

Smart Metering Systems plc

Strong H1 performance, executing on our growth plans

Smart Metering Systems plc (AIM: SMS, "SMS", "the Group"), which installs and manages smart meters, energy data, grid-scale battery storage and other carbon reduction ("CaRe") assets, today publishes its half year results for the six months ended 30 June 2022.

H1 financial performance

£'m (unless stated otherwise)	H1 2022	H1 2021	% Change
Alternative performance measures			
Index-linked annualised recurring revenue (ILARR) ¹	93.1	84.2	+11%
Pre-exceptional EBITDA ²	29.1	26.1	+11%
Underlying profit before taxation ³	10.3	9.6	+7%
Underlying basic EPS (p) ⁴	5.92	4.20	+41%
Statutory performance measures			
Group revenue	62.7	51.7	+21%
EBITDA	25.8	22.4	+15%
Profit before taxation	6.1	5.0	+22%
Basic EPS (p)	3.37	0.90	+274%
Dividend per share (p)	20.625	18.750	+10%
Net cash	38.6	5.6	

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

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

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

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

A reconciliation between statutory and underlying performance is detailed in the Financial Review section.

Highlights

Financial

- ILARR of £93.1m at 30 June 2022, up 8% on year-end (31 December 2021: £85.9m) and up 11% on the prior period (30 June 2021: £84.2m)
- Revenue up 21% to £62.7m (H1 2021: £51.7m)
- Pre-exceptional EBITDA up 11% to £29.1m (H1 2021: £26.1m)
- Underlying profit before taxation up 7% to £10.3m (H1 2021: £9.6m)
- Net cash at 30 June 2022 of £38.6m (30 June 2021: £5.6m)
- Debt facility of £420m fully undrawn at 30 June 2022

Smart meters

- Since the start of Q2 2022, the run rate for smart meter installations has increased to over 40,000 per month (FY 2021: c.30,000 meters average per month)
- The total smart meter portfolio was c.1.9m at 30 June 2022 (FY 2021: c.1.7m), including 230,000 smart meter additions in H1 2022
- Strong contracted smart meter order pipeline at 30 June 2022 of c.2.42m (31 December 2021: c.2.55m) reflecting a further contract win and net of installations

Grid-scale batteries

- Grid-scale battery portfolio increased to 760MW (31 December 2021: 620MW) including:
 - 50MW site at Burwell operational since end of January 2022 and performing ahead of previous expectations (equivalent to annualised c. £0.1m/MW EBITDA)
 - 360MW fully secured, including 190MW in construction
 - 350MW under exclusivity
- Second site of 40MW is now energised and is in the final stages of commissioning, and a further 100MW is expected to come online by the end of H1 2023

CaRe Products

- Strategic investments in Clenergy EV and n3rgy Data accelerate the Group's capabilities in electric vehicle (EV) charging infrastructure and energy data management
- Continued progress in other CaRe products and services including energy efficiency and Behind-the-Meter solar, storage and heat solutions
- The Group considers these CaRe products to be closely aligned to our existing engineering and energy skills, and to our technology platforms. Management sees substantial further growth opportunity in what are large and growing markets

Outlook

- The Board expects FY2022 pre-exceptional EBITDA and underlying PBT to be in line with the upgraded guidance given in our trading update announcement on 27 July 2022
- 10% growth in dividend to 30.25p per share intended for FY 2022 in line with policy until 2024
- The Board is confident in the Group's growth prospects for FY2023
 - we expect the increase in smart meter installation run rates to continue
 - our forward view on grid-scale battery returns has improved
 - the prevailing inflationary environment is expected to have a net positive impact on our forecasts due to our index-linked contracts
 - as a result, the Board expects that pre-exceptional EBITDA for FY2023 will be marginally ahead of its previous expectations and, despite the impact of higher interest rates, underlying PBT will be in line with its previous expectations

Tim Mortlock, Chief Executive Officer, commented:

"The strong half year results again demonstrate the resilience of our business model, which is underpinned by our index-linked recurring cash flows from meter and data assets, and reflect the strong performance of our first grid-scale battery storage project."

"We have made significant progress in executing the strategy set out last Autumn. We are pleased to see continued acceleration in our meter installation run rates, an increase in our smart meter portfolio and a new contract which adds to our smart meter order pipeline. Leveraging on our end-to-end platform, we have successfully built and begun to deliver a strong pipeline of grid-scale battery storage projects within a short period of time, with significant additional opportunities from this substantial and growing market."

"Our two recent strategic investments in EV charging infrastructure and energy data are complementary to our existing end-to-end business model and enhance our ability to accelerate other carbon reduction (CaRe) products and services, providing opportunities for further growth over the long-term."

"The global energy market is in a period of extreme turbulence and there is a fundamental need for the CaRe assets we originate and own. These assets enable the transition to a low carbon, flexible, secure and, of particular importance at this time to all businesses and consumers, low-cost energy system. We remain confident about the future growth prospects for the business."

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

For further information:

Smart Metering Systems plc

0141 249 3850

Tim Mortlock, Chief Executive Officer

Gavin Urwin, Chief Financial Officer

Dilip Kejriwal, Head of Investor Relations

Cenkos Securities plc (Joint Broker and Nomad)

0131 220 6939 / 020 7397 8900

Neil McDonald / Pete Lynch

Investec Bank plc (Joint Broker)

Christopher Baird / Henry Reast

020 7597 5970

RBC Capital Markets (Joint Broker)

Matthew Coakes / Evgeni Jordanov / Jack Wood

020 7653 4000

Instinctif Partners (PR Adviser)

Tim Linacre / Guy Scarborough / Sarah Hourahane

020 7457 2020

SMS@instinctif.com**Notes to Editors**

Smart Metering Systems plc (www.sms-plc.com) is a fully integrated energy infrastructure company, which installs and manages smart meters, energy data, grid-scale battery storage and other carbon reduction ("CaRe") assets. The Group manages and optimises these assets through its in-house technology and data analytical platform "METIS".

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

SMS is leading the low carbon, smart energy revolution in the UK and is committed to reducing its own carbon emissions to net zero by 2030. SMS has been recognised with the London Stock Exchange's Green Economy Mark every year since it was introduced in 2019.

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

SMS's shares are quoted on AIM.

Overview

SMS continues to make significant progress in executing the strategy set out at the time of our equity placing last autumn. The Group has continued to add to its pipelines of both meter and grid-scale battery storage assets, and deployment of these pipelines is accelerating. The Group's ILARR has increased to £93.1m (+11% year-on-year) and our first operational grid-scale battery site is performing well ahead of the Board's original expectations.

