularly in senior leadership roles. Appointments are always based on merit and we continue to challenge our external search consultants where necessary, to ensure that diversity is always considered when drawing up candidate shortlists.

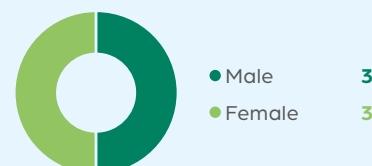
The Nomination Committee recognises the importance of having complementary and diverse skills and backgrounds within the Board, enabling rich and effective discussions and decision-making. The Committee continuously reviews the Board composition against a skills matrix to ensure that the Board and its Committees have and maintain the skills needed to deliver the Group's strategic priorities.

## Board evaluation

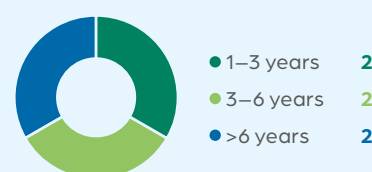
For the three years prior to this reporting period, we have carried out internal reviews of the Board's effectiveness. This year we commissioned an external review by an independent consultant, Satori. Other than carrying out this evaluation, Satori have no connection with SMS. The Chair provided a comprehensive brief to Satori and the review was undertaken in Quarter 3 2022. Satori had access to a number of Board and Committee papers during 2022 and observed the November Board and Committee meetings. Individual interviews were conducted with all Board Directors and the Company Secretary. A report was prepared by Satori with final results and recommendations being presented to the Board in February 2023. We were pleased Satori felt the Board was highly professional and effective, with good levels of commitment to the success of the business and its people, and with an open, honest and collaborative dynamic.

## Board composition

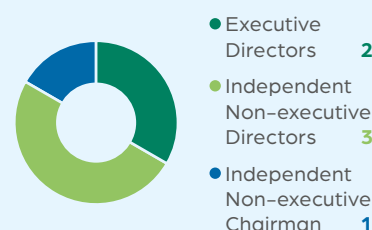
### Gender



### Tenure



### Board composition



The report observed that the Board was providing good leadership and support to the business, noting there was clarity and alignment on the role of the Board and of the immediate strategic priorities. The decision-making processes work well and Board processes are effective, efficient and thorough. The Board Committees also worked well. Based on Satori's review, the Board agreed a number of forward-looking areas for focus and action which will further support our continuous development. These include:

- considering a five-year board development plan linked directly to forward strategy;
- enhancing the Board view of 'what good to great' means and identifying any metrics to enable this; and
- continually reviewing structures to stimulate contact between the Board and the wider organisation.

## Miriam Greenwood

Chair of the Nomination Committee

14 March 2023

## Remuneration Committee Report



### Introduction by Jamie Richards, Remuneration Committee Chair

On behalf of the Board and the Remuneration Committee, I am pleased to present the Remuneration Committee Report (the Report) for the financial year ended 31 December 2022. This report includes my annual statement, the directors' remuneration policy (the Policy) and our annual report on remuneration. As no changes are proposed to the existing Policy, only one remuneration resolution will be tabled at the AGM in May 2023, namely the advisory shareholder vote on the Directors' Annual report on remuneration.

### The aim of the Remuneration Committee

The Remuneration Committee is committed to structuring Executive remuneration that is competitive, that incentivises and rewards good performance, and that will support the Group's growth and ambitions, thereby creating value for shareholders. In addition, the Committee reviews and considers remuneration of the wider workforce and monitors related policies, satisfying itself that incentives and rewards are aligned with the Group's strategy and culture. The Remuneration Committee is appointed by the Board and comprises four independent Non-executive Directors.

### Our approach to remuneration

The Remuneration policy is designed to:

- include a competitive mix of base pay and both short and long-term incentives, with an appropriate proportion of the package determined by stretching targets linked to the Group's performance;
- promote the long-term success of the Group, in line with our strategy and focus on growth and shareholder value; and
- provide appropriate alignment between the interests of shareholders and executives and, where appropriate, the wider workforce.

#### Members and attendance

#### Meetings

Jamie Richards (Chair)	●●●●●●
Miriam Greenwood	●●●●●●
Graeme Bissett	●●●●●●
Ruth Leak	●●●●●●

### Main activities in 2022

- Reviewed and approved the Directors' Remuneration Report in the FY 2021 Annual report and accounts.
- Discussed and approved the FY 2021 Executive annual bonus payments.
- Reviewed and approved vesting levels for existing long-term incentive awards for FY 2021.
- Reviewed and approved the financial and strategic FY 2022 bonus metrics and targets.
- Gained approval from shareholders for a revised Remuneration Policy.
- Approved an additional cost-of-living bonus, paid in November 2022, to the majority of the wider workforce.
- Made awards to certain Executives and senior management under the new LTIP scheme.
- Reviewed and recommended the Gender Pay Gap report to the Board for approval.

## Aligning remuneration to Group strategy

The Group's ongoing vision is to be at the heart of the low-carbon, smart energy revolution. Our remuneration arrangements are designed to support management in its growth plan and strategy, and to enable the Group to be flexible and agile, considering the fast pace of our growth in a normal trading environment.

## Remuneration Policy during the year

At the 2022 AGM the Committee put forward our Directors' Remuneration Policy (the 'Policy') to shareholders. The Policy was largely based on the same principles as the previous Directors' Remuneration Policy; however, the Committee made a number of changes to align with best practice. We were pleased that over 92% of shareholders voted in support of the Policy and the Committee believes it remains appropriate in supporting the Company's execution of its strategy and long-term shareholder value creation. The Committee is confident that there continues to be a strong link between the Remuneration Policy and the business strategy.

## Annual bonus for the year ended 31 December 2022

During FY 2022 trading was above our expectations and our Executive team has performed extremely well, ensuring that the Group is well positioned to take advantage of opportunities. Our Group results in FY 2022 were very strong, with underlying profit before tax of £24.5m, representing growth of 34%, ILARR increasing by 13% year on year and over 480,000 smart meter installations. In a turbulent market, delivering this growth across all our key metrics reaffirms the Group's strategy and the continued efforts by the Executive team to build a long-term, sustainable, and successful business. This strong performance is reflected in the outcome of the annual bonus plan.

## Remuneration Policy for the year ending 31 December 2023

The Remuneration Committee is aware of ongoing developments in corporate governance and best practice in executive remuneration, and will continually review its executive remuneration arrangements to align with these where appropriate for the business.

The Remuneration Policy is set out on pages 103 to 109 and details of how this Policy will be implemented for the financial year ahead is set out on page 102.

I hope that you will find this report helpful and informative and agree that the determinations made by the Committee are appropriate and in the long-term interests of the Group, its employees and our shareholders. I look forward to your support at our AGM in May 2023 and encourage you to submit any questions you may have regarding the work of the Committee in advance.

## Annual statement from the Chair of the Remuneration Committee

### Application of the new Remuneration Policy

Key reward component	Key features
<b>Base salary and core benefits</b>	CEO salary £435,000. CFO salary £300,000. Pension contribution: 5% of salary for CEO and CFO in line with the wider UK workforce.
<b>Annual bonus</b> <ul style="list-style-type: none"> <li>• 50% Group financial targets</li> <li>• 35% operational objectives</li> <li>• 15% individual strategic objectives</li> </ul>	Maximum of 150% of salary for CEO and 130% for CFO, with an element of any bonus award paid in shares and held for two years.
<b>LTIP award</b> <ul style="list-style-type: none"> <li>• Pre-exceptional EBITDA</li> <li>• TSR</li> <li>• ESG/H&amp;S</li> </ul>	Annual awards of nil-cost options with opportunity levels aligned to the market, at a maximum of 175% of base salary for CEO and 150% for CFO with deferred components. Annual awards are subject to performance against stretching financial, TSR and ESG targets measured over a three-year period.
<b>Shareholding guidelines</b>	The CEO is expected to move towards maintaining a shareholding of two times salary and the CFO is expected to move towards maintaining a shareholding of 1.5 times salary while they are a Director of the Company.

## Remuneration Committee Report continued

### Annual statement from the Chair of the Remuneration Committee continued

#### Policy

At the start of 2022 the Committee undertook a thorough review of all elements of the Executives' remuneration package, including base salary, pension, annual bonus and wider benefits. The review was fully informed by independent advice.

At the 2022 AGM shareholders approved the new Remuneration Policy, which is intended to apply for three years from that date. There was widespread support, as evidenced by over 92% voting in favour. This reinforces our view that our Remuneration Policy continues to reflect our business strategy, with remuneration payments that are strongly linked to performance. Fixed elements of the remuneration packages are set so that they reflect the calibre and experience of the individuals and the complexity of their roles. The annual bonus measures are based on specific areas that require immediate focus, whereas our long-term incentive plan (LTIP) looks to drive sustainable improvements at a more macro level over the longer term. Culturally, the setting of both financial and broader non-financial measures serves to focus Executives on a more holistic view of business success and hence serves to drive performance on a broad, sustainable front.

The main changes to the Policy are summarised below and were applied during FY 2022.

#### Long-term incentive plan (LTIP)

The LTIP is structured in the form of annual awards of nil-cost options to the Company's senior employees. Maximum opportunity levels are aligned to the market, at 175% of base salary for the CEO and 150% of base salary for the CFO. All awards will be satisfied within a 10% dilution limit within any rolling ten-year period. The awards will be subject to stretching financial and non-financial performance targets, measured over a three-year period, with phased vesting over an overall five-year term in line with market best practice and to provide further alignment with shareholders. Performance measures for the awards granted in 2022 were incremental EBITDA growth, delivery of absolute shareholder return, and ESG measures which are core to SMS's strategy, including health and safety and progress against our net zero targets.

#### Annual bonus

Alongside the introduction of the long-term incentive plan, the Committee revised the annual bonus to align the terms with appropriate market benchmarks. The maximum bonus opportunity increased from 100% to 150% for the CEO and 130% for the CFO with this being a maximum of 100% delivered in cash and the balance deferred into shares for a period of two years. The same award weighting is applied to both elements.

#### Shareholding guidelines

The Committee introduced a shareholding guideline for Executives with the CEO being expected to maintain a shareholding of 2 times salary and the CFO being expected to maintain a shareholding of 1.5 times salary while they are a Director of the Company. Given that both Executive Directors are relatively new in post, the expectation is that this shareholding will be established over five years and is expected to apply for a period of one year following cessation of employment. The guidelines will apply to shares from incentive awards vesting from the date of adoption of the Policy.

#### Remuneration for performance in 2022

As set out in detail on pages 70 to 75, the Group achieved a strong trading performance in 2022, with double digit growth in our index-linked annualised recurring revenue, supported by the 480,000 smart meter installations. 140MW of operational battery sites were live by 31 December 2022 with operational performance of the sites significantly ahead of market expectations and a largely secured grid-scale battery pipeline with 470MW secured and a further 150MW under exclusivity. Most importantly, there have been no significant health and safety incidents in the year, reflecting the core priority of the Group to provide a safe and secure operating environment for all our staff (see pages 56 to 59 for details). The Committee determined that there had been a robust link between remuneration and performance.

#### Base salary

Executive Director salaries were subject to an annual review process. Following this review at the start of 2022, the Committee agreed to increase the salary of Tim Mortlock to £435,000 effective 1 March 2022 and from 1 April 2022 Gavin Urwin's salary increased to £300,000 to align with market benchmarking. Gail Blain was awarded the same salary as Gavin Urwin when appointed as CFO from 1 December 2022.

#### Annual bonus

The targets for the 2022 annual bonus for Executive Directors were set by the Committee in January of last year and remained unchanged throughout the year. The strong and resilient financial performance of the Group in 2022 is reflected in the 2022 annual bonus outcomes; the financial measures, underlying profit before tax and ILARR, have contributed 40% to the overall bonus. Both Executives made good progress across all other objectives, as detailed on page 111; however the CEO has received a slightly lower bonus percentage compared to the CFO,



solely due to a specific objective in relation to absolute share price performance that does not feature in the CFO's objectives. Overall, the annual bonuses paid to the CEO and CFO were 75% (2021: 82%), and 79% (2021: 82%) of the maximum respectively.

The Committee considered whether the formula-driven pay-outs under the incentive plans and the resultant total remuneration for Directors were appropriate, looking at the broader context within which the performance was delivered.

### Long term incentive plans

After the new LTIP scheme received approval at the AGM, the Committee awarded LTIP awards to Executives and senior management under the plan rules and falling within a 10% dilution limit over a rolling ten-year period. The LTIP is designed to encourage management to focus on executing the strategy to position SMS at the forefront of delivering smart energy solutions and provide the flexibility to make the right investments at the right time and to discourage the use of levers to increase revenue and profit in the short-term at the expense of long-term shareholder value. Our people are also eligible to participate in our Sharesave plans which promote share ownership by giving employees an opportunity to invest in SMS shares.

The Committee assessed performance against the annual vesting criteria for share options awarded to Executives and senior management, under the extant Option Plan, noting that the plan has now expired for new awards and reflecting the Committee's responsibility under the plan rules to exercise discretion to ensure a fair outcome for all parties including the careful evaluation of formulaic components. Similarly to last year, the Committee took into account a range of critical factors.

In the context of the plan rules, the Committee concluded that for all option holders the final and fifth tranche of the 2018 awards and the third tranche of the 2020 awards would vest at 84% of the maximum, with the balance of 16% lapsing. The second tranche of the 2021 option awards would vest in full at 100% in line with the annual vesting criteria.

### Wider workforce

When setting the Executive Directors' remuneration policy, the Committee takes into account the pay and conditions of employees more generally and, at least once a year, is given full details of the remuneration policy across the Group, with any changes highlighted. While the balance of the elements of remuneration may differ, there is a consistent overall principle that all colleagues should be paid competitively against the relevant pay benchmark.