Financial performance over the first half of the year was strong and FY 2022 underlying EBITDA and PBT is expected to be in line with the upgraded guidance given in our trading update announcement on 27 July 2022.

The Group has continued to increase its smart meter installation run rate. A new smart meter contract win added c.0.1m to our smart meter order pipeline which is now at c.2.42m, after taking account of 230,000 smart meter installations in H1 2022.

We commenced trading of our first 50MW grid-scale battery site at Burwell at the end of January 2022. The site's performance was well ahead of the Board's expectations and over H1 was equivalent to an annualised EBITDA contribution of £0.1m/MW and an annualised yield of c.26%, which we believe to be in-line with the wider emerging market.

The Group also made considerable progress in developing its portfolio of grid-scale battery storage assets which now stands at 760MW, including the first 50MW operational site.

During H1 2022, SMS also made two strategic investments, accelerating the Group's capabilities in the EV charging infrastructure asset class and further expanding its service offering in energy data management. The Group also continued to make progress in other CaRe products and services, including energy efficiency, Behind-the-Meter solar, storage and heat solutions – all of which are central to addressing fuel poverty, the broader 'net zero' agenda and the UK energy transition.

UK smart meter rollout

SMS has continued to grow its delivery capacity and has, in line with the Group's expectations, increased the number of smart meters installed to an average of more than 40,000 per month from Q2 2022 (FY 2021: c.30,000 meters average per month). We installed 230,000 smart meters during H1 2022, increasing our smart meter portfolio to c.1.9m. We expect to install at least 450,000 smart meters in FY 2022.

SMS has good visibility of meter hardware availability for the remainder of 2022 and beyond, with a resilient and diverse supply chain in place and the meter inventory within our UK warehouses to support these continued run-rates.

In June 2022, SMS entered into an agreement with an independent energy supplier to provide services as an integrated domestic smart meter installer and Meter Asset Provider. This contract win adds c.0.1m meters to our contracted smart meter order pipeline. Energy suppliers continue to have mandated annual installation targets to exchange 85% of meters to smart by the end of 2025.

We expect further turbulence in the energy market particularly through the winter period which, alongside the inflationary environment, will continue to provide many challenges for consumers and industry participants. However, we remain strongly positioned with our pipeline heavily weighted to larger, well financed energy suppliers, and we continue to see opportunity in the market to build our pipeline further.

Grid-scale battery storage

The Group's first 50MW grid-scale battery site at Burwell became operational and commenced trading at the end of January 2022 and accessed all revenue streams from 1 March 2022. Thus far, the majority of the revenues have been generated from the provision of frequency services, such as Dynamic Containment. Whilst the current Dynamic Containment / frequency service prices will soften over time as the volume of battery storage in the market grows, there is a fundamental and increasing need for this asset class to provide balancing services to the national energy network. This was reflected in National Grid recently increasing their forecast requirement for energy storage by 2030 by 7.2GW to 18.7GW (of which 14.1GW is expected to come from battery storage). There is currently only c.4GW of energy storage connected to the grid. The increasing requirement is driven by both the growing volume of intermittent renewable generation and growing peak demand from the electrification of heat and transport.

Our total grid-scale battery portfolio increased to 760MW (31 December 2021: 620MW) including the first operational 50MW site. The total fully secured has increased to 360MW of which 190MW is currently in construction. The remaining 350MW is under exclusivity. Our second 40MW site is now energised and is in the final stages of commissioning with a further 100MW expected to come online by the end of H1 2023.

The capital costs of developing the sites in construction are progressing in line with our previous guidance of c.£380k/MW. Longer term we anticipate that inflation in battery and electrical equipment costs will increase the development cost for the sites that are yet to enter construction or are currently under exclusivity. Utilising updated independent long-term revenue forecasts for the provision of battery services to the grid, we now expect longer-term EBITDA contribution of £57k-£65k/MW which compares to previous guidance of £42k-£53k/MW.

The increasing reliance of the UK energy system on intermittent renewable generation has amplified the importance of grid-scale batteries, underpinning the attractive revenue streams generated from this asset class, and we will continue to ensure we are a significant market participant in this substantial market.

Strategic Investments

During H1 2022, SMS made two strategic investments, accelerating the Group's capabilities in the EV charging infrastructure asset class and further expanding its service offering in energy data management.

In EV charging infrastructure, SMS invested an initial £2.0 million to acquire a 25% shareholding in Clenergy EV, a software business with a Charge Point Operator (CPO) platform focused on EV charging infrastructure. SMS has the option to invest a further £2.0 million after one year, leading to the acquisition of an additional 26% interest, and has an option to acquire the remaining shares after five years. This investment 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. We are investing in growing our pipeline of activity in this area over the coming years, addressing the destination, on-street and fleet market segments.

In energy data management, SMS acquired 100% of n3rgy, a data software company, for a cash consideration of £1.4 million. n3rgy's software (SaaS) platform enables and facilitates the use of energy consumption, generation and tariff data from smart meters registered on the Data Communications Company (DCC) platform. The acquisition will enhance and accelerate SMS's existing capabilities in smart energy data solutions, providing the Group with a strong competitive position in the significant addressable market as the electricity industry moves towards mandatory half-hourly settlement.

ESG progress and sustainability

Our Scope 1 and Scope 2 emissions in H1 2022 are set out below and compared to H1 2019 as this was our base year when setting net zero targets. Both the years 2020 and 2021 were distorted by the effect of the COVID-19 pandemic, and so we are benchmarking our progress against the 2019 position.

Scope 1 and 2 emissions (TCO2e)	H1 2022	H1 2019	% change
Total Scope 1	1,454.6	1,439.9	+1%
Scope 2 - Building electricity	65.6	100.6	-35%
Scope 2 - Grid scale batteries electricity	376.7	-	+100%

Our Scope 1 emissions, which are mainly generated by our vehicle fleet, were broadly held at 2019 levels despite the Group carrying out significantly more meter installation and transactional work. This indicates that our fleet is operating more efficiently than in 2019. We are currently in the detailed planning phase for gradually transitioning our vehicle fleet to fully electric by 2030.

Our Scope 2 building electricity emissions are down 35% from 2019 levels which was achieved by increasing our employees' awareness of energy efficient practices and monitoring through our ISO 50001 certified energy management system. We also commenced site work over the summer on the sustainability upgrade of our first office. Measures include installing solar panels and battery storage, replacing the gas boiler with a heat pump and improving insulation and thermal performance.

Our Scope 2 emissions from grid-scale batteries are entirely due to the electricity consumed in testing and operating our first grid-scale battery site. Grid-scale battery storage plays an essential role in enabling the UK to increase the electricity generated by renewables and so, whilst within the scope of our reporting, we report these emissions separately due to the positive contribution these assets make to the net zero transition.

Our 'handprint' is the amount of carbon emissions mitigated through our customers using our products and services. The positive impact of our H1 2022 handprint was 61 times the negative impact of our carbon footprint.

In the areas of social responsibility, SMS committed to increase its donations to charities within the local communities close to our offices to £90,000 per annum over the next three years and we have continued to support a variety of charities and good causes, suggested by our employees, through donations and sponsorship.

Current trading and outlook

The Group continued its strong installation run rates in July and August and is on track to install at least 450,000 smart meters in FY 2022. SMS has good visibility of meter hardware availability for the remainder of 2022 and beyond. At 31 August 2022, the Group's ILARR stood at £94.4m.

The trading performance of our first 50MW grid-scale battery project continued to remain well ahead of expectations in July and August and our second 40MW site is now energised and is in the final stages of commissioning.

As a result, the Board remains confident that pre-exceptional EBITDA and underlying PBT for FY2022 will be in line with the upgraded guidance given in our trading update announcement on 27 July 2022.

Looking forward, there are a number of factors which underpin the Board's confidence in the Group's prospects for FY2023, notwithstanding current, wider economic uncertainty.

We expect the increase in smart meter installation run rates to continue into next year as we deliver our contracted smart meter order pipeline. Our forward view on grid-scale battery returns has improved,

supported by independent forecasts, the positive early trading from our first grid-scale battery site and the current favourable frequency market. We will continue to invest in the development of our EV business, creating attractive new growth opportunities.

In addition, the prevailing inflationary environment is expected to have a positive impact on index-linked revenues from our smart meter portfolio with effect from April 2023. However, inflation will also increase operational costs and capital expenditure across the Group and increasing interest rates coupled with higher net debt levels in line with the Group's investment plans will result in higher interest costs.

Overall, the Board expects that pre-exceptional EBITDA for FY2023 will be marginally ahead of its previous expectations and that underlying PBT will remain in line with its previous expectations.

Operational review by division

Asset management:

Total meter and data asset ILARR has grown 8% since year-end to £93.1m (31 December 2021: £85.9m). The increase includes an annual RPI adjustment of 4.3% which came into effect on 1 April 2022.

A breakdown on ILARR at 30 June 2022 and the % change since 31 December 2021 is shown below:

Category	% change	ILARR	Details
Domestic smart meters	+ 15%	£57.4m	1.9 million smart meters
Data assets	+ 13%	£15.7m	0.5 million data assets
I&C meters	+ 10%	£5.1m	0.1 million I&C meters
Traditional domestic meters	- 1%	£11.6m	Traditional meters to be exchanged for smart over the UK smart meter rollout programme
Third party assets	- 39%	£3.3m	Industry appointment to third party owned meters (traditional). Now excludes £2.2m of pass-through third-party rental
Total		£93.1m	

In June 2022, SMS entered into an agreement with an independent energy supplier to provide services as an integrated domestic smart meter installer and Meter Asset Provider. This contract win adds c.0.1m meters to SMS's contracted smart meter order pipeline.

The Group installed 230,000 smart meters during H1 2022, thereby increasing the smart meter portfolio to c.1.9m meters. The net remaining smart meter order pipeline at 30 June 2022 stood at c.2.42 million meters (31 December 2021: c.2.55 million).

SMS has continued to support the enrolment and adoption of first generation ('SMETS1') smart meters into the Data Communications Company (DCC) platform. The migration of the Group's own SMETS1 portfolio is progressing slightly ahead of the industry with c.70% of our portfolio of SMETS1 meters now enrolled onto the DCC platform.

The Group maintains a diverse source of meter manufacturers and has purposefully increased stock levels in our UK distribution warehouses to mitigate the risk of delays in the supply chain and ensure that meters are available to support the growth in our installation run rate.

The index-linked nature of our meter rentals protects us from the current high levels of inflation. We expect that although, over time, the installed cost of meters will rise in line with this inflation, the RPI indexation of our revenue will result in us at least maintaining our guided yield on these assets.

We have also moved to align our ILARR reporting with our financial accounts, by excluding pass-through elements of third-party managed meters, which has always been a feature of this segment. This fully aligns our ILARR reporting with the revenue performance in our Asset Management division.

Following the acquisition of a large power metering and data portfolio in April 2021, we have been pleased to continue to grow and fully recognise the ILARR from these data services as we have integrated the services into our METIS platform and validated the contracted position of all revenue streams. Looking forward, the acquisition of n3rgy enhances SMS capabilities in smart energy data solutions. This strengthens the Group's ability to take advantage of the significant new addressable market created by the move to market-wide half hourly settlement which BEIS have mandated from the end of 2025.

Asset installation:

We have continued to invest in our delivery capability, in order to increase our installation run rate. Over FY 2021 we installed c.30,000 meters per month, but for Q2 2022 this increased to an average of over 40,000 per month with a total of 230,000 meters installed in H1 2022. We expect to install over 450,000 smart meters in FY 2022.

Whilst we have consciously increased our direct labour engineering capacity, we continue to focus on balancing regional engineering capacity with customer portfolios to maximise installation efficiency and we will seek to maintain an appropriate balance of direct and sub-contractor resources to maintain this efficient approach. We also continue to support energy suppliers and developers in the provision of new connections and emergency call-out services, a recurring transactional service requirement which can also provide complementary opportunities for asset origination.

Alongside our core focus on delivering first class customer service and increasing our smart meter installation run rate, the Group is investing in building our capabilities in the installation of other CaRe asset classes – in particular domestic electric vehicle charge points. We see this as a significant and complementary future market opportunity.

Energy management:

The commencement of trading at our Burwell grid-scale battery site has more than doubled the revenue of the Energy management division. The trading performance of grid-scale batteries and the growth in our battery portfolio are detailed in the grid-scale battery storage section above.

Our traditional consultancy and energy management services grew significantly compared to the prior period. Our work at some of our key customers had been constrained while the country was under COVID-19 restrictions. This year however, site-based energy efficiency projects have now been able to progress at a more normal pace. The exceptional increase in energy costs over recent months makes the case for our energy management and efficiency services even more compelling, and we see substantial demand for holistic services to I&C customers to reduce costs and support them on their path to net-zero.