Continuing to support our employees has been a priority this year, from both a wellbeing and financial perspective. In April 2022 a pay award was implemented for all employees. A standard 3% increase was applied to employees within four of our career bandings (excluding those on the Real Living Wage who increased by 10.6%), and a reduced 2% increase was awarded to employees within the top career bandings. All eligible employees within the Company also received an additional discretionary bonus payment for FY 2021. As we moved towards the winter months we were acutely aware of the continued inflationary pressures that society was facing, and we were cognisant that our employees would be experiencing the same pressure of rising daily costs.

Therefore, a decision was made to award a one-off discretionary bonus of £500 to all employees within the lower three career levels (C, D and E) as we understood that employees within these career levels were most affected by the impact of the increase in cost of living. In addition, as an accredited Living Wage employer, we are committed to ensuring we pay the Living Wage as a minimum to our employees. From May 2023 the Living Wage is due to increase from £9.90 per hour to £10.90 per hour. To ensure that our employees continue to be supported during this difficult time, we increased our entry-level hourly rate to £10.90 per hour as of 1 November 2022. Implementing this increase six months early helped to show our commitment to supporting our employees on entry-level salaries during this challenging time.

### Executive changes

At the start of 2022 it was announced that Alan Foy would step down from the Board as CEO and he ceased to be a Director on 1 March 2022. In line with the remuneration policy at the time, it was agreed that Alan Foy would receive his current salary and benefits up to 1 March 2022, his 2021 bonus award, payment in lieu of notice and any vested options due under the Group's Unapproved 2018 and 2021 Share Option awards. Alan Foy did not receive any portion of 2022 bonus award.

As announced on 13 October 2022, Gavin Urwin stepped down from the Board as CFO on 1 December 2022. In line with the current Remuneration Policy, Gavin Urwin will receive his current salary and benefits to 31 March 2023 and the cash element of the 2022 bonus. The Committee concluded that no bonus should be awarded in shares due to this element being designed for retention. LTIP's that were awarded to Gavin Urwin during 2022, the first year of the scheme, were not accepted and so were forfeited.

## Remuneration Committee Report continued

### Annual statement from the Chair of the Remuneration Committee continued

#### Policy implementation for 2023

Following careful consideration and taking into account information from the Company's remuneration adviser, the Committee decided not to increase the base salaries for the CEO and CFO for 2023.

The Committee have reviewed the performance metrics and for the 2023 financial year the mix of measures for the annual bonus scheme has been updated to include an element within the core objectives relating to the operational battery sites. The Committee felt it was important to bring this element into the core objectives to maintain focus and delivery.

The 2023 Executive bonus objectives reflect the following features, flexed to be appropriate to each individual:

- core objectives – KPI's of underlying PBT, ILARR, pipeline targets across the material business lines, operational battery sites and health and safety
- personal financial objectives – examples include growth of pipeline and appropriate long-term capital strategy
- personal non-financial objectives specific to individual roles

The LTIP will continue to be based on SMS's performance over three years and subject to a two-year holding period post-vesting. For 2023, the grant level will be unchanged at 175% of base salary for the CEO and 150% of base salary for the CFO. It is again proposed that the performance measures should be pre-exceptional EBITDA, TSR and ESG/H&S strategic measures. The Committee retains discretion to adjust annual bonus payments and vested LTIP awards if the formula-driven outturn does not reflect the broader overall performance of the business.

#### Advisers

PricewaterhouseCoopers (PwC) provided advice to the Committee on matters relating to Executive remuneration, all-employee share awards and proposed long-term incentive awards. PwC remuneration consultants are considered to be independent of both the Board and each of the Executive and Non-executive Directors. Their advice is considered to be objective and independent. PwC is a member of the Remuneration Consultants Group and the voluntary code of conduct of that body is designed to ensure objective and independent advice is given to remuneration committees.

The Committee operates according to its terms of reference which have been prepared to comply with relevant statutory, regulatory and corporate governance requirements and best practice. During 2022 the terms of reference were reviewed by the Committee and updated to reflect changes in corporate governance requirements and best practice. The revised terms of reference are available for review on our website at [www.sms-plc.com](http://www.sms-plc.com).

The Committee appreciates the support received from shareholders to date on its executive remuneration and governance approach and looks forward to this continued support for the resolution to approve the Annual report on remuneration at the AGM in May 2023.

The report has been prepared by the Committee and approved by the Board of Directors.

**Jamie Richards**

Chair of the Remuneration Committee  
14 March 2023

## Remuneration Committee Report continued

### Directors' Remuneration Policy (The Policy)

The Company welcomes dialogue with its shareholders over matters of remuneration. The Chairman of the Remuneration Committee is available for contact with institutional investors concerning the approach to remuneration.

The Policy will be displayed on the Group's website ([www.sms-plc.com](http://www.sms-plc.com)), in the Investor relations section.

### Policy principles

Principles	Considerations within the Policy
<b>Clarity:</b> remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	We clearly communicate our approach to remuneration in this report and in all communications with shareholders, providing transparency over our rationale. This also allows straightforward engagement with the wider workforce.
<b>Simplicity:</b> remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	We have structured the Remuneration Policy to be as simple as possible, within the confines of ensuring arrangements are in line with the business strategy, create a robust link between pay and performance and are designed after consideration of investor expectations.
<b>Risk:</b> remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	We mitigate these risks through a carefully designed Policy which includes a balance between financial and non-financial bonus metrics, incentives plans that are based on long-term performance and the option for the Committee to exercise discretion if doing so achieves a fairer outcome taking all stakeholders into account.
<b>Predictability:</b> the range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy.	We carefully consider the range of likely performance outcomes for incentive plans when setting performance target ranges and at the time of assessment would use discretion where necessary if the formulaic result were considered inappropriate.
<b>Proportionality:</b> the link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance.	<p>The opportunity under incentive plans is based on a proportion of salary with the quantum selected to ensure an appropriate link between pay and performance.</p> <p>The performance conditions applying to the incentives are aligned with the Company's strategy and are reviewed on an annual basis to ensure they continue to work effectively.</p> <p>There are provisions to override the formula-driven outcome of incentive plans if necessary to ensure that there is not reward for poor performance and that fairness is achieved for all parties.</p>
<b>Alignment to culture:</b> incentive schemes should drive behaviours consistent with Company purpose, values and strategy.	The annual bonus and LTIP performance measures are based on both financial and non-financial metrics aligned with all key aspects of strategy including long-term sustainable shareholder value growth, maintaining a focus on our customers and the quality of our service and ensuring adherence to wider ESG and H&S responsibilities.

## Remuneration Committee Report continued

### Directors' Remuneration Policy (The Policy) continued

#### Objectives of Remuneration Policy

The Company's Remuneration Policy is designed to ensure that the Executive Directors and senior management are fairly and responsibly rewarded for their individual contribution to the overall long-term performance of the Company, in a manner that ensures that the Company is able to attract, motivate and retain executives of the quality necessary to ensure the success and sustainability of the Company.

The remuneration of Executive Directors and senior management is structured to ensure that:

- the fixed elements of pay, salary, pension and benefits are benchmarked against comparable companies of similar size and complexity;
- Executive Directors and senior management are entitled to both short-term and long-term incentives, in the form of cash bonuses and share interests. Both the short-term and long-term incentives are underpinned by performance criteria linked to the Group's performance; and
- remuneration rewards the achievement of specific KPIs which include, inter alia, the delivery of long-term value to shareholders, at all times underpinned by a safe operating environment, compliance with relevant health and safety policies, and outstanding service to customers.

In determining the remuneration of Executive Directors, the Remuneration Committee also ensures that remuneration arrangements are:

- transparent and measurable;
- not excessive, thus mitigating the reputational and behavioural risks that could arise from strictly target-based incentive plans; and
- aligned to our culture, such that they drive behaviours consistent with our core values.

#### Consideration of employment conditions elsewhere in the Group

The Committee actively considers pay structures across the wider Group when setting policy for Executive Directors to ensure that a consistent approach to reward is adopted which is in line with our values. There is a particular focus in relation to any base salary review. Overall, compared to most employees, the Remuneration Policy for Executive Directors is weighted more to long-term share-based incentives. This is to ensure that the relatively higher pay levels are justifiable internally and externally to shareholders by a clear link between the long-term value created for shareholders and the remuneration received by Executives.

Our reward framework across the Group is based on a consistent set of principles for all: that overall remuneration should be competitive when compared to similar roles in other organisations. Colleague pay is therefore determined using the same principles as the pay for our Executive Directors. All employees of the Group are entitled to base salary and benefits. The Group also operates a pension plan for employees in line with local market practice. Annual salary reviews for other employees across the Company are based on broadly consistent principles, taking into account Company performance, market conditions and salary levels for similar roles in comparable companies. The Company operates discretionary bonus schemes for eligible groups of employees under which a bonus is payable subject to the achievement of appropriate targets. All eligible employees may participate in the Company's Share Incentive Plan on identical terms.

#### Decision-making process

The Committee is responsible for the determination of the Directors' Remuneration Policy and how it is implemented. In addressing this responsibility the Committee works with management and external advisers to develop proposals and recommendations. The Committee considers the source of information presented to it, analyses the detail, and ensures that independent judgement is exercised when making decisions. Information is independently verified where there are conflicts of interest, and no individual is present when their remuneration is being discussed.

#### Incentive plan discretions

The Committee will operate the annual bonus plan and LTIP in accordance with their respective rules. As part of the rules the Committee holds certain discretions which are required for an efficient and fair operation and administration of these plans and which are consistent with standard market practice. Any use of the discretions would, where relevant, be explained in the Annual report on remuneration and may, as appropriate, be the subject of consultation with the Company's major shareholders.

#### Service contracts and policy on payment for loss of office

It is the Company's policy to require twelve months' notice for termination of employment for Executive Directors to be given by either party. The Company's policy is to limit severance payments on termination to pre-established contractual arrangements. If the Company believes it appropriate to protect its interests, it may also make additional payments in exchange for non-compete/non-solicitation or other terms which extend beyond those in the Director's contract of employment. The Committee has discretion to contribute towards outplacement services and legal fees for any departing Director to the extent it considers appropriate.

Under normal circumstances, the Company may terminate the employment of an Executive Director by making a payment in lieu of notice equivalent to basic salary and benefits for the notice period at the rate current at the date of termination. In case of gross misconduct, a provision is included in the Executive's contract for immediate dismissal with no compensation payable.

The terms applied to the Executive Directors' LTIP and share options are consistent with those applied to all LTIP and option holders under the rules of the schemes. In relation to the LTIP if an employee leaves employment, or is on notice to leave, on or before the vesting date, the employee will forfeit their award. Options are subject to a five-year service condition, which commences from the grant date of the first tranche. The plan rules contain provisions for good and bad leavers and an Executive Director would only retain rights to exercise share options, in respect of shares for which performance conditions have been met at the leaving date, where they are deemed a good leaver. There is no entitlement to compensation or damages for any loss or potential loss which may be suffered by reason of being or becoming unable to exercise an option as a consequence of loss of office or employment.

#### **Treatment of annual bonus on termination of employment**

The Committee has discretion to determine that in the event an Executive Director leaves the Company, bonus payments may be paid once performance has been measured and on a pro-rated basis for the time spent in active employment with the Company.

#### **Shareholder views**

The Committee welcomes the views of shareholders in respect of pay policy as well as those views expressed on behalf of shareholders by their respective proxy advisers. The Committee documents all remuneration-related comments made at the Company's AGM and within feedback received during consultation with shareholders throughout the year. Any feedback received is fully considered by the Committee and amendments may be made to the Remuneration Policy where thought necessary. The Committee seeks to build an active and productive dialogue with investors on developments in the remuneration aspects of corporate governance generally.

#### **Period for Policy**

The Policy came into effect at the date of the 2022 AGM and will apply for a period of three years. The Committee is satisfied that the Remuneration Policy is in the best interests of shareholders and does not promote excessive risk-taking. The Committee retains discretion to make non-significant changes to the Policy without reverting to shareholders.

#### **Share ownership guidelines**

The Committee have introduced a policy of encouraging Executive Directors to acquire and retain shares in the Company, with the objective of further aligning their long-term interests with those of other shareholders. The CEO will be expected to maintain a shareholding of 2 times salary and the CFO will be expected to maintain a shareholding of 1.5 times salary while they are a Director of the Company. Shares that count towards achieving these guidelines include shares beneficially owned by an Executive Director or by a connected person, as recognised by the Committee, deferred bonus shares and share options / LTIP awards which have vested and so are no longer subject to performance conditions but are subject to post-vesting deferral provisions. Executive Directors are expected to build their shareholding

over a five-year period but are not required to make personal share purchases if awards do not vest through failing to meet performance conditions, and so a newly-appointed Director may not reach the required level within the period, depending on the Company's performance against target over the period. In this situation, the Committee will review the circumstances and agree an appropriate forward plan. The Committee retains the discretion to grant dispensation from these requirements in exceptional circumstances. After ceasing employment Executive Directors must retain a level of shareholding for one year. There is no particular requirement for Non-executive Directors to hold shares but they are encouraged to acquire a holding over time.



## Remuneration Committee Report continued

### Directors' Remuneration Policy (The Policy) continued

#### Executive Directors' remuneration

The main components of the Policy for the year ended 31 December 2022, and how they link to and support the Company's business strategy, are summarised below. We do not disclose full details of the operational and personal strategic objectives for the Executive Directors, as we consider them to be commercially sensitive.