The Group also considers an integrated approach to our energy solutions to be a significant differentiator and a potential driver of asset origination and value. We are able to combine asset classes such as battery storage, renewable generation and EV charging infrastructure with deployment of our electrical infrastructure and energy efficiency expertise. We are investing in growing our pipeline of activity in these areas over the coming years, in particular to address the EV charging destination, on-street and fleet market segments.

Financial review

Revenue

	30 June 2022	30 June 2021	Percentage
	£m	£m	change
Asset management	44.8	39.4	14%
Asset installation	12.3	10.4	18%
Energy management	5.6	1.9	186%
Group revenue	62.7	51.7	21%

Asset management revenues of £44.8m, which include revenues from the acquisition of the large-power I&C metering and data portfolio in April 2021, are 14% up on the prior period. 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 4.3% annual RPI uplift which took effect on 1 April 2022.

Asset installation revenues of £12.3m increased 18% on the prior period with growth across both our connections business and transactional meter works.

Energy management revenues of £5.6m were 186% up on the prior period. This includes £2.8m revenue from our first grid-scale battery site which became operational at the end of January 2022 and began providing dynamic frequency response services from March 2022. Revenue from Energy management excluding grid-scale battery of £2.8m grew 47% on prior period as a key customer project in the hospitality sector picked up momentum as the sector continued to recover from the effect of COVID-19 and focus turned 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. Overall, the depreciation-adjusted gross margin at the Group level fell by 5% to 73% (H1 2021: 78%). This is mainly due to a lower margin in the asset installation segment.

Depreciation-adjusted gross margin for the asset management segment is 93% which is in line with prior period (H1 2021: 93%).

The asset installation segment gross margin was 14% (H1 2021: 38%). In H1 2021 the asset installation margin was positively impacted by the flow through from some high margin transactional work that has not repeated in H1 2022. Furthermore, in H1 2022 the Group has 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 have led to additional one-off costs in the period.

The energy management segment depreciation-adjusted gross margin has increased to 49% (H1 2021: 25%). This is due to the start of trading of our first grid-scale battery site which generated a 75% depreciation-adjusted gross margin over the period. Grid-scale batteries delivered revenue of £2.8m and depreciation adjusted gross profit of £2.1m in the period. The gross margin on the segment's other activities remained broadly constant at 23% (H1 2021: 25%).

Pre-exceptional EBITDA

Pre-exceptional EBITDA provides a measure of underlying performance that is comparable over time. Pre-exceptional EBITDA of £29.1m is 11% higher than in the prior period (H1 2021: £26.1m).

The £5.0m increase in depreciation-adjusted gross profit is partly offset by a £2.0m increase in administrative costs, excluding depreciation and amortisation. Over the second half of 2021 we invested in our IT and support systems and we restored our support functions to a normalised position following COVID-19 lockdowns. Administrative costs in H1 2022 are £1.1m below H2 2021 with a fall in bad debt expense more than offsetting inflationary cost increases.

Underlying profit before tax

Depreciation costs on general property, plant and equipment, excluding meter assets and grid-scale battery sites, has reduced by £0.2m to £1.9m (H1 2021: £2.1m) due to some computer equipment and fixtures and fitting now being fully depreciated.

Depreciation costs on meter assets increased 16% to £13.7m (H1 2021: £11.8m) due to the increase in the meter asset portfolio and a full six months of depreciation being charged on the large-power I&C metering and data portfolio acquired in April 2021.

Depreciation cost on grid-scale battery sites increased to £0.4m (H1 2021: nil) due to the commencement of depreciation on our first operational grid-scale battery site in H1 2022.

Amortisation costs on our intangible assets of £2.1m (H1 2021: £2.0m) mainly consist of software amortisation and were in line with prior period.

Net finance costs of £1.6m (H1 2021: £1.6m) were broadly in line with prior period. As part of our refinancing in October 2021 we increased our committed loan facility from £300m to £420m and this has resulted in an increase in the commitment fees on our unutilised facility. This was however offset by interest income and FX gains.

As a result, underlying profit before taxation increased by 7% to £10.3m (H1 2021: £9.6m).

Exceptional items

Exceptional items of £3.3m (H1 2021: £3.7m) mainly comprise a £3.3m loss on the traditional and first-generation smart meter ('SMETS1') portfolio (H1 2021: £3.0m). 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. Exceptional items in H1 2021 also included £0.5m of costs attributable to COVID-19 and £0.2m of acquisition and other costs that have not repeated in H1 2022.

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 period.

The current forecast of the effective tax rate on pre-exceptional profits for the full year is estimated at 25.49% (30 June 2021: 38.70%). This is in line with the announced rate of UK corporation of 25% from 1 April 2023, which is the rate that will apply when the deferred tax liability generated by the capital allowances unwinds.

This forecast full year effective tax rate does not include any benefit from the tax super-deduction. The Group is continuing to evaluate the applicability of the super-deduction to its capital expenditure. The super-deduction rules are complex to apply in the context of the Group's contracting structure. The Group however anticipates reaching a conclusion by year end.

The effective rate on pre-exceptional profits in H1 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 H1 2021. The full-year effective tax rate on FY21 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 5.92p (H1 2021: 4.20p), reflecting the underlying profitability of the Group. Statutory earnings per share increased to 3.37p (H1 2021: 0.90p).

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. A dividend accrual of £9.2m has therefore been recognised at 30 June 2022 in our interim financial statements.

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 in accordance with the provisional timetable below:

Instalment	Ex-dividend date	Record date	Payment date
1	6 October 2022	7 October 2022	28 October 2022
2	05 January 2023	6 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 Board remains comfortable that future dividend payment amounts are sufficiently secured by long-term index-linked cash flows from our existing metering and data asset base and cash flows from our grid-scale battery assets.

Cash flow and capex investment

Operating cash inflow in H1 2022 was £18.6m (H1 2021: £34.4m). The cash inflow reflects £29.1m pre-exceptional EBITDA, £2.2m of non-cash costs included in EBITDA and a £12.7m 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 cash generated from operations and net cash from our October 2021 equity placing have been used to continue investment in our revenue generating meter and grid-scale battery assets.