Our remuneration structure can be summarised as follows:

<b>Fixed</b>	1. Base salary 2. Benefits 3. Pension	<b>Variable</b>	4. Annual bonus 5. Long-term incentive plan 6. Share options
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#### Fixed – 1. Base salary

Purpose and link to strategy	Operation	Link to performance
Base salaries are set to recognise individual skill, experience and performance, as well as the market value of the role, so as to attract, retain and motivate the most qualified staff to deliver against our strategy and KPIs, implement our business model, manage our risks and exploit our opportunities, while remaining disciplined about fixed cost management.	Salaries are typically reviewed annually, and take into account:  Company performance; the scope of the role, and the experience and performance of the individual Director; average workforce salary adjustments within the Company; and the size, complexity and growth rate of the Company.  <b>Limitation:</b> Maximum increases are no greater than inflation unless: (a) there has been a material increase in industry rates; (b) changes in role have taken place with enhanced responsibility; or (c) there has been a reward for individual development.	Base salary is not conditional on performance. Any salary increases will generally be in line with those awarded to salaried employees.
<b>2023 application</b> Based on last year's benchmarking of AIM50 companies and advice from our remuneration adviser, no inflationary increase will be awarded to Executive Directors in 2023.		

#### Fixed – 2. Benefits

Purpose and link to strategy	Operation	Link to performance
To complement base salary by providing market-competitive benefits to attract and retain Executives.	Reviewed from time to time to ensure that benefits, when taken together with other elements of remuneration, remain market-competitive. Benefits include car allowance and private medical healthcare. Other benefits may be introduced to ensure benefits overall are competitive and appropriate to the circumstances.  <b>Limitation:</b> Benefits are set by the Committee at levels appropriate for our business relative to the market.  The cost of providing these benefits varies year on year depending on the schemes' premiums. The Remuneration Committee monitors the overall cost of the benefits package.	Benefits are not conditional on performance, but we believe they enhance recruitment and retention of talent and improve staff wellbeing.

### Fixed – 3. Pension

Purpose and link to strategy	Operation	Link to performance
To provide retirement benefits which, when taken together with other elements of the remuneration package, will enable the Company to attract and retain Executives of a high calibre.	<p>The Executive Directors (together with all other eligible staff) are able to participate in the Company's defined contribution (money purchase) pension scheme.</p> <p><b>Limitation:</b> Company contributions are based on percentage of salary, ranging from the statutory minimum to a maximum of 5% of salary.</p>	Pension contributions are not conditional on performance.

### Variable – 4. Annual bonus

Purpose and link to strategy	Operation	Link to performance
To reward Executives for achieving key financial, operational and strategic annual goals, by selecting measures that drive long-term shareholder value.	<p>The Executive Directors (together with the senior management team) participate in a discretionary, annual, performance-related bonus scheme. Targets are set at the beginning of each year based on the recommendations of the Remuneration Committee.</p> <p>For 2022 the maximum opportunity was equal to 150% of salary for the CEO and 130% of salary for the CFO, with a maximum of 100% being delivered in cash and the balance being deferred into shares for a period of two years, and the same award weighting being applied to both elements.</p> <p>The Committee applies discretion to the final bonus payout, taking into account performance against targets and underlying performance of the Company.</p> <p>Bonus may be subject to clawback or malus being applied, if appropriate, in the event of financial misstatement, error, misconduct, reputational damage or corporate failure, which has led to an over-payment.</p>	<p>The Committee determines annual metrics based on approved budgets and priorities for the forthcoming year. The annual bonus is based on three weighted areas: core objectives, personal financial objectives and personal non-financial objectives. Performance measures under each area are determined annually and the Committee is able to adjust the weighting of the areas annually based on prevailing business needs.</p> <p>Targets are considered to be commercially sensitive and will be disclosed retrospectively following completion of the relevant financial year.</p>

#### 2023 application

Core performance measures are the same for both the CEO and CFO and are aligned to the Company's KPIs of underlying PBT, ILARR, operational battery sites and health and safety. The financial element of the bonuses start to be earned for threshold performance rising on a straight-line basis to the maximum for exceeding budget performance.

Personal financial performance measures will vary each year depending on business context and strategy. For 2023, the CEO's are to further grow our battery and meter asset pipeline, develop our sales pipeline and products in developing CaRe products and increase our absolute share price performance. The CFO's personal financial objectives for 2023 are set to ensure the business has a clear long-term capital strategy for sound funding of its business growth and operations.

Personal non-financial performance measures focus on leadership, structure, team, culture and behaviour.

For 2023 the maximum opportunity is equal to 150% of salary for the CEO and 130% of salary for the CFO, with a maximum of 100% being delivered in cash and the balance being deferred into shares for a period of two years, and the same award weighting being applied to both elements.

## Remuneration Committee Report continued

### Directors' Remuneration Policy (The Policy) continued

#### Variable – 5. Long-term incentive plan (LTIP)

Purpose and link to strategy	Operation	Link to performance
Incentivises and rewards Executives for the delivery of longer-term strategic objectives and substantial relative and absolute increases in shareholder value.	<p>LTIP awards may be granted each year in the form of a conditional award of shares, with vested awards released to participants in tranches.</p> <p>Annual awards of nil-cost options over plc shares will be granted to participants.</p> <p>Awards will be subject to a three-year performance period.</p> <p>Subject to the achievement of performance targets, the options will then vest in tranches after three, four and five years subject to continued employment until the relevant vesting date (75% on the third anniversary of grant, 12.5% on the fourth anniversary, and 12.5% on the fifth anniversary).</p> <p>The maximum award is 175% of salary for CEO and 150% of salary for CFO.</p> <p>The Remuneration Committee will have customary discretion rights and the ability to override formulaic outcomes in line with corporate governance principles to achieve fairness to all parties.</p> <p>All awards will be satisfied within a 10% dilution limit within any rolling ten-year period.</p>	<p>Targets are reviewed annually ahead of each grant to ensure they are aligned to the business strategy and performance outlook.</p> <p>The majority of the awards will be based on financial performance and shareholder return.</p> <p>The Remuneration Committee retains discretion in exceptional circumstances to change performance measures and targets and the weightings attached to performance measures part-way through a performance period if there is a significant and material event which causes the Remuneration Committee to believe the original measures, weightings and targets are no longer appropriate.</p> <p>Discretion may also be exercised in cases where the Remuneration Committee believe that the vesting outcome is not a fair and accurate reflection of business performance.</p>
<b>2023 application</b> 2023 LTIP awards were approved in March 2023. Performance conditions are consistent with LTIPs that were previously awarded, focusing on pre-exceptional EBITDA, TSR and ESG strategic metrics, each applied independently, and there will be a straight-line sliding scale between points.		

#### Variable – 6. Share options

Purpose and link to strategy	Operation	Link to performance
To motivate Executive Directors and incentivise the delivery of sustained performance over the long term, and to promote alignment with shareholders' interests.	<p>Options vest in annual tranches. The vesting of each annual tranche takes place by reference to a distinct annual performance period.</p> <p>The share options cannot be exercised for a period of five years from the grant date, other than in specific circumstances.</p> <p>The Committee reviewed the metrics, financial targets and where applicable individual objectives prior to grant to ensure they were aligned with the long-term strategic goals. The Committee will apply discretion if appropriate to achieve fairness to all parties and will consider carefully the outcome of formulaic components.</p>	The Committee determined market capitalisation targets, financial targets and individual objectives to ensure they were aligned with the corporate strategy.
<b>2023 application</b> No further awards to be made under this plan as the plan has lapsed having reached the end of its 10-year award period at the end of 2021.		

## Remuneration Committee Report continued

### Non-executive Directors' remuneration

The remuneration of the Non-executive Directors, including the Chairman, is determined by the Executive Directors after external benchmarking. Non-executive Directors and the Chairman do not participate in incentive arrangements or receive other remuneration in addition to their fees.

Each of the Non-executive Directors has a letter of appointment stating their annual fee and that their appointment is for a term of three years. Their appointment may be terminated on three months' written notice at any time.

#### Non-executive Directors fees

Purpose and link to strategy	Operation	Link to performance
To attract and retain Non-executive Directors with appropriate skills, experience, independence and knowledge of the Company and its business.	Fee levels for Non-executive Directors are generally reviewed by the Board annually. Remuneration comprises an annual fee for acting as a Non-executive Director and serving as a member of any Committees. Additional fees are paid in respect of service as Chairman of a Committee or as Senior Independent Director. When reviewing fees, reference is made to fees for the same comparator group as is used for Executive Directors, as well as information gathered from a number of remuneration surveys, and assessment of the extent of the duties performed and the size of the Company.	None

During 2022 the Executive Directors approved an increase to the Non-executive Director fees on 1 April 2022. No increase to the annual fees of Non-executive Directors will be made in 2023.

## Remuneration Committee Report continued

### Annual Report on remuneration

Directors' remuneration emoluments for the financial year ended 31 December 2022:

	Fees/ basic salary £	Annual bonus £	Pension contribution £	Benefits in kind £	2022 Total £	2021 Total £
<b>Executive</b>						
Tim Mortlock <sup>1</sup>	403,333	489,375	20,167	8,113	<b>920,988</b>	460,270
Gavin Urwin <sup>2</sup>	255,711	217,250	2,786	7,299	<b>483,046</b>	317,395
Gail Blain <sup>3</sup>	25,000	20,219	1,250	1,560	<b>48,029</b>	—
Alan Foy <sup>4</sup>	61,866	—	—	2,833	<b>64,699</b>	694,142
David Thompson <sup>5</sup>	—	—	—	—	<b>—</b>	59,855
<b>Non-executive</b>						
Miriam Greenwood	113,827	—	—	—	<b>113,827</b>	96,390
Graeme Bissett	64,227	—	—	—	<b>64,227</b>	45,900
Ruth Leak	52,725	—	—	—	<b>52,725</b>	45,900
Jamie Richards	52,725	—	—	—	<b>52,725</b>	45,900
<b>Total</b>	<b>1,029,414</b>	<b>726,844</b>	<b>24,203</b>	<b>19,805</b>	<b>1,800,266</b>	<b>1,765,752</b>

1 Tim Mortlock will receive £163,125 of his bonus in deferred shares that must be held for a period of two years.

2 Gavin Urwin's remuneration for 2022 is up to the date of his resignation as a Director, which was on 1 December 2022. Gavin Urwin's bonus has been pro-rated to reflect his date of resignation.

3 Gail Blain's remuneration for 2022 is from the date of her appointment as a Director, which was on 1 December 2022. Gail Blain's bonus has been pro-rated to reflect her date of appointment.

4 Alan Foy's remuneration for 2022 is up to the date of his resignation as a Director, which was on 1 March 2022.

5 David Thompson resigned on 31 March 2021.

With the exception of the bonus, which is discretionary as detailed in the Remuneration Policy on page 107, all other elements of Directors' remuneration are fixed.

On 1 March 2022 Tim Mortlock was appointed as a Chief Executive Officer. Alan Foy resigned as a Director of the Company with effect from 1 March 2022. This Report reflects their remuneration and rewards from the date of their respective appointment/resignation.

On 1 December 2022 Gail Blain was appointed as a Director and Chief Financial Officer. Gavin Urwin resigned as a Director of the Company with effect from 1 December 2022. This Report reflects their remuneration and rewards from the date of their respective appointment/resignation.

The Committee has discretion to determine that in the event an Executive Director leaves the Company, bonus payments may be paid once performance has been measured and on a pro-rated basis for the time spent in active employment with the Company. Gavin Urwin was awarded a bonus of £217,250 for his performance in 2022 up to the date of his resignation as a Director. No 2022 bonus was awarded to Alan Foy.

Details of each of the elements included in the table above are as follows:

#### Base salary

Base salary increases across the Group are effective from 1 April each year. Executive remuneration was reviewed in 2022 in line with market trends and as a result, the CEO salary increased to £435,000 and the CFO salary increased to £300,000.

The base salary/fee numbers shown in the table therefore include twelve months' pay based on the individual Director's salary/fee from 1 January 2022 – with the exception of Alan Foy, Gavin Urwin and Gail Blain, whose figures are disclosed from the dates of their respective appointment/resignation as noted above.



## Bonus

Details of the measures, to the extent they are not commercially sensitive, are shown below.

### Financial performance

As a result of strong underlying financial performance, the Group exceeded the threshold of underlying profit before tax (PBT), and ILARR for the purposes of awarding the 2022 annual bonuses allocated to the Executive Directors.

	Threshold £m	Maximum £m	Actual £m	Actual payout (Maximum payout)
Underlying PBT	20.9	24.2	24.5	CEO 25% (25%), CFO 25% (25%)
ILARR	93.0	99.5	97.1	CEO 15% (25%), CFO 15% (25%)

### Operational performance

The operational performance targets for each Executive Director were set against a range of strategic targets at the start of the year covering health and safety, sales development, leadership and delivery of major projects, and strategic planning. Due to differing objectives between Executive Directors, total operational results are shown below for each Executive.

	Actual payout (Maximum payout)
Operational objectives	CEO 20% (35%), CFO 29% (35%)

### Individual strategic performance

The personal element of the bonus is focused on the Executive Directors' individual contributions in each of the following categories: leadership, structure, team, culture and behaviour. The Committee assesses each element against targets set at the start of the year.

	Actual payout (Maximum payout)
Individual strategic objectives	CEO 15% (15%), CFO 10% (15%)

The Committee may use discretion to adjust payments where necessary.

### Pension contributions

A contribution of up to 5% per annum of base salary is paid into the Company pension scheme by the Company, on behalf of the Chief Executive Officer and Chief Financial Officer.

### Benefits in kind

The Company pays for private healthcare for each Executive Director and their immediate family. The Company provides a Company car allowance for the Chief Executive Officer and Chief Financial Officer. The Executive Directors also currently participate in the Company's life assurance scheme.

### Directors' interests

The Directors who held office at 31 December 2022 had the following interests in the shares of the Company:

	Ordinary shares	
	2022 of £0.01 each	2021 of £0.01 each
<b>Executive</b>		
Tim Mortlock	35,260	7,485
Gavin Urwin	—	2,222
Alan Foy <sup>1</sup>	—	5,953,201
<b>Non-executive</b>		
Miriam Greenwood	29,031	25,461
Graeme Bissett	22,911	18,093
Jamie Richards	5,254	3,909
Ruth Leak	2,825	—
	<b>95,281</b>	<b>6,010,371</b>

1 At 31 December 2021 this included 900,000 ordinary shares held by The Metis Trust, of which Alan Foy is a trustee but not a beneficiary and 372,350 ordinary shares held by Metis Investments Ltd, of which Alan Foy is a Director.

## Remuneration Committee Report continued

### Annual Report on remuneration continued

#### Directors' LTIP awards and share options

Aggregate emoluments disclosed on page 110 do not include any amounts for the value of LTIP awards or options to acquire ordinary shares in the Company granted to or held by the Directors.

Executive Directors' awards outstanding under the LTIP are set out in the table below. Awards are currently structured as conditional awards of shares, with no exercise price. Awards are granted as nil-cost options, and are exercisable and released to participants in tranches between three and ten years from grant.

	Date of LTIP grant/award	Number of shares awarded	Market price of grant/award	Face value	Vesting date	Remaining unexercised at 31 December 2022
<b>Executive</b>						
Tim Mortlock	19/05/22	90,733	847p	£768,508	18/05/25	90,733

Details of options for Directors who served during the year are as follows:

	Type	Number of shares under option	Exercise price	Date of grant	Earliest date exercisable
<b>Executive</b>					
Tim Mortlock <sup>1</sup>	Unapproved	133,250	350.0p	12/11/14	12/11/19
	Unapproved	333,333	700.0p	13/07/18	01/01/23
	Unapproved	250,000	705.4p	10/02/21	01/01/26
Gail Blain <sup>2</sup>	Unapproved	50,000	529.0p	26/09/16	26/09/21
	Unapproved	50,000	700.0p	13/07/18	01/01/23
	Unapproved	70,000	705.4p	10/02/21	01/01/26

1 Tim Mortlock holds 133,250 share options as part of the 2014 Share Option Plan and 309,333 share options as part of the 2018 Share Option Plan, these share options are fully vested and to date have not been exercised.

2 Gail Blain holds 50,000 share options as part of the 2016 Share Option Plan, and 46,400 share options as part of the 2018 Share Option Plan, these share options are fully vested and to date have not been exercised.

The share price at 31 December 2022 was £7.82. The weighted average share price at the date of exercise of options exercised during the year ended 31 December 2022 was £8.02 (2021: £8.36).

The plan is structured with options vesting in annual tranches. The vesting of each annual tranche takes place by reference to a distinct annual performance period and is subject to annual targets including a market capitalisation target, non-market performance criteria based on financial targets and individual objectives, which are set at the beginning of the corresponding performance period.

The share options cannot be exercised for a period of five years from the grant date, other than in specific circumstances. Tranches which did not vest due to a missed market capitalisation target will subsequently automatically vest in future years if the future-year market capitalisation target is met or on the occurrence of certain events which would cause all tranches to vest. The Remuneration Committee has discretion in relation to the vesting of awards where certain other criteria are not met. The Remuneration Committee additionally has the power to make changes to existing granted share options (for example in relation to the option price or number of options granted) where changes are made to the capital structure of the Company.

The vesting outcome of the outstanding 2018 and 2021 options held by the Executive Directors was assessed by the Committee as described on page 101. The Committee concluded that the final tranche of the 2018 award would vest at 84% of the maximum, with the balance of 16% lapsing. The second tranche of the 2021 option awards would vest in full at 100% in line with the annual vesting criteria. The earliest exercisable date is 1 January 2023 for the 2018 options and 1 January 2026 for the 2021 options.

Further details of LTIPs and options granted by the Company at 31 December 2022 are given in note 28 to the financial statements.

## Directors' Report

The Directors submit their Annual report on the affairs of the Group together with the financial statements and independent auditor's report for the year ended 31 December 2022.

### Principal activities

SMS plc is the ultimate parent company of the Group and trades principally through its subsidiary undertakings. Its principal activity is that of a holding company.

The principal activities of the Group are: the installation, operation and management of meter and energy infrastructure assets and related data services; the construction and operation of grid-scale battery energy storage systems, the design, installation and management of utility connections and energy infrastructure; and the delivery of energy management and carbon reduction solutions, including the operation of carbon reduction ('CaRe') assets.

Subsidiaries of the Company are listed on page 173.

### Statutory information

This Directors' report sets out the information required to be disclosed by the Company in compliance with the Companies Act 2006.

The Strategic report (found on pages 1 to 75) and the Corporate governance report (found on pages 76 to 116) are incorporated by reference into this Directors' report and should be read as part of this Report. The Strategic report contains details of the Group's business model and strategic priorities and enables shareholders to assess how the Directors have discharged their duty under section 172 of the Companies Act 2006.

### Articles of Association

The Company's Articles of Association, which may only be amended by a special resolution at a general meeting of the shareholders, can be found on our website at [www.sms-plc.com/investors/aim-rule-26](http://www.sms-plc.com/investors/aim-rule-26).

### Branches outside the UK

One subsidiary of the Group operates outside the UK in the Republic of Ireland.

### Directors and their interests

The Directors of the Company, including their biographies, are shown within the Board of Directors section of the Annual report and accounts 2022, with further details of Board Committee membership being set out in the Corporate governance report. All Directors served throughout the financial year, except as disclosed.

Other than employment contracts and interests in shares and options, none of the Directors had a material interest in any contract with the Company or any of its subsidiary undertakings. Key terms of the Directors' service contracts and their interests in shares and options are disclosed in the Directors' Remuneration report.

Any related-party interests applicable to the Directors are shown in note 26 to the financial statements.

The Company's Articles of Association provide that all Directors will stand for re-election every three years.

A Director may be appointed by an ordinary resolution of shareholders in a general meeting, following recommendation by the Nomination Committee in accordance with its terms of reference, as approved by the Board or by a member (or members) entitled to vote at such a meeting. Alternatively, a Director may be appointed following retirement by rotation if the Director chooses to seek re-election at a general meeting. In addition, the Directors may appoint a Director to fill a vacancy or act as an additional Director, provided that the individual retires at the next Annual General Meeting (AGM) and, if they wish to continue, that they offer themselves for election.

The Company has voluntarily implemented a policy where each Director stands for re-election at every AGM.

A Director may be removed by the Company in circumstances set out in the Company's Articles of Association or by an ordinary resolution of the Company.

### Directors' qualifying indemnity provisions

As permitted by the Companies Act 2006, the Company purchases and maintains Directors' and officers' insurance cover against certain legal liabilities and costs which could be incurred by the Directors and officers of the Group companies in the performance of their duties. The Company has also granted an indemnity to each of its Directors in relation to the Directors' exercise of their powers, duties and responsibilities as Directors of the Company, the terms of which are in accordance with the Companies Act 2006.

### Dividends

In line with the Group's dividend policy, SMS currently intends to pay a 30.25p per share dividend in respect of FY 2022 (a 10% increase on the 27.5p per share dividend issued in respect of FY 2021), with the intention of continuing to annually increase this by 10% for each of the financial years FY 2023 and FY 2024. The FY 2022 dividend is being paid in four instalments as summarised in the table below. Two instalments have already been paid at the date of this Report, with the third interim and final instalments due to be paid in April 2023 and July 2023 respectively.

## Directors' Report continued

### FY 2022 dividend provisional timetable:

Instalment	Ex-dividend date	Record date	Payment date	Dividend per share
1	06 October 2022	07 October 2022	28 October 2022	7.5625p
2	05 January 2023	06 January 2023	26 January 2023	7.5625p
3	06 April 2023	11 April 2023	27 April 2023	7.5625p
4	06 July 2023	07 July 2023	27 July 2023	7.5625p

The Board will review this regularly, with shareholder value in mind and taking into account a range of factors. These will include expected business performance, the Company's ability to continue as a going concern and meet its debt obligations, the distributable reserves in the parent company, the availability of cash resources, the dividend and operational cash flow cover, future cash commitments and investment plans in line with the Group's overall strategy.

Further details are provided in note 8 to the financial statements regarding the level of distributable reserves in the parent company at 31 December 2022.

### Employees

Employee involvement and communication is paramount to the Company's success. The Group's policy of operating through subsidiaries helps ensure close communication and sharing of information with employees on matters likely to affect their interests. In addition, the workforce is kept up to date on the various financial and economic factors affecting the performance of the Group. Periodic updates on Group performance are circulated, typically following the announcement of both interim and annual financial results, with a condensed employee version of the Annual report and accounts made available to all staff.

The marketing team manages internal communications, maintaining an informative network throughout our national organisation which ensures our people remain up to date on all aspects of the SMS journey.

Communication tools include quarterly newsletters, podcasts, employee resource groups, videos, emails and various forms of social media, providing employees with industry insights and key information on Group activity such

as hybrid working, wellbeing initiatives, charitable donations and progress towards our net zero target.

Business updates are currently delivered by video or email by the executive leadership team.

The Group seeks to engage with employees on matters affecting them, through channels including employee surveys (internal and external), an employee forum, written feedback and face-to-face sessions. The Stakeholder engagement section on pages 38 to 41 provides examples of projects delivered during the year, where an open dialogue was facilitated with the workforce, and further details can also be found in the Our people section on pages 51 to 55.

The involvement and support of employees in maximising the Company's performance is encouraged through its Share Incentive Plan, which is open to all qualifying employees at all levels. As an HMRC-approved, tax-efficient plan, the Share Incentive Plan supports the engagement and retention of our workforce by providing returns that are driven by the performance of the Company. The terms of this arrangement are detailed further on page 115. In addition, share options may be granted at the discretion of the Board, typically to senior management employees. Further details can be found in note 28 to the financial statements, which is incorporated by reference into this Report.

The Group operates an equal opportunities, diversity, and inclusion policy, supported by face-to-face and eLearning, detailed further on page 53.

It is the policy of the Group to support the employment of people with protected characteristics and to ensure that recruitment, training, career development and promotion opportunities are available to all. As

such, SMS is a 'Disability-Confident', 'Mindful' and 'Accredited Living Wage and Living Hours' employer and is also a proud signatory of the Race at Work Charter as well as the Pregnancy Loss Pledge via the Miscarriage Association.

### External auditor

As detailed on page 95, the Audit Committee recommended, and the Board approved, the proposal that the current auditor, Ernst & Young LLP, be reappointed as auditor of the Company at the AGM. Ernst & Young LLP has expressed its willingness to continue in office as auditor and a resolution to reappoint Ernst & Young LLP as the Company's auditor will therefore be proposed to shareholders at the AGM.

### Directors' statement as to disclosure of information to auditor

Each of the Directors at the date of approval of the Annual report and accounts 2022 confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- he or she has taken all the steps that ought to be taken by a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

### Financial instruments

Details of the use of financial instruments and financial risk management are included in note 23 to the financial statements contained in this Annual report and accounts 2022, which are incorporated by reference into this Directors' report.

## Going concern

After making enquiries, we, the Directors, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future (for the period from the balance sheet date to 31 December 2024). We therefore continue to adopt the going concern basis in preparing the financial statements. The basis on which this conclusion has been reached is set out on pages 129 to 130, which is incorporated by reference here.

## Political contributions

No political contributions were made during the year (2021: £nil).

## Post balance sheet events

There are no post balance sheet events requiring disclosure.

## Research and development

The main research and development activities relate to IT systems development to support the metering and installations business. In addition, the Group continues to invest in future technologies related to decarbonisation and energy efficiency.

## Substantial shareholdings

On 1 February 2023, the Company had been notified, in accordance with sections 791 to 828 of the Companies Act, of the following interests in the ordinary share capital of the Company:

Name of holder	Number	% held
Liontrust Investment Management LLP	20,777,813	15.57%
PrimeStone Capital LLP	13,050,265	9.78%
Fidelity Investments	6,295,464	4.72%
Steve Timoney	5,344,344	4.01%
Bank Julius Baer & Co	5,053,201	3.79%
Hargreave Hale Ltd	4,250,000	3.19%
Canaccord Genuity Wealth Management (CI)	3,743,754	2.81%
abrdn Investment Management Ltd	3,687,021	2.76%
Soros Fund Management LLC	3,662,730	2.75%
Aegon Asset Management	3,505,446	2.63%
Rathbones	3,269,054	2.45%

## Share capital

The Company's issued share capital comprises ordinary shares of £0.01 each which are listed on AIM, a market operated by the London Stock Exchange (AIM: SMS.L). As at 31 December 2022, the issued share capital of the Company was £1,333,970 comprising 133,397,009 ordinary shares of £0.01 each.

Details of the issued share capital of the Company, together with movements in the issued share capital during the year, can be found in note 27 to the financial statements. All the information detailed in note 27 forms part of this Directors' report and is incorporated into it by reference.

The Company was authorised at the AGM in May 2022 to allot shares or grant rights to or subscribe for or convert any security into shares in the Company up to a nominal amount of £444,546. This aligns with the institutional investor guideline recommended figure of an amount equal to one-third of the total issued share capital. This authority is valid for a period expiring five years from the date the resolution was approved at the 2022 AGM; however, this authority is revised on an annual basis at each AGM, at which point the previous year's resolution is generally superseded.

## Share Incentive Plan

The Group's Share Incentive Plan (SIP) is HMRC-approved and is open to all qualifying employees, including Executive Directors.

The Partnership Share element provides that for every share a participant purchases in the Company, up to a current maximum contribution of £1,800 per year, the Company will purchase one Matching Share. The Matching Shares purchased are held in trust in the name of the individual. Dividends received on shares held in the SIP are reinvested to acquire Matching Shares at their market value.

There are various rules as to the period of time that the shares must be held in trust, but after five years the shares can be released tax-free to the participant.

Under the terms of this scheme, the Matching Shares will be forfeited if the participant leaves the employment of the Company within three years of the award (unless they are classed as a 'good leaver').