Capital expenditure on property, plant and equipment was £59.1m (H1 2021: £44.3m). Of this, £50.2m was invested in meter and data assets, £6.8m 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 a further £13.6m of instalment payments made for grid-scale batteries which have not yet been delivered and payments of £1.7m to acquire battery sites. On the balance sheet, the sites under development are classified as assets under construction within the property, plant and equipment and the instalment payments for batteries are classified as other non-current receivables.

A further £1.1m (H1 2021: £1.1m) 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 Data Ltd in May and a £2.1m investment (including transaction costs) to acquire a 25% stake in Clenergy EV Ltd. See note 9 and note 11 to the consolidated financial statements for further details.

Financial resources

Net cash at 30 June 2022 was £38.6m (31 December 2021: 117.7m). This excludes restricted cash and lease liabilities accounted for under IFRS 16. The Group also has in place a £420m debt facility which matures in December 2025 and was fully compliant with all its bank covenants through the period to 30 June 2022. The Group has not drawn on this facility over H1 2022 and therefore had £458.6m available in cash and unutilised facilities at 30 June 2022 (31 December 2021: £537.7m). In July 2022, the Group made a £25m draw down and continues to have the financial flexibility required to maximise growth potential in a capital-efficient way.

Definitions of alternative performance measures

Alternative performance measure Definition

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

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

Reconciliation of statutory to underlying results

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

	Period ended 30 June 2022 £m	Period ended 30 June 2021 £m	Percentage change
Index-linked annualised recurring revenue	93.1	84.2	11%
Group revenue	62.7	51.7	21%
Statutory profit from operations	7.7	6.6	
Amortisation of intangibles	2.1	1.9	
Depreciation	16.0	13.9	
Statutory EBITDA	25.8	22.4	15%
Exceptional items ¹	3.3	3.7	
Pre-exceptional EBITDA	29.1	26.1	11%
Net interest	(1.6)	(1.6)	
Depreciation	(16.0)	(13.9)	
Amortisation of intangibles included in underlying profit before taxation ²	(1.2)	(1.1)	
Underlying profit before taxation	10.3	9.6	7%
Exceptional items ¹	(3.3)	(3.7)	
Amortisation of intangibles excluded in underlying profit before taxation	(0.9)	(0.8)	
Statutory profit before taxation	6.1	5.0	22%
Taxation	(1.6)	(4.0)	
Statutory profit after taxation	4.5	1.0	350%
Amortisation of intangibles excluded in underlying profit after taxation	0.9	0.8	
Exceptional items ¹	3.3	3.7	
Tax effect of adjustments	(0.8)	(0.8)	
Underlying profit after taxation	7.9	4.7	68%
Weighted average number of ordinary shares (basic)	133,225,387	113,115,772	
Underlying basic EPS (pence)	5.92	4.20	
Weighted average number of ordinary shares (diluted)	134,030,175	113,954,757	
Underlying diluted EPS (pence)	5.89	4.17	

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

Financial tables and notes

Consolidated income statement

For the period ended 30 June 2022

Unaudited						
Six months ended 30 June						
	Notes	2022 Before exceptional items £'000	2022 Exceptional items ¹ £'000	2022 Total £'000	2021 Before exceptional items £'000	2021 Exceptional items ¹ £'000
Revenue	3	62,676	—	62,676	51,678	—
Cost of sales		(30,834)	—	(30,834)	(22,537)	(800)
Gross profit		31,842	—	31,842	29,141	(800)
Administrative expenses		(21,330)	(3,325)	(24,655)	(19,447)	(2,917)
Other operating income		532	—	532	581	—
Profit from operations		11,044	(3,325)	7,719	10,275	(3,717)
Finance costs		(1,741)	—	(1,741)	(1,553)	—
Finance income		78	—	78	1	—
Profit/(loss) before taxation		9,381	(3,325)	6,056	8,723	(3,717)
Taxation		(2,391)	831	(1,560)	(4,660)	677
Profit/(loss) for the period and total comprehensive income attributable to owners of the parent		6,990	(2,494)	4,496	4,063	(3,040)

1 Refer to note 4 for details of exceptional items.

Consolidated statement of comprehensive income

For the period ended 30 June 2022

	Unaudited					
	Six months ended 30 June					
	2022 Before exceptional items £'000	2022 Exceptional items £'000	2022 Total £'000	2021 Before exceptional items £'000	2021 Exceptional items £'000	2021 Total £'000
Profit/(loss) for the period	6,990	(2,494)	4,496	4,063	(3,040)	1,023
Other comprehensive income						
Exchange differences on translation of foreign operations	9	—	9	(42)	—	(42)
Other comprehensive income/(loss) for the period, net of tax	9	—	9	(42)	—	(42)
Total comprehensive income for the period attributable to owners of the parent	6,999	(2,494)	4,505	4,021	(3,040)	981

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

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

	Notes	Six months ended 30 June 2022 Unaudited	Six months ended 30 June 2021 Unaudited
Basic earnings per share (pence)	5	3.37	0.90
Diluted earnings per share (pence)	5	3.35	0.90

Consolidated interim statement of financial position

As at 30 June 2022

	Notes	Unaudited 30 June 2022 £'000	Audited 31 December 2021 £'000
Assets			
Non-current assets			
Intangible assets		26,689	25,463
Property, plant and equipment	7	456,676	415,901
Investments		41	75
Investments in associates		2,125	—
Other assets		1,376	1,651
Trade and other receivables		13,632	—
Total non-current assets		500,539	443,090
Current assets			
Inventories		29,752	22,980
Other assets		550	550
Trade and other receivables		46,492	47,631
Income tax recoverable		69	—
Cash and cash equivalents		38,624	117,687
Restricted cash		2,954	1,299
Total current assets		118,441	190,147
Total assets		618,980	633,237
Liabilities			
Current liabilities			
Trade and other payables		59,146	56,489
Lease liabilities		1,056	999
Provisions		71	—
Other liabilities		688	638
Total current liabilities		60,961	58,126
Non-current liabilities			
Bank loans	8	—	—
Lease liabilities		9,255	7,574
Deferred tax liabilities		14,266	12,199
Provisions		1,288	798
Other long-term liabilities		1,471	750
Total non-current liabilities		26,280	21,321
Total liabilities		87,241	79,447
Net assets		531,739	553,790
Equity			
Share capital		1,334	1,333
Share premium		332,305	332,048
Other reserve		9,562	9,562
Own share reserve		(927)	(825)
Foreign currency translation reserve		(36)	(45)
Retained earnings		189,501	211,717
Total equity attributable to owners of the parent		531,739	553,790