During the year, the Company purchased 48,900 of its own shares (2021: 34,191) from the market for the purpose of satisfying its Matching Share obligations under the SIP. The nominal value of the shares purchased was £489 (2021: £342) and the aggregate amount of consideration paid was £0.4m (2021: £0.3m).

Approved by the Board of Directors on 14 March 2023 and signed on its behalf below.

On behalf of the Board

**Gail Blain**

**Chief Financial Officer**

14 March 2023



## Statement of Directors' Responsibilities in the preparation of financial statements

The Directors are responsible for preparing the Directors' report, the Strategic report, the Directors' remuneration report, the separate Corporate governance statement and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. The Directors are required by the AIM Rules of the London Stock Exchange to prepare Group financial statements in accordance with UK-adopted international accounting standards ('IFRSs'), and have elected under company law to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland.

The Group financial statements are required by law, and by IFRSs, to present fairly the financial position and performance of the Group; and the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing each of the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- for the Group financial statements, state whether they have been prepared in accordance with UK-adopted international accounting standards and, for the Company financial statements, state whether applicable UK accounting standards including FRS 102 have been followed, subject to any material departures disclosed and explained in the Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Smart Metering Systems plc website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

This responsibility statement was approved by the Board of Directors on 14 March 2023 and signed on its behalf below.

By order of the Board

**Craig McGinn**  
Company Secretary  
and General Counsel  
14 March 2023

# Financial statements

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## Independent auditor's report to the Members of Smart Metering Systems plc

### Opinion

In our opinion:

- Smart Metering Systems plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2022 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Smart Metering Systems plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2022 which comprise:

Group	Parent company
Consolidated balance sheet as at 31 December 2022	Balance sheet as at 31 December 2022
Consolidated income statement for the year then ended 31 December 2022	Statement of changes in equity for the year then ended 31 December 2022
Consolidated statement of comprehensive income for the year then ended 31 December 2022	Statement of cash flows for the year then ended 31 December 2022
Consolidated statement of changes in equity for the year then ended 31 December 2022	Related notes 1 to 8 to the financial statements including a summary of significant accounting policies
Consolidated statement of cash flows for the year then ended 31 December 2022	
Related notes 1 to 32 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- In conjunction with our walkthrough of the group's financial close process, we confirmed our understanding of management's going concern assessment process and also engaged with management early to ensure all key factors were considered in their assessment.
- We obtained management's going concern assessment, including the cash forecasts and covenant calculations for the going concern period ending 31 December 2024. The group has modelled adverse scenarios in their cash forecasts and covenant calculations in order to incorporate severe but plausible changes in key assumptions to the forecasted liquidity of the group.
- We have tested the factors and assumptions included in each modelled scenario for the cash forecast and covenant calculation. We have reviewed the facility agreement and confirmed compliance with covenants at the year end and that the model show no breach throughout the going concern period.

- We also verified credit facilities available to the group to signed agreements with lenders. The group has access to committed bank facilities of £420m, which is £65m drawn down as at 31 December 2022. The full amount of these facilities matures in 2025.
- EY performed reverse stress testing which demonstrated that if there were no new meter installations from December 2022, SMS plc could still continue to invest in their planned grid scale capital expenditure. This is not deemed a plausible scenario.
- We read the group's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for a period of when the financial statements are authorised for issue until 31 December 2024.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

## Overview of our audit approach

<b>Audit scope</b>	<p>We performed an audit of the complete financial information of four components and audit procedures on specific balances for a further twelve components.</p> <p>The components where we performed full or specific audit procedures accounted for 100% of pre-tax profit before exceptional items (our audit testing covers 100% of exceptional items), 99% of revenue and 97% of total assets.</p>
<b>Key audit matters</b>	<p>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 if indicators are present.</p> <p>Appropriateness of capitalisation of overheads and other expenses within the total of costs capitalised within meter assets.</p>
<b>Materiality</b>	Overall group materiality of £1.1m which represents 5% of the group's profit before tax (PBT) before exceptional items

## An overview of the scope of the parent company and group audits

### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, the potential impact of climate change, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each company.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 31 reporting components of the Group, we selected 16 components covering entities within the UK and Ireland, which represent the principal business units within the Group.

Of the 16 components selected, we performed an audit of the complete financial information of 4 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 12 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 100% (2021: 100%) of the Group's Profit before tax before exceptional items, 99% (2021: 100%) of the Group's Revenue and 97% (2021: 98%) of the Group's Total assets. For the current year, the full scope components contributed 92% (2021: 92%) of the Group's Profit before tax before exceptional items used to calculate materiality, 89% (2021: 94%) of the Group's Revenue and 83% (2021: 94%) of the Group's Total assets. The specific scope component contributed 8% (2021: 8%) of the Group's Profit before tax before exceptional items, 10% (2021: 6%) of the Group's Revenue and 14% (2021: 4%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.



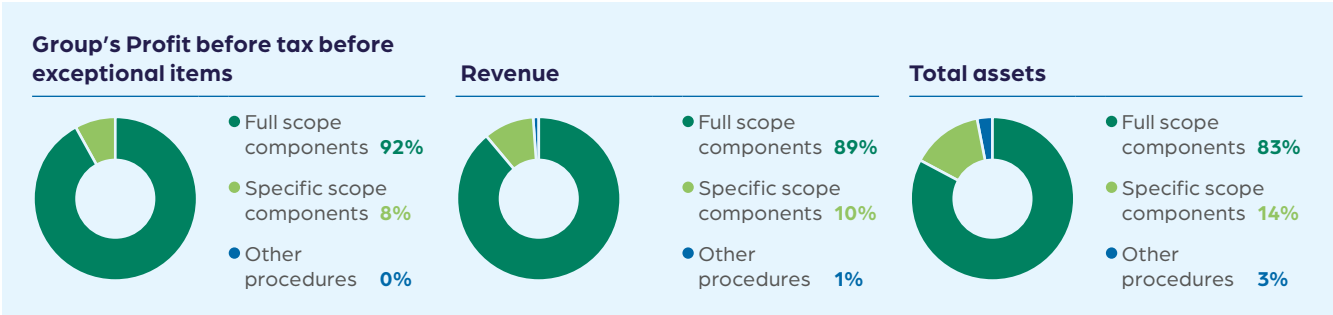
## Independent auditor’s report to the Members of Smart Metering Systems plc continued

### An overview of the scope of the parent company and group audits continued

#### Tailoring the scope continued

The remaining 12 components that together represent 0% of the Group’s Profit before tax before exceptional items. For these components, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.



#### Changes from the prior year

The grid scale battery entities – East Anglia Grid Storage One Limited; Newtonwood Energy Storage Limited; Brook Farm Energy Limited; Brentwood Energy Storage Limited; ADD Renewables No.3 Limited; and Berkley Battery Storage Limited have been brought into specific scope in the current year.

#### Involvement with component teams

All audit work performed for the purposes of the audit was undertaken by the Group audit team.

#### Climate change

There has been increasing interest from stakeholders as to how climate change will impact the group. Given the nature of the business management does not consider there to be a material impact from climate change. These considerations are explained on page 95 in the Audit Committee Report, which forms part of the “Other information,” rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

As explained in the Basis of Preparation note, climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. The degree of certainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of UK adopted international accounting standards.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.



## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>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 if impairment indicators are present (£430m value of risk, PY comparative £367m).</b></p> <p><i>Refer to the Audit Committee Report (page 94); Accounting policies (page 131); and Note 11 of the Consolidated Financial Statements.</i></p> <p><b>i/ Traditional meters</b></p> <p>Management prepared an assessment of potential impairment indicators in relation to the traditional meter portfolio which indicated that there remained significant headroom in relation to the traditional meter portfolio.</p> <p>Management concluded that it would not be appropriate to recognise a reversal of the historical impairment charge on consideration of the declining nature of the portfolio, with the smart meter roll out still in place, albeit extended to 31 December 2025, and the uncertainty as to whether the rollout period changing will have a major impact on the behaviour of energy suppliers and the knock-on impact on installation run rates. Therefore, management conclude that the above noted components that triggered the impairment, remain prevalent in the current year.</p>	<p>We obtained management's impairment assessment which concluded that there are impairment indicators present due to the declining nature of the traditional meter portfolio.</p> <p>We identified controls designed by management to determine the appropriateness of the assumptions included within the impairment model.</p> <p>EY reviewed and challenged management's accounting paper assessing if there are impairment indicators in accordance with IAS36 for each category of meters.</p> <p>We have performed procedures to independently identify potential impairment indicators including reviewing publicly available information.</p> <p>Management has concluded that there remains no significant risk of impairment with regards to the first-generated SMETS1 smart meter, as a result of the required Enrolment &amp; Adoption process into the DCC, which has seen SMETS1 meters removed from the wall. This process is now expected to continue through to the end of 2023 following an extension issued by BEIS. It's anticipated that the removal rate will reduce significantly over this period given that ~79% of SMS' SMETS1 meters have now enrolled and adopted. We therefore concluded that management's assessment was reasonable.</p> <p>There were no indicators or impairment or matters of consideration for SMETS2 or I&amp;C meters.</p> <p>Consistent with management's assessment, we concur that there were impairment indicators in relation to the traditional meter portfolio given the smart meter roll out which results in traditional meters being removed from the wall. EY have assessed and challenged management's impairment model to corroborate management's conclusion that no impairment is required. This included challenging the key assumptions:</p> <ul style="list-style-type: none"> <li>• The profile of removal of meters from the wall;</li> <li>• The recoverability and issuance of termination income for the meters remaining on the wall;</li> <li>• The expected churn in customers between energy suppliers determining the termination income earned;</li> <li>• The expected increase in annual rental income in line with RPI as defined in the contract</li> <li>• The discount rate applied in order to determine the net present value of future cashflows.</li> <li>• EY have tested the integrity of the underlying data for the customer churn and termination income assumptions.</li> </ul> <p>We have performed sensitivity testing of the key assumptions.</p> <p>We have reviewed the disclosures made around the judgements management have taken in assessing the indicators of impairment within the meter portfolio.</p> <p>The group team performed full scope audit procedures over this risk area, which covered 100% of the risk amount.</p>	<p>Based on the audit procedures performed in relation to the meter portfolio, we consider the year-end carrying value to be appropriate.</p> <p>In relation to SMETS1 meters, until the enrolment and adoption programme is completed, there may be removal of further meters which would represent a small proportion of the total portfolio of meters. We do not consider this to represent an impairment risk to the wider SMETS1 portfolio.</p> <p>We consider the disclosures made around the traditional meter assets to be adequate.</p>

## Independent auditor's report to the Members of Smart Metering Systems plc continued

### Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Appropriateness of capitalisation of overheads and other expenses within the total of costs capitalised within meter assets (£430m value of total meter assets, PY comparative £367m)</b></p> <p><i>Refer to Audit Committee Report (page 94); Accounting policies (page 131) and note 11 in the Consolidated Financial Statements.</i></p> <p>As at 31 December 2022, the group carried total meter assets amounting to £430m (2021: £367m). This includes internal operational costs that have been capitalised in the current year.</p> <p>A significant proportion of the group's smart meters are fitted by its in-house engineering team. The costs directly attributable to bringing the asset to the condition and location necessary for it to be capable of operating in the manner intended by management are capitalised in line with IAS 16.</p> <p>The significant risk relates to the judgements made by management when assessing the appropriate categories and proportion of direct costs of installation, overheads and other expenses directly attributable to the installation of each meter.</p>	<p>We identified controls designed by management to determine the categories and proportion of direct costs of installation, overheads and other expenses directly attributable to bringing the meter assets into use by the group's in-house engineering teams and evaluated the design effectiveness of these controls.</p> <p>We evaluated the judgement applied by management to assess the appropriate categories and proportion of direct costs of installation, overheads and other expenses directly attributable to installation of meter assets. This included:</p> <ul style="list-style-type: none"> <li>• Assessment of the capitalisation methodology applied and testing of the mathematical integrity of the model;</li> <li>• Testing of the time recording data utilised to determine the proportion of engineers' time spent installing;</li> <li>• Agreement of the costs to the audited trial balance; and</li> <li>• Testing of categorisation of costs capitalised to ensure they related to directly attributable costs of fitting the meter. Costs that did not relate to the meter fitting were excluded. The excluded costs included inefficiencies in meter fitting, time spent on training and time spent on transactional work.</li> <li>• Benchmarking the average installation cost capitalised to contracted third party installation costs to assess the reasonableness of the amount capitalised.</li> <li>• Reviewing the subsequent depreciation applied to the capitalised costs and their presentation within the financial statements.</li> <li>• We performed full and specific scope audit procedures over this risk area, which covered 100% of the risk amount.</li> </ul>	<p>Based on the results of our audit procedures, we consider the amounts capitalised for meters installed by in-house engineers to be appropriate.</p>

### Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £1.1million (2021: £0.8 million), which is 5% (2021: 5%) of PBT before exceptional items. We believe that pre-tax profits before exceptional items provides us with an appropriate materiality threshold for the users of the financial statements as the exceptional costs are considered non-recurring costs in the normal course of business.

We determined materiality for the Parent Company to be £8.6million (2021: £9.3 million), which is 2% (2021: 2%) of equity.

### Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2021: 75%) of our planning materiality, namely £0.6m (2021: £0.6m).

We have set performance materiality at this percentage due to our expectation of the likelihood of misstatements taking into account the internal control environment, accounting systems and level of estimation in the financial statements.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £0.1 million to £0.4 million (2021: £0.1 million to £0.4 million).

## Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.06m (2021: £0.04m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

## Other information

The other information comprises the information included in the annual report 1 to 118, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 116, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

## Independent auditor's report to the Members of Smart Metering Systems plc continued

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and parent company and determined that the most significant are those that relate to the reporting framework (IFRS, FRS 102, Companies Act 2006, AIM Rules for Company; QCA Code) and the relevant tax compliance regulations in the UK and Ireland. In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and those laws and regulations relating to health and safety, employee matters, environmental and bribery and corruption practices;
- We understood how SMS is complying with those frameworks by making enquiries of directors, internal audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquires through our review of the board minutes and papers provided to the Audit Committee, as well as consideration of the results of our audit procedures across the group to either corroborate or provide contrary evidence which was then followed up;
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur, by meeting with management within various parts of the business to understand where they considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. Where this risk was considered higher, we performed audit procedures to address the fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error;
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved enquiries of group management and those charged with governance, those responsible for legal and compliance procedures and internal audit; journal entry testing with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business and a review of Board and Audit Committee minutes to identify any non-compliance with laws and regulations.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Paul Copland (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor  
Edinburgh

14h March 2023

## Consolidated Income Statement

### For the year ended 31 December 2022

	Notes	2022 Before exceptional items £'000	2022 Exceptional items <sup>1</sup> £'000	2022 Total £'000	2021 Before exceptional items £'000	2021 Exceptional items £'000	2021 Total £'000
<b>Revenue</b>	2	<b>135,520</b>	—	<b>135,520</b>	108,480	—	108,480
Cost of sales	3	(65,498)	—	(65,498)	(48,316)	(829)	(49,145)
<b>Gross profit</b>		<b>70,022</b>	—	<b>70,022</b>	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
<b>Profit from operations</b>	3	<b>26,736</b>	<b>(6,646)</b>	<b>20,090</b>	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
<b>Profit before taxation</b>		<b>22,601</b>	<b>(6,646)</b>	<b>15,955</b>	16,513	(8,220)	8,293
Taxation	6	(2,557)	1,473	(1,084)	(6,479)	1,978	(4,501)
<b>Profit for the year attributable to owners of the parent</b>		<b>20,044</b>	<b>(5,173)</b>	<b>14,871</b>	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	<b>11.16</b>	3.20
Diluted earnings per share (pence)	7	<b>11.11</b>	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
<b>Profit for the year</b>	<b>20,044</b>	<b>(5,173)</b>	<b>14,871</b>	10,034	(6,242)	3,792
<b>Other comprehensive income<sup>1</sup></b>						
Exchange differences on translation of foreign operations	9	—	9	(46)	—	(46)
<b>Other comprehensive income for the year, net of tax</b>	<b>9</b>	<b>—</b>	<b>9</b>	<b>(46)</b>	<b>—</b>	<b>(46)</b>
<b>Total comprehensive income for the year attributable to owners of the parent</b>	<b>20,053</b>	<b>(5,173)</b>	<b>14,880</b>	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
<b>Assets</b>			
<b>Non-current assets</b>			
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	–
<b>Total non-current assets</b>		<b>573,399</b>	<b>443,090</b>
<b>Current assets</b>			
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
<b>Total current assets</b>		<b>123,450</b>	<b>190,147</b>
<b>Assets held for sale</b>	16	<b>513</b>	<b>–</b>
<b>Total assets</b>		<b>697,362</b>	<b>633,237</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
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
<b>Total current liabilities</b>		<b>72,242</b>	<b>58,126</b>
<b>Non-current liabilities</b>			
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
<b>Total non-current liabilities</b>		<b>91,634</b>	<b>21,321</b>
<b>Total liabilities</b>		<b>163,876</b>	<b>79,447</b>
<b>Net assets</b>		<b>533,486</b>	<b>553,790</b>
<b>Equity</b>			
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
<b>Total equity attributable to owners of the parent</b>		<b>533,486</b>	<b>553,790</b>

The financial statements on pages 125 to 175 were approved and authorised for issue by the Board of Directors and signed on its behalf by:

**Gail Blain**

Director

14 March 2023

Company registration number  
SC367563

## 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
<b>As at 1 January 2021</b>	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)
<b>Transactions with owners in their capacity as owners</b>							
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
<b>As at 31 December 2021</b>	<b>1,333</b>	<b>332,048</b>	<b>9,562</b>	<b>(825)</b>	<b>(45)</b>	<b>211,717</b>	<b>553,790</b>
Total profit for the year	—	—	—	—	—	14,871	14,871
Total other comprehensive income for the year	—	—	—	—	9	—	9
<b>Transactions with owners in their capacity as owners</b>							
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)
<b>As at 31 December 2022</b>	<b>1,334</b>	<b>332,332</b>	<b>9,562</b>	<b>(955)</b>	<b>(36)</b>	<b>191,249</b>	<b>533,486</b>

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
<b>Operating activities</b>		
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 <sup>1</sup>	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)	–
<b>Cash generated from operations</b>	<b>63,257</b>	<b>61,438</b>
Income tax received	568	403
<b>Net cash generated from operations</b>	<b>63,825</b>	<b>61,841</b>
<b>Investing activities</b>		
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
<b>Net cash used in investing activities</b>	<b>(172,562)</b>	<b>(121,712)</b>
<b>Financing activities</b>		
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)
<b>Net cash generated from financing activities</b>	<b>22,823</b>	<b>136,995</b>
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
<b>Cash and cash equivalents at the end of the financial year (note 15)<sup>2</sup></b>	<b>33,077</b>	<b>118,986</b>

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.

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

## 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 Systems 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.

## Accounting Policies continued

### Going concern continued

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 (refer to policy on page 139).

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.

## Accounting Policies continued

### 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.

## Accounting Policies continued

### Revenue recognition continued

#### 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.



## Accounting Policies continued

### 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.

## Accounting Policies continued

### 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 decommission 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.

## Accounting Policies continued

### Business combinations continued

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 were amortised over the 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.

## Accounting Policies continued

### Goodwill continued

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%<br>ADM™ units 10%<br>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%<br>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.

## Accounting Policies continued

### Taxation continued

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.

## Notes to the Financial Statements

For the year ended 31 December 2022

### 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:

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



## Notes to the Financial Statements continued

### For the year ended 31 December 2022

#### 1 Segmental reporting continued

31 December 2021	Asset management £'000	Asset installation £'000	Energy management £'000	Unallocated £'000	Total operations £'000
<b>Segment revenue</b>	82,828	74,208	3,620	–	160,656
Inter-segment revenue	–	(52,176)	–	–	(52,176)
<b>Revenue from external customers</b>	82,828	22,032	3,620	–	108,480
Cost of sales	(31,479)	(14,081)	(2,756)	–	(48,316)
<b>Segment gross profit – pre-exceptional cost of sales</b>	51,349	7,951	864	–	60,164
Exceptional items (cost of sales)	–	(829)	–	–	(829)
<b>Segment gross profit</b>	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)
<b>Profit/(loss) from operations – pre-exceptional operating items</b>	49,624	6,926	2,089	(39,474)	19,165
Exceptional items (operating)	(6,213)	–	–	564	(5,649)
<b>Profit/(loss) from operations</b>	43,411	6,926	2,089	(38,910)	13,516
Net finance costs: other					(3,481)
Net finance costs: exceptional					(1,742)
<b>Profit/(loss) before tax</b>					8,293
Tax expense					(4,501)
<b>Profit for year</b>					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
	<b>39,466</b>	<b>32,216</b>

## Segment assets and liabilities

31 December 2022	Asset management £'000	Asset installation £'000	Energy management £'000	Unallocated £'000	Total operations £'000
<b>Assets reported by segment</b>					
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
<b>Assets not by segment</b>					86,278
<b>Total assets</b>					697,362
<b>Liabilities by segment</b>					
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
<b>Liabilities not by segment</b>					143,411
<b>Total liabilities</b>					163,876

31 December 2021	Asset management £'000	Asset installation £'000	Energy management £'000	Unallocated £'000	Total operations £'000
<b>Assets reported by segment</b>					
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
<b>Assets not by segment</b>					166,646
<b>Total assets</b>					633,237
<b>Liabilities by segment</b>					
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
<b>Liabilities not by segment</b>					64,956
<b>Total liabilities</b>					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.

## Notes to the Financial Statements continued

### For the year ended 31 December 2022

#### 1 Segmental reporting continued

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
<b>Additions to non-current assets</b>					
<b>2022</b>	<b>106,626</b>	<b>14</b>	<b>43,003</b>	<b>2,263</b>	<b>151,906</b>
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
<b>Major service lines</b>				
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
	<b>92,815</b>	<b>30,492</b>	<b>12,213</b>	<b>135,520</b>
<b>Timing of revenue recognition</b>				
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
	<b>92,815</b>	<b>30,492</b>	<b>12,213</b>	<b>135,520</b>

Year ended 31 December 2021	Asset management £'000	Asset installation £'000	Energy management £'000	Total operations £'000
<b>Major service lines</b>				
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
	<b>82,828</b>	<b>22,032</b>	<b>3,620</b>	<b>108,480</b>
<b>Timing of revenue recognition</b>				
Services transferred at a point in time	—	15,649	—	15,649
Services transferred over time	82,828	6,383	3,620	92,381
	<b>82,828</b>	<b>22,032</b>	<b>3,620</b>	<b>108,480</b>

##### (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
<b>Total contract assets</b>	<b>287</b>	<b>46</b>
Current contract liabilities	3,403	3,732
<b>Total contract liabilities</b>	<b>3,403</b>	<b>3,732</b>

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	<b>3,107</b>	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
<b>Profit from operations is stated after (charging)/crediting:</b>		
<b>Cost of sales:</b>		
Direct staff and subcontractor costs	<b>(31,207)</b>	(22,338)
Depreciation of meter assets	<b>(28,340)</b>	(24,719)
Depreciation of grid-scale assets	<b>(994)</b>	—
Inventory costs	<b>(3,316)</b>	(995)
Short-term lease expense – restated <sup>1</sup>	<b>(1,641)</b>	(264)
<b>Total cost of sales (before exceptional items)</b>	<b>(65,498)</b>	(48,316)
<b>Administrative expenses:</b>		
Staff costs	<b>(20,924)</b>	(17,842)
Depreciation:		
– owned assets	<b>(2,477)</b>	(3,087)
– leased assets	<b>(1,064)</b>	(906)
Amortisation of intangibles	<b>(4,152)</b>	(4,060)
Auditor's remuneration (note 3a)	<b>(405)</b>	(392)
Loss on disposal	<b>(2,937)</b>	(2,457)
Low-value lease expense	<b>(37)</b>	(29)
Research and development costs	<b>(55)</b>	(39)
Other operating charges	<b>(13,171)</b>	(13,054)
<b>Total administrative expenses (before exceptional items)</b>	<b>(45,222)</b>	(41,866)
Exceptional items (note 3b)	<b>(6,646)</b>	(6,478)
Other operating income (note 3c)	<b>1,936</b>	1,696
<b>Total operating costs</b>	<b>(115,430)</b>	(94,964)

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

## Notes to the Financial Statements continued

### For the year ended 31 December 2022

### 3 Profit from operations continued

#### (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
<b>Exceptional operating items</b>		
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)
<b>Exceptional finance items</b>		
Facility fees	—	(1,742)
	—	(1,742)
<b>Total exceptional items</b>	<b>(6,646)</b>	<b>(8,220)</b>

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	<b>58,823</b>	42,973
Social security costs	<b>5,050</b>	4,694
Staff pension costs	<b>1,426</b>	1,365
Share-based payment (note 28)	<b>2,612</b>	841
Director pension costs	<b>24</b>	21
	<b>67,935</b>	49,894

## 5 Finance costs and finance income

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

## 6 Taxation

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

## Notes to the Financial Statements continued

### For the year ended 31 December 2022

#### 6 Taxation continued

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

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

<sup>1</sup> 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
<b>Profit for the year used for calculation of basic EPS</b>	<b>14,871</b>	3,792
<b>Number of shares</b>	<b>2022</b>	<b>2021</b>
Weighted average number of ordinary shares for the purposes of basic EPS	<b>133,241,113</b>	118,330,817
Effect of potentially dilutive ordinary shares:		
– share options	<b>615,969</b>	641,710
<b>Weighted average number of ordinary shares for the purposes of diluted EPS</b>	<b>133,857,082</b>	118,972,527
<b>EPS:</b>		
– basic (pence)	<b>11.16</b>	3.20
– diluted (pence)	<b>11.11</b>	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	<b>9,166</b>	<b>6.8750</b>	—	—
FY 2021 third interim dividend paid	<b>9,169</b>	<b>6.8750</b>	—	—
FY 2021 final dividend paid	<b>9,170</b>	<b>6.8750</b>	—	—
FY 2022 first interim dividend paid	<b>10,087</b>	<b>7.5625</b>	—	—
<b>Total dividends</b>	<b>37,592</b>	<b>28.1875</b>	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
<b>Cost</b>				
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
<b>As at 31 December 2022</b>	<b>10,188</b>	<b>3,268</b>	<b>35,051</b>	<b>48,507</b>
<b>Amortisation</b>				
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
<b>As at 31 December 2022</b>	<b>—</b>	<b>2,605</b>	<b>20,070</b>	<b>22,675</b>
<b>Net book value</b>				
<b>As at 31 December 2022</b>	<b>10,188</b>	<b>663</b>	<b>14,981</b>	<b>25,832</b>
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
<b>Cost</b>				
As at 1 January 2022	4,971	3,497	932	9,400
Acquisitions (note 24)	737	—	—	737
Exchange adjustments	—	—	51	51
<b>As at 31 December 2022</b>	<b>5,708</b>	<b>3,497</b>	<b>983</b>	<b>10,188</b>

## Notes to the Financial Statements continued

### For the year ended 31 December 2022

#### 10 Impairment of goodwill continued

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 Solo Energy). 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
<b>Cost</b>									
As at 1 January 2021	2,807	392,146	1,044	7,148	5,305	7,010	—	—	415,460
Reclassification <sup>1</sup>	—	—	—	—	—	—	—	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
<b>As at 31 December 2022</b>	<b>3,218</b>	<b>545,571</b>	<b>1,186</b>	<b>9,198</b>	<b>5,356</b>	<b>17,000</b>	<b>54,132</b>	<b>31,382</b>	<b>667,043</b>
<b>Depreciation</b>									
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
<b>As at 31 December 2022</b>	<b>846</b>	<b>115,859</b>	<b>1,085</b>	<b>7,403</b>	<b>4,057</b>	<b>3,559</b>	<b>994</b>	<b>—</b>	<b>133,803</b>
<b>Net book value</b>									
<b>As at 31 December 2022</b>	<b>2,372</b>	<b>429,712</b>	<b>101</b>	<b>1,795</b>	<b>1,299</b>	<b>13,441</b>	<b>53,138</b>	<b>31,382</b>	<b>533,240</b>
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

<sup>1</sup> 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.