Consolidated interim statement of changes in equity

For the period ended 30 June 2022

	Share capital £'000	Share premium £'000	Other reserve £'000	Own share reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Total £'000
Attributable to the owners of the parent company:							
As at 1 January 2021	1,129	160,471	9,562	(749)	1	236,028	406,442
Total comprehensive income for the period	—	—	—	—	(42)	1,023	981
Transactions with owners in their capacity as owners							
Dividends (note 6)	—	—	—	—	—	(21,231)	(21,231)
Shares issued	8	1,062	—	—	—	—	1,070
Movement in own shares	—	—	—	(32)	—	(57)	(89)
Share-based payments	—	—	—	—	—	325	325
Income tax effect of share options	—	—	—	—	—	664	664
As at 30 June 2021	1,137	161,533	9,562	(781)	(41)	216,752	388,162
Total comprehensive income for the period	—	—	—	—	(4)	2,769	2,765
Transactions with owners in their capacity as owners							
Dividends (note 6)	—	—	—	—	—	(7,829)	(7,829)
Shares issued	196	170,515	—	—	—	—	170,711
Movement in own shares	—	—	—	(44)	—	(146)	(190)
Share-based payments	—	—	—	—	—	516	516
Income tax effect of share options	—	—	—	—	—	(345)	(345)
As at 31 December 2021	1,333	332,048	9,562	(825)	(45)	211,717	553,790
Total comprehensive income for the period	—	—	—	—	9	4,496	4,505
Transactions with owners in their capacity as owners							
Dividends (note 6)	—	—	—	—	—	(27,505)	(27,505)
Shares issued	1	257	—	—	—	—	258
Movement in own shares	—	—	—	(102)	—	(64)	(166)
Share-based payments	—	—	—	—	—	1,366	1,366
Income tax effect of share options	—	—	—	—	—	(509)	(509)
As at 30 June 2022	1,334	332,305	9,562	(927)	(36)	189,501	531,739

Consolidated interim statement of cash flows

For the period ended 30 June 2022

	Six months ended 30 June 2022 Unaudited £'000	Six months ended 30 June 2021 Unaudited £'000
Operating activities		
Profit before taxation	6,056	5,006
Finance costs	1,741	1,553
Finance income	(78)	(1)
Foreign exchange loss	(19)	(8)
Exceptional items ¹	3,293	2,985
Depreciation	16,104	13,852
Amortisation of intangibles	2,059	1,997
Share-based payment expense	1,365	325
Loss on disposal of property, plant and equipment	892	645
Movement in inventories	(5,923)	6,372
Movement in trade and other receivables	691	(4,554)
Movement in restricted cash	(1,655)	(311)
Movement in trade and other payables	(6,398)	6,134
Movement in provisions	(4)	—
Cash generated from operations	18,124	33,995
Income tax received	503	409
Net cash generated from operations	18,627	34,404
Investing activities		
Payments for acquisition of subsidiaries, net of cash acquired (note 10)	(1,655)	(3,848)
Payment for acquisition of new business (note 9)	(1,432)	(8,433)
Payment to acquire interest in associate	(2,125)	—
Payments to acquire property, plant and equipment	(59,119)	(44,326)
Payments on account to acquire grid-scale battery assets	(13,632)	—
Proceeds on disposal of property, plant and equipment	1,730	1,366
Payments to acquire intangible assets	(1,133)	(1,123)
Finance income received	78	1
Net cash (used in)/generated from investing activities	(77,288)	(56,363)
Financing activities		
New borrowings	-	33,250
Principal elements of lease payments	(719)	(586)
Finance costs paid	(1,440)	(478)
Net proceeds from share issue	258	1,070
Purchase of own shares	(166)	(89)
Dividends paid	(18,334)	(14,124)
Net cash (used in)/generated from financing activities	(20,401)	19,043
Net (decrease)/increase in cash and cash equivalents	(79,062)	(2,916)
Exchange gain on cash and cash equivalents	(1)	(1)
Cash and cash equivalents at the beginning of the period	117,687	40,236
Cash and cash equivalents at the end of the period	38,624	37,319

1 Non-cash material exceptional items include £3,293,000 for losses on our meter portfolio (30 June 2021: £2,985,000).

Notes to the interim report

For the period ended 30 June 2022

1 Basis of preparation

This condensed consolidated interim financial report for the half-year reporting period ended 30 June 2022 has been prepared in accordance with Accounting Standard IAS 34 Interim Financial Reporting. The Company is a public limited company incorporated and domiciled in Scotland whose shares are quoted on AIM, a market operated by the London Stock Exchange.

The financial information contained in this half-yearly financial report does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. It does not therefore include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2021.

The financial information for the six months ended 30 June 2022 is also unaudited.

The comparative information for the year ended 31 December 2021 has been extracted from the Group's published financial statements for that year, which were prepared in accordance with UK-adopted international accounting standards and have been delivered to the Registrar of Companies. The report of the auditor on these accounts was unqualified and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Going concern

Management prepares budgets and forecasts on an eight-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 and the planned roll-out of grid-scale battery storage assets.

Management has modelled different meter installation and grid-scale battery roll-out scenarios, including a downside scenario, which assumed a slower rollout of new installations and delays to the grid-scale battery sites becoming operational. 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.

The Group has a £420m revolving credit facility which matures in December 2025 and no amounts were drawn as at 30 June. The Group made a £25m draw down in July 2022 and so at the date of releasing the interim financial report, the Group had access to c.£381m of this loan facility after taking account of letter of credit facilities.

The Group was compliant with all its debt covenants at 30 June 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 30 June 2022 these stood at 16.76x and -0.62x respectively, on account of a net cash-positive position, demonstrating significant headroom. The Group does not expect to breach these covenants in the year from the date of release of this report.

The Group remains in a net cash position of £38.6m at 30 June 2022 (31 December 2021: £117.7m). The Group balance sheet shows consolidated net assets of £531.7m (31 December 2021: £553.8m), of which £396.5m (31 December 2020: £366.7m) relates to revenue-generating meter and data assets and £17.2m (31 December 2021: £nil) relates to revenue generating grid-scale battery assets which are currently operational. The liquidity of the Group thus remains strong and continues to provide the financial flexibility required in order 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 dividend policy. It approved a 27.5p per share annualised dividend in respect of FY 2021 and all four cash instalments had been paid at the date of approving the interim financial statements. The Group intends to pay a 30.25p per share annualised dividend in respect of FY 2022.