## Notes to the Financial Statements continued

### For the year ended 31 December 2022

#### 11 Property, plant and equipment continued

##### Meter assets continued

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:

	2022 £'000	2021 £'000
Carrying value		
Properties <sup>1</sup>	3,840	4,502
Land	9,601	4,878
	<b>13,441</b>	<b>9,380</b>

<sup>1</sup> Properties include office and warehouse space.

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

	2022 £'000	2021 £'000
Depreciation charge on right-of-use assets		
Properties	1,024	919
Motor vehicles	–	6
Land	240	107
	<b>1,264</b>	<b>1,032</b>

#### 12 Investment in associate

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

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 remaining 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	<b>723</b>	–
Operating profit excluding depreciation and amortisation (EBITDA)	<b>(88)</b>	–
Depreciation and amortisation	<b>(868)</b>	–
Taxation	<b>214</b>	–
Loss after taxation	<b>(742)</b>	–
Group's share of associate's loss for the period	<b>(186)</b>	–

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

### 13 Inventories

	2022 £'000	2021 £'000
Finished goods	<b>36,888</b>	22,476
Consumables	<b>550</b>	504
	<b>37,438</b>	22,980

### 14 Trade and other receivables

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

Amounts falling due after more than one year:

	2022 £'000	2021 £'000
Payments on account to acquire grid-scale battery assets	<b>12,347</b>	–

Accrued income is made up of the following balances:

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

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

## Notes to the Financial Statements continued

### For the year ended 31 December 2022

#### 14 Trade and other receivables continued

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
<b>Total cash and cash equivalents</b>	<b>33,077</b>	<b>118,986</b>

#### 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	—

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
<b>Current</b>		
Trade payables	<b>28,447</b>	16,638
Other payables	<b>5,350</b>	4,097
Other taxes	<b>1,725</b>	1,519
Deferred income	<b>2,806</b>	2,898
Advance payments	<b>995</b>	1,185
Accruals	<b>30,055</b>	30,152
	<b>69,378</b>	56,489

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

	2022 £'000	2021 £'000
Contract liabilities	<b>3,403</b>	3,732
Other deferred income	<b>398</b>	351
	<b>3,801</b>	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	<b>591</b>	–
Non-current	<b>63,349</b>	–
	<b>63,940</b>	–

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

## Notes to the Financial Statements continued

### For the year ended 31 December 2022

#### 18 Bank loans continued

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	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
<b>As at 31 December</b>	<b>12,361</b>	<b>8,573</b>

#### 20 Provisions

Provisions comprise:

	2022 £'000	2021 £'000
<b>Non-current</b>		
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)	–
<b>As at 31 December</b>	<b>2,033</b>	<b>798</b>

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
<b>Current</b>		
Deferred consideration on acquisitions	<b>1,388</b>	638
	<b>1,388</b>	638
<b>Non-current</b>		
Deferred consideration on acquisitions	<b>674</b>	750
Contingent consideration on acquisitions	<b>606</b>	–
	<b>1,280</b>	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	<b>12,199</b>	8,511
Increase in provision through consolidated statement of comprehensive income	<b>1,029</b>	4,408
Increase/(decrease) in provision through equity	<b>93</b>	(319)
Deferred tax in respect of acquisitions and disposals	<b>175</b>	(401)
Closing deferred tax liability	<b>13,496</b>	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	<b>13,527</b>	11,036
Tax losses available	<b>(115)</b>	(51)
Deferred tax asset on share options	<b>(1,519)</b>	(1,438)
Deferred tax on intangibles acquired	<b>1,240</b>	1,168
Other temporary differences <sup>1</sup>	<b>363</b>	1,484
	<b>13,496</b>	12,199

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

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

<sup>1</sup> 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.

## Notes to the Financial Statements continued

### For the year ended 31 December 2022

#### 22 Deferred taxation continued

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
<b>2022</b>	<b>+100bps</b>	<b>(198)</b>
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.

	Less than one year £'000	Between two and five years £'000	Over five years £'000	Total contractual cash flows £'000
<b>31 December 2022</b>				
<b>Contractual maturities of financial liabilities</b>				
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
	<b>31,559</b>	<b>4,384</b>	<b>5,648</b>	<b>41,591</b>
<b>31 December 2021</b>				
<b>Contractual maturities of financial liabilities</b>				
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
	<b>18,556</b>	<b>3,982</b>	<b>5,965</b>	<b>28,503</b>

### (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.

## Notes to the Financial Statements continued

### For the year ended 31 December 2022

#### 23 Financial risk management continued

##### (e) Credit risk continued

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/(decrease) in loss allowance recognised in profit or loss during the year – underlying	755	(192)	563
Amounts reversed/written off during the year	–	(751)	(751)
<b>At 31 December 2022</b>	<b>1,156</b>	<b>3,026</b>	<b>4,182</b>

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**

	Gross balances <sup>1</sup> £'000	Amounts offset <sup>2</sup> £'000	Balance sheet <sup>3</sup> £'000
31 December 2022			
<b>Financial assets</b>			
Trade receivables	27,083	(1,786)	25,297
Accrued income	23,138	(3,753)	19,385
<b>Financial liabilities</b>			
Trade payables	28,579	(132)	28,447
Accruals	35,463	(5,408)	30,055
31 December 2021			
<b>Financial assets</b>			
Trade receivables	23,409	(958)	22,451
Accrued income	20,313	(1,048)	19,265
<b>Financial liabilities</b>			
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)
<b>Net identifiable assets acquired</b>	<b>1,283</b>
Add: goodwill	737
<b>Net assets acquired</b>	<b>2,020</b>
Satisfied by:	
Cash	1,432
Contingent consideration	588
<b>Total consideration</b>	<b>2,020</b>

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)
<b>Net cash outflow in respect of the purchase of the business</b>	<b>1,346</b>

No contingent assets or liabilities were acquired.



## Notes to the Financial Statements continued

### For the year ended 31 December 2022

#### 24 Business combinations continued

##### Year ended 31 December 2022 continued

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 the 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)
<b>Net identifiable assets acquired</b>	<b>7,574</b>
Add: goodwill	859
<b>Net assets acquired</b>	<b>8,433</b>

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
<b>Total purchase consideration</b>			<b>14,562</b>	<b>874</b>	<b>15,436</b>

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)
<b>Total purchase consideration</b>	<b>15,436</b>

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
<b>Cash outflow on asset acquisitions in 2022</b>	<b>14,627</b>

## Notes to the Financial Statements continued

### For the year ended 31 December 2022

#### 25 Asset acquisitions continued

##### 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 £'000	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
<b>Total purchase consideration</b>	<b>4,750</b>	<b>1,000</b>	<b>5,750</b>

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)
<b>Total purchase consideration</b>	<b>1,471</b>	<b>1,572</b>	<b>1,306</b>	<b>1,401</b>	<b>5,750</b>

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
	<b>5,138</b>	<b>3,190</b>

### (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
	<b>1,800</b>	<b>1,765</b>

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).

Detailed remuneration disclosures are also provided in the in the Annual Report on remuneration on pages 110 to 112.

#### Emoluments of highest paid Director

	2022 £'000	2021 £'000
Emoluments	901	694
Company contributions to money purchase pension scheme	20	—
	<b>921</b>	<b>694</b>

#### Number of Directors who accrued benefits under Company pension schemes

	2022 Number	2021 Number
Money purchase schemes	3	3

## Notes to the Financial Statements continued

### For the year ended 31 December 2022

#### 26 Related party transactions continued

##### (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<sup>1</sup> of £61,875 (2021: £230,625), Metis Investments Limited<sup>2</sup> 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).

<sup>1</sup> Alan Foy is a trustee but not a beneficiary.

<sup>2</sup> 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)	—	—	<b>379,934</b>	350.0	12 Nov 2019	11 Nov 2024	84.8
Unapproved	43,890	—	(17,556)	—	—	<b>26,334</b>	470.0	18 Aug 2021	17 Aug 2026	87.2
Unapproved	50,000	—	—	—	—	<b>50,000</b>	529.0	26 Sep 2021	25 Sep 2026	142.4
Unapproved	409,001	—	—	(16,000)	—	<b>393,001</b>	700.0	1 Jan 2023	13 Jul 2028	125.2
Unapproved	12,000	—	—	—	—	<b>12,000</b>	602.8	13 Sep 2023	12 Sep 2028	154.3
Unapproved	409,000	—	—	(16,000)	—	<b>393,000</b>	700.0	1 Jan 2023	13 Jul 2028	34.6
Unapproved	12,000	—	—	—	—	<b>12,000</b>	602.8	13 Sep 2023	12 Sep 2028	98.0
Unapproved	370,000	—	—	—	—	<b>370,000</b>	454.6	5 Sep 2024	4 Sep 2029	111.5
Unapproved	409,000	—	—	(16,000)	—	<b>393,000</b>	700.0	1 Jan 2023	13 Jul 2028	37.2
Unapproved	12,000	—	—	—	—	<b>12,000</b>	602.8	13 Sep 2023	12 Sep 2028	105.6
Unapproved <sup>1</sup>	76,000	—	—	—	—	<b>76,000</b>	577.4	26 Jun 2025	25 Jun 2030	59.3
Unapproved	408,999	—	—	(16,000)	—	<b>392,999</b>	700.0	01 Jan 2023	13 Jul 2028	134.3
Unapproved	12,000	—	—	—	—	<b>12,000</b>	602.8	13 Sep 2023	12 Sep 2028	266.1
Unapproved <sup>1</sup>	76,000	—	—	—	—	<b>76,000</b>	577.4	26 Jun 2025	25 Jun 2030	191.4
Unapproved <sup>2</sup>	290,000	—	—	—	—	<b>290,000</b>	705.4	10 Feb 2026	09 Feb 2031	210.8
Unapproved	—	408,999	—	(16,000)	—	<b>392,999</b>	700.0	1 Jan 2023	13 Jul 2028	11.1
Unapproved	—	12,000	—	—	—	<b>12,000</b>	602.8	13 Sep 2023	12 Sep 2028	195.5
Unapproved <sup>1</sup>	—	76,000	—	—	—	<b>76,000</b>	577.4	26 Jun 2025	25 Jun 2030	144.4
Unapproved <sup>2</sup>	—	290,000	—	—	—	<b>290,000</b>	705.4	10 Feb 2026	09 Feb 2031	181.4
LTIP	—	57,701	—	—	—	<b>57,701</b>	nil	18 May 2025	18 May 2032	631.1
LTIP	—	19,234	—	—	—	<b>19,234</b>	nil	18 May 2025	18 May 2032	313.0
LTIP	—	9,617	—	—	—	<b>9,617</b>	nil	18 May 2026	18 May 2032	604.1
LTIP	—	3,206	—	—	—	<b>3,206</b>	nil	18 May 2026	18 May 2032	301.0
LTIP	—	9,617	—	—	—	<b>9,617</b>	nil	18 May 2027	18 May 2032	578.3
LTIP	—	3,205	—	—	—	<b>3,205</b>	nil	18 May 2027	18 May 2032	290.1
<b>Total</b>	<b>3,027,722</b>	<b>889,579</b>	<b>(75,454)</b>	<b>(80,000)</b>	<b>—</b>	<b>3,761,847</b>				

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 (%)	<b>3.5 to 4.3</b>	3.3
Expected volatility (%)	<b>30.03 to 38.48</b>	35.96 to 41.33
Risk-free interest rate (%)	<b>1.25 to 4.16</b>	0.09 to 0.39
Expected option life (years)	<b>1.28 to 4.87</b>	2.28 to 4.87
Exercise price (£)	<b>nil to 7.05</b>	5.77 to 7.05
Share price at grant date (£)	<b>7.08 to 7.89</b>	8.30
Fair value at grant date (£)	<b>0.11 to 6.31</b>	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.

## Notes to the Financial Statements continued

### For the year ended 31 December 2022

#### 28 Share-based payments continued

##### (a) Employee option plans continued

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)	–	<b>254,873</b>	6.10
Matching	228,943	61,103	(23,875)	(14,437)	<b>251,734</b>	6.10
Dividend	25,204	12,327	(2,826)	–	<b>34,705</b>	7.24
Total	484,462	134,533	(63,246)	(14,437)	<b>541,312</b>	

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	<b>38,930</b>	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.

### 32 Subsidiary undertakings

A full list of the Group's subsidiaries and associated undertakings (as defined in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008) as at 31 December 2022 is detailed below. Unless otherwise stated, they have share capital consisting solely of ordinary shares, and the proportion of ownership interests held equals the voting rights held by the Group. The country of registration is also their principal place of business.