Based on the current cash flow projections and facilities in place and having given consideration to various outcomes of future performance and forecast capital expenditure, including an extreme downside scenario, 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.

Significant accounting policies

As required in AIM Rule 18, the interim financial report for the half-year reporting period ended 30 June 2022 is presented and prepared in a form consistent with that which will be adopted in the annual statutory financial statements for the year ended 31 December 2022 and having regard to the accounting policies applicable to such annual accounts.

The accounting policies adopted are consistent with those followed in the Group's financial statements for the year ended 31 December 2021, except for the adoption of new standards effective 1 January 2022.

Several amendments apply for the first time in 2022 but do not have an impact on the condensed consolidated interim financial report for the half-year reporting period ended 30 June 2022.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Critical accounting judgements

The critical accounting judgements made by the Directors in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the Group's published financial statements for the year ended 31 December 2021.

2 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, following the acquisition of Solo Energy Limited, the management of Distributed Energy Resources (DER) assets.

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 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
30 June 2022					
Segment revenue	44,833	43,688	5,549	—	94,070
Inter-segment revenue	—	(31,394)	—	—	(31,394)
Revenue from external customers	44,833	12,294	5,549	—	62,676
Cost of sales	(16,962)	(10,592)	(3,280)	—	(30,834)
Segment gross profit – pre-exceptional cost of sales	27,871	1,702	2,269	—	31,842
Exceptional items (cost of sales)	—	—	—	—	—
Segment gross profit	27,871	1,702	2,269	—	31,842
Other operating (costs)/income	—	—	409	(17,232)	(16,823)
Depreciation	—	(53)	(18)	(1,845)	(1,916)
Amortisation of intangibles	(892)	—	(15)	(1,152)	(2,059)
Profit/(loss) from operations – pre-exceptional operating items	26,979	1,649	2,645	(20,229)	11,044
Exceptional items (operating)	(3,338)	(29)	—	42	(3,325)
Profit/(loss) from operations	23,641	1,620	2,645	(20,187)	7,719
Net finance costs: other					(1,663)
Profit/(loss) before tax					6,056
Tax expense					(1,560)
Profit for period					4,496

	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Unallocated (restated) £'000	Total operations £'000
30 June 2021					
Segment revenue	39,378	34,585	1,937	—	75,900
Inter-segment revenue	—	(24,222)	—	—	(24,222)
Revenue from external customers	39,378	10,363	1,937	—	51,678
Cost of sales	(14,655)	(6,424)	(1,458)	—	(22,537)
Segment gross profit – pre-exceptional cost of sales	24,723	3,939	479	—	29,141
Exceptional items (cost of sales)	—	(800)	—	—	(800)
Segment gross profit	24,723	3,139	479	—	28,341
Other operating costs/income	—	—	—	(14,813)	(14,813)
Depreciation	(625)	—	(33)	(1,398)	(2,056)
Amortisation of intangibles ¹	(829)	—	(15)	(1,153)	(1,997)
Profit/(loss) from operations – pre-exceptional operating items	23,269	3,139	431	(17,364)	9,475
Exceptional items (operating)	(3,194)	(29)	—	306	(2,917)
Profit/(loss) from operations	20,075	3,110	431	(17,058)	6,558
Net finance costs: other					(1,552)
Profit/(loss) before tax					5,006
Tax expense					(3,983)
Profit for period					1,023

¹ Amortisation of intangibles for the period ended 30 June 2021 has been restated to show amortisation of the group-wide ERP system of £1,153,000 under unallocated rather than in the Asset Management segment.

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

Depreciation of £13.7m (30 June 2021: £11.8m) associated with meter assets has been reported within Cost of sales, in the asset management segment, as the meter assets directly drive revenue.

Depreciation of £0.4m (30 June 2021: nil) associated with grid-scale batteries has been reported within Cost of sales, in the energy management segment, as the battery assets directly drive revenue.

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

Segment assets and liabilities

	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Unallocated £'000	Total operations £'000
30 June 2022					
Assets reported by segment					
Intangible assets	13,577	3,497	2,834	6,781	26,689
Property, plant and equipment	396,501	86	49,541	10,548	456,676
Investments in associates	—	—	2,125	—	2,125
Inventories	29,515	235	2	—	29,752
Other receivables	—	—	13,632	—	13,632
Contract assets	—	55	—	—	55
Other assets (bank loans)	—	—	—	1,926	1,926
	439,593	3,873	68,134	19,255	530,855
Assets not by segment					88,125
Total assets					618,980
Liabilities by segment					
Contract liabilities	1,722	1,567	41	—	3,330
Lease liabilities	—	—	6,208	4,103	10,311
Other liabilities	—	—	688	—	688
Provisions	—	—	1,288	71	1,359
Other long-term liabilities	697	—	774	—	1,471
Bank loans	—	—	—	—	—
	2,419	1,567	8,999	4,174	17,159
Liabilities not by segment					70,082
Total liabilities					87,241

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

Assets not by segment include cash and cash equivalents, trade and other receivables and investments. Liabilities not by segment include trade and other payables and deferred tax liabilities.

3 Disaggregation of revenue from contracts with customers

The Group reports the following segments: asset management, asset installation and energy management, in accordance with IFRS 8 Operating Segments. We have determined that, to meet the objective of the disaggregation disclosure requirement in paragraph 114 of IFRS 15, which is to disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors, further disaggregation is required into the major types of services offered. The following table thus discloses segmental revenue by type of service delivered and timing of revenue recognition, including a reconciliation of how this disaggregated revenue ties in with the asset management, asset installation and energy management segments, in accordance with paragraph 115 of IFRS 15.

Period ended 30 June 2022	Asset Management £'000	Asset Installation £'000	Energy Management £'000	Total operations £'000
Major service lines				
Metering	38,515	—	—	38,515
Data management	6,319	—	—	6,319
Utility connections	—	3,448	—	3,448
Transactional meter works	—	8,695	—	8,695
Grid-scale batteries	—	—	2,764	2,764
Energy management	—	151	2,784	2,935
	44,834	12,294	5,548	62,676
Timing of revenue recognition				
Services transferred at a point in time	—	8,695	—	8,695
Services transferred over time	44,834	3,599	5,548	53,981
	44,834	12,294	5,548	62,676

Period ended 30 June 2021	Asset Management £'000	Asset Installation (restated) £'000	Energy Management £'000	Total operations £'000
Major service lines				
Metering	35,505	—	—	35,505
Data management	3,873	—	—	3,873
Utility connections ¹	—	2,787	—	4,384
Transactional meter works ¹	—	7,435	—	5,838
Energy management	—	141	1,937	2,078
	39,378	10,363	1,937	51,678
Timing of revenue recognition				
Services transferred at a point in time	—	5,838	—	5,838
Services transferred over time	39,378	4,525	1,937	45,840
	39,378	10,363	1,937	51,678

1 Asset Installation revenue has been restated to align the allocation of revenue between the utility connections and transactional meter works service lines.