	Registered office (see key below table)	Holding	Proportion of shares held	Nature of business
SMS Connections Limited	1	Ordinary shares	100%	Gas utility connections
SMS Meter Assets Limited	1	Ordinary shares	100%	Gas and electric asset management
SMS MAPCO 1 Limited	2	Ordinary shares	100%	Gas and electric asset management
SMS MAPCO 2 Limited	2	Ordinary shares	100%	Gas and electric asset management
SMS Data Management Limited	1	Ordinary shares	100%	Data management
Smart Metering Systems PTY Limited (Australia) (in liquidation)	4	Ordinary shares	100%	Data management
UKMA (AF) Limited*	2	Ordinary shares	100%	Funding
SMS Corporate Services Limited	1	Ordinary shares	100%	Administrative services
SMS Asset Management Limited*	2	Ordinary shares	100%	Gas and electric third-party asset management
SMS Energy Services Limited	2	Ordinary shares	100%	Electricity utility connections and management
SMS Data Services Limited*	2	Ordinary shares	100%	Electric asset and data management
CH4 Gas Utility and Maintenance Services Limited*	2	Ordinary shares	100%	Meter installation
SMS Utilities Academy Limited*	2	Ordinary shares	100%	Engineer training and development
Trojan Utilities Limited*	2	Ordinary shares	100%	Meter installation
Qton Solutions Limited*	2	Ordinary shares	100%	Business and domestic software development
Smart Battery Systems Limited	2	Ordinary shares	100%	Holding company
Solo Energy Limited (UK)*	1	Ordinary shares	100%	Renewable asset management
Solo Energy Limited (Ireland)*	3	Ordinary shares	100%	Renewable asset management
Care Assets Limited	2	Ordinary shares	100%	Holding company
Add Renewables No.3 Limited*	2	Ordinary shares	100%	Renewable asset management
Burwell Power Limited*	2	Ordinary shares	100%	Holding company
East Anglia Grid Storage One Limited*	2	Ordinary shares	100%	Renewable asset management
Newtonwood Energy Storage Limited*	2	Ordinary shares	100%	Renewable asset management
Brook Farm Energy Storage Limited*	2	Ordinary shares	100%	Renewable asset management
Berkeley Battery Storage 2 Limited*	2	Ordinary shares	100%	Renewable asset management
Brentwood Energy Storage Limited*	2	Ordinary shares	100%	Renewable asset management
Balance Energy 1 Ltd*	2	Ordinary shares	100%	Renewable asset management
Balance Energy 2 Ltd*	2	Ordinary shares	100%	Renewable asset management
Balance Energy 3 Ltd*	2	Ordinary shares	100%	Renewable asset management
Bramford Power Limited*	2	Ordinary shares	100%	Renewable asset management
Drumcross Energy Storage Limited*	1	Ordinary shares	100%	Renewable asset management
Erskine Energy Storage Limited*	1	Ordinary shares	100%	Renewable asset management
Fen Power 1 Limited*	2	Ordinary shares	100%	Renewable asset management
N3rgy Data Limited*	2	Ordinary shares	100%	Renewable asset management

## Notes to the Financial Statements continued

### For the year ended 31 December 2022

#### 32 Subsidiary undertakings continued

	Registered office (see key below table)	Holding	Proportion of shares held	Nature of business
Clenergy EV Ltd	5	Ordinary Shares	25%	Renewable asset management
Metering Limited	2	Ordinary shares	100%	Dormant
Cosmos AMR Limited*	2	Ordinary shares	100%	Dormant
Carbon Reduction Assets Limited*	2	Ordinary shares	100%	Dormant
Savano Limited*	2	Ordinary shares	100%	Dormant
Metering 1 Limited	1	Ordinary shares	100%	Dormant
Metering 2 Limited*	1	Ordinary shares	100%	Dormant
SMS Installations (Midlands) Limited*	1	Ordinary shares	100%	Dormant
Eco Project Management Limited	1	Ordinary shares	100%	Dormant
Smart Meter Systems Limited	1	Ordinary shares	100%	Dormant
UK Data Management Limited	1	Ordinary shares	100%	Dormant
UK Water Connection Limited	1	Ordinary shares	100%	Dormant
Utility Partnership Limited	1	Ordinary shares	100%	Dormant
SMS IP Limited	1	Ordinary shares	100%	Dormant
Smart Home Systems Limited	2	Ordinary shares	100%	Dormant
UK Gas Connection Limited	1	Ordinary shares	100%	Dormant
The UK Meter Exchange Limited	1	Ordinary shares	100%	Dormant
UK Electricity Connection Limited	1	Ordinary shares	100%	Dormant
UK Meter Assets Limited	1	Ordinary shares	100%	Dormant
UK Smart Metering Group Limited	1	Ordinary shares	100%	Dormant
Smart Charging Systems Limited	2	Ordinary shares	100%	Dormant
Smart EV Systems Limited	2	Ordinary shares	100%	Dormant
Smart Install Systems Limited	2	Ordinary shares	100%	Dormant
Smart Solar Systems Limited	2	Ordinary shares	100%	Dormant
Care Data Management Limited	2	Ordinary shares	100%	Dormant
Smart Carbon Reduction Limited	2	Ordinary shares	100%	Dormant
Care Energy Services Limited	2	Ordinary shares	100%	Dormant
Care Utility Connections Limited	2	Ordinary shares	100%	Dormant
Care Energy Limited	2	Ordinary shares	100%	Dormant
Care Power Limited	2	Ordinary shares	100%	Dormant

\* The shareholding in this company is indirect, via a subsidiary company.

1 Registered office address: 2nd Floor, 48 St. Vincent Street, Glasgow G2 5TS.

2 Registered office address: Prenaau House, Copse Walk, Cardiff Gate Business Park, Cardiff CF23 8XH.

3 Registered office address: Unit 4 Joyce House, Barrack Square, Ballincollig, Cork, P31HW35, Republic of Ireland.

4 Registered office address: KPMG, 'Tower 3' Level 38, 300 Bangaroo Avenue, Sydney, NSW 2000, Australia.

5 Registered office address: The Mill House Erw Hir, Llantrisant, Pontyclun, Wales, CF72 8BY.

The following UK subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 31 December 2022.

Name	Registration number
SMS Utilities Academy Limited	11896547
Care Assets Limited	12475528
Berkeley Battery Storage 2 Limited	10942601
Brook Farm Energy Storage Limited	10780034
Drumcross Energy Storage Limited	SC679835
Erskine Energy Storage Limited	SC690064
Newtonwood Energy Storage Limited	11257609
Add Renewables No.3 Limited	10042216
Bramford Power Limited	12480700
Fen Power 1 Limited	12875930
N3rgy Data Limited	11712674
Trojan Utilities Limited	07790830
UKMA (AF) Limited	07130739
SMS Asset Management Limited	12285853
SMS Data Services Limited	13166529
Metering Limited	13160823
Balance Energy 1 Limited	11894406
Balance Energy 2 Limited	12266348
Balance Energy 3 Limited	12341398
Brentwood Energy Storage Limited	11516707



## Parent Company Balance Sheet

For the year ended 31 December 2022

	Notes	2022 £'000	2021 (restated) £'000
<b>Non-current assets</b>			
Investments	2	24,306	21,694
Debtors	3	407,125	444,828
<b>Total non-current assets</b>		<b>431,431</b>	466,522
<b>Creditors</b>			
Amounts falling due within one year	4	(429)	(429)
<b>Net current (liabilities)</b>		<b>(429)</b>	(429)
<b>Total assets less current liabilities</b>		<b>431,002</b>	466,093
<b>Capital and reserves</b>			
Called-up share capital	6	1,334	1,333
Share premium account		332,332	332,048
Other reserves	7	18,046	15,435
Own share reserve		(955)	(825)
Profit and loss account		80,245	118,102
<b>Equity shareholders' funds</b>		<b>431,002</b>	466,093

No profit and loss account is presented by the Company, as permitted by section 408 of the Companies Act 2006. The profit after taxation dealt with in the financial statements of the Company was £nil for the financial year ended 31 December 2022 (2021: £nil).

The parent company financial statements on pages 176 to 180 were approved and authorised for issue by the Board of Directors and signed on its behalf by:

**Gail Blain**

Director

14 March 2023

Company registration number  
SC367563

## Parent Company 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 account £'000	Other reserves £'000	Own share reserve £'000	Retained earnings £'000	Total £'000
<b>As at 1 January 2021</b>	1,129	160,471	14,594	(749)	147,365	322,810
Total comprehensive income for the year	—	—	—	—	—	—
<b>Transactions with owners in their capacity as owners</b>						
Dividends (note 8)	—	—	—	—	(29,060)	(29,060)
Share-based payments (note 7)	—	—	841	—	—	841
Movement in own shares	—	—	—	(76)	(203)	(279)
Shares issued	204	171,577	—	—	—	171,781
<b>As at 31 December 2021</b>	<b>1,333</b>	<b>332,048</b>	<b>15,435</b>	<b>(825)</b>	<b>118,102</b>	<b>466,093</b>
Total comprehensive income for the year	—	—	—	—	—	—
<b>Transactions with owners in their capacity as owners</b>						
Dividends (note 8)	—	—	—	—	(37,592)	(37,592)
Share-based payments (note 7)	—	—	2,611	—	—	2,611
Movement in own shares	—	—	—	(130)	(265)	(395)
Shares issued	1	284	—	—	—	285
<b>As at 31 December 2022</b>	<b>1,334</b>	<b>332,332</b>	<b>18,046</b>	<b>(955)</b>	<b>80,245</b>	<b>431,002</b>

## Notes to the Parent Company Financial Statements

### For the year ended 31 December 2022

The parent company financial statements of Smart Metering Systems plc (the 'Company') for the year ended 31 December 2022 were authorised for issue by the Board of Directors on 14 March 2023 and the balance sheet was signed on the Board's behalf by Gail Blain. Smart Metering Systems plc is a public limited company limited by shares and incorporated and domiciled 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.

## 1 Parent company accounting policies

### Basis of accounting

These financial statements are the first financial statements of the parent Company to be prepared under FRS 101. The financial statements of the parent Company for the year ended 31 December 2021 were prepared under FRS 102. The date of transition to FRS 101 is 1 January 2021. As a result of the transition to FRS 101 the Company's amounts owed by Group undertakings of £407,125,000 (2021: £444,828,000) have been reclassified from current to non-current assets as the amounts owed are not expected to be settled within 12 months after the reporting period. There is no further impact on the previously reported results for the parent Company for the year ended 31 December 2021 or for the current year's results arising from the transition to FRS 101. The financial statements are prepared under the historical cost convention. The Company took advantage of the deemed cost exemption to carry over investments carried at cost at the previous GAAP carrying amount.

The accounting policies of the parent Company financial statements follow those policies which apply in preparing the consolidated financial statements for the year ended 31 December 2022. The financial statements are prepared in Sterling and are rounded to the nearest thousand Pounds (£'000).

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined).
- IFRS 7, 'Financial instruments: Disclosures'.
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of paragraph 79(a)(iv) of IAS 1.
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d) (statement of cash flows);
  - 16 (statement of compliance with all IFRS);
  - 38A (requirement for minimum of two primary statements, including cash flow statements);
  - 38B–D (additional comparative information);
  - 111 (cash flow statement information); and
  - 134–136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'.
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.

Disclosure of auditor remuneration for non-audit fees is not given in the individual financial statements as the Group accounts are required to comply with regulation 5(1)(b) of the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 and present the information on a consolidated basis.

The Company is a guarantor in respect of the Group's revolving credit facilities.

## Going concern

Based on the current projections and facilities in place, the Directors consider it appropriate to continue to prepare the financial statements on a going concern basis.

## Investments

Investments in subsidiary undertakings are stated in the balance sheet of the Company at cost, or nominal value of the shares issued as consideration where applicable, less provision for any impairment in value.

## Share-based payments

The grant by the Company of options and share awards over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services rendered, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to the investments in subsidiary undertakings, with a corresponding credit to equity in the Company financial statements. The credit to equity is recognised within Other reserves, as these amounts are non-distributable at the Company level.

## 2 Investments

	2022 £'000	2021 £'000
Carrying value		
At 1 January	21,694	20,853
Share-based payments (note 7)	2,612	841
<b>At 31 December</b>	<b>24,306</b>	21,694

During 2022 and 2021, a number of subsidiary companies granted options and share awards to their employees over the shares of SMS. For accounting purposes, these grants are recorded as investments by the Company in its subsidiary undertakings.

Investments in subsidiaries are assessed annually to determine if there is any indication that any of the investments might be impaired. There were no material indicators of impairment at 31 December 2022 and therefore no impairment charge has been recognised in the year ended 31 December 2022.

## Subsidiary undertakings

Details of the subsidiary undertakings of the Company, including those that are held indirectly, are listed in note 32 to the consolidated financial statements.

## 3 Debtors: amounts falling due after one year

	2022 £'000	2021 (restated) £'000
Amounts owed by Group undertakings	407,125	444,828

## 4 Creditors: amounts falling due within one year

	2022 £'000	2021 £'000
Amounts owed to Group undertakings	429	429

## 5 Related party transactions

The Group paid dividends to Alan Foy (whilst a Director) of £321,809 (2021: £906,915), The Metis Trust<sup>1</sup> of £61,875 (2021: £230,625), Metis Investments Limited<sup>2</sup> 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.

3 Paid to a connected person.

## Notes to the Parent Company Financial Statements continued

### For the year ended 31 December 2022

#### 6 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)	<b>1,334</b>	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 to the consolidated financial statements. 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 £1,225,000 (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).

#### 7 Other reserves

Other reserves are non-distributable and include the following items:

- a 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; and
- a share-based payment reserve, arising as a result of the grant by the Company of options and share awards over its equity instruments to the employees of subsidiary undertakings in the Group.

#### 8 Dividends

Please refer to details in note 8 to the Group financial statements.



If you have finished reading this report and no longer wish to keep it, please pass it on to other interested readers, return it to SMS or recycle it.

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Smart Metering Systems plc  
2nd Floor  
48 St. Vincent Street  
Glasgow G2 5TS

[www.sms-plc.com](http://www.sms-plc.com)