4 Exceptional items

	30 June 2022 £'000	30 June 2021 £'000
Exceptional operating items		
Losses on the traditional and SMETS1 meter portfolio	(3,292)	(2,985)
Costs attributable to COVID-19	—	(523)
Other	(33)	(209)
Total exceptional items	(3,325)	(3,717)

5 Earnings per share

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

	Six months ended 30 June 2022 Unaudited £'000	Six months ended 30 June 2021 Unaudited £'000
Profit for the period used for calculation of basic EPS	4,496	1,023
Number of shares		
Weighted average number of ordinary shares for the purposes of basic EPS	133,225,387	113,115,772
Effect of potentially dilutive ordinary shares:		
– share options	804,788	838,985
Weighted average number of ordinary shares for the purposes of diluted EPS	134,030,175	113,954,757
EPS:		
– basic (pence)	3.37	0.90
– diluted (pence)	3.35	0.90

6 Dividends

	Six months ended 30 June 2022 Unaudited £'000	Six months ended 30 June 2022 Per share (pence)	Year ended 31 December 2021 Audited £'000	Year ended 31 December 2021 Per share (pence)	Six months ended 30 June 2021 Unaudited £'000	Six months ended 30 June 2021 Per share (pence)
FY20 2nd interim dividend paid	—	—	7,059	6.250	7,059	6.250
FY20 3rd interim dividend paid	—	—	7,065	6.250	7,065	6.250
FY20 final dividend accrued	—	—	—	—	7,107	6.250
FY20 final dividend paid	—	—	7,107	6.250	—	—
FY21 1st interim dividend paid	—	—	7,829	6.875	—	—
FY21 2nd interim dividend paid	9,166	6.875	—	—	—	—
FY21 3rd interim dividend paid	9,169	6.875	—	—	—	—
FY21 final dividend accrued	9,170	6.875	—	—	—	—
Total dividends	27,505	20.625	29,060	25.625	21,231	18.750

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. The final instalment of the FY 2021 dividend was paid on 28 July 2022.

A 30.25p per share dividend is intended in respect of FY 2022 payable in four instalments of 7.5625p per share.

7 Property, plant and equipment

	Freehold/ leasehold property £'000	Meter assets £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Right-of-use assets £'000	Grid-scale assets £'000	Assets under construction £'000	Total £'000
Cost									
As at 1 January 2021	2,807	392,146	1,044	7,148	5,305	7,010	—	—	415,460
Reclassification	—	—	—	—	—	—	—	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	—	(50)	—	—	—	—	17,557	(17,557)	(50)
Additions	1,105	50,249	15	622	468	2,645	84	6,752	61,940
Acquisitions	—	—	—	—	—	—	—	1,730	1,730
Disposals	—	(10,440)	—	—	(86)	—	—	—	(10,526)
Exchange adjustments	—	—	—	1	—	(3)	—	—	(2)
As at 30 June 2022	3,910	501,099	1,185	8,830	5,513	14,915	17,641	24,915	578,008
Depreciation									
As at 1 January 2021	679	76,683	790	4,721	2,387	1,862	—	—	87,122
Charge for year	171	24,719	204	1,555	1,157	1,032	—	—	28,838
Disposals	1	(6,767)	—	(43)	(134)	—	—	—	(6,943)
Exchange adjustments	—	—	—	(1)	—	(1)	—	—	(2)
As at 31 December 2021	851	94,635	994	6,232	3,410	2,893	—	—	109,015
Charge for period	86	13,676	64	632	581	642	423	—	16,104
Disposals	1	(3,716)	—	—	(73)	—	—	—	(3,788)
Exchange adjustments	—	—	—	—	—	1	—	—	1
As at 30 June 2022	938	104,595	1,058	6,864	3,918	3,536	423	—	121,332
Net book value									
As at 30 June 2022	2,972	396,504	127	1,966	1,595	11,379	17,218	24,915	456,676
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

Included within the closing meter assets net book value of £396,504,000 (31 December 2021: £366,705,000) is £13,039,000 (31 December 2021: £16,246,000) relating to the traditional meter portfolio, which will be written down to zero by 1 July 2025. In the H1 2022 consolidated financial statements there was a £2,581,000 depreciation charge recognised on the traditional domestic meter portfolio (H1 2021: £2,465,000). £11,675,000 annualised recurring revenue as at 30 June 2022 (30 June 2021: £12,801,000) arises from the owned traditional meter portfolio.

The assets are secured by a bond and floating charge.

For the purpose of impairment testing, the traditional meter asset portfolio recognised within "Meter assets" is assessed as a standalone cash-generating unit (CGU) and its carrying amount is compared with the recoverable amount. In line with IAS 36, no impairment review was considered necessary at 30 June 2022 as the previous impairment review carried out at 31 December 2021 showed a significant excess of recoverable amount over carrying amount and management concluded that there were 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. Since this date there have also been no events that would eliminate this excess or any new material indicators of impairment.

Therefore, no impairment has been recognised in the period ended 30 June 2022 (30 June 2021: £nil). No impairment on other meter assets has been recognised in the period ended 30 June 2022 (30 June 2021: £nil).

8 Bank loans

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

No principle or interest was outstanding as at 31 December 2021 and no amounts were drawn in H1 2022. The amount recognised as Bank loans as at 30 June 2022 is therefore nil. Unamortised transaction costs of £1.9m (31 December 2021: £2.2m) that would ordinarily be deducted from the carrying value of bank loans have therefore been classified as Other assets.

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

9 Business combinations

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 deferred 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.

Management's purchase price allocation exercise is not yet finalised. The provisional fair values of the assets and liabilities acquired and of the consideration are as follows:

	Fair value £'000
Intangible assets: software	2,061
Trade and other receivables	123
Trade and other payables	(55)
Net assets acquired	2,129
Satisfied by:	
Cash	1,432
Contingent consideration	697
Total consideration	2,129

10 Asset acquisitions

During the period ended 30 June 2022, 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	Nature of the company
Balance Energy 2 Limited	12266348	Alexandra Business Park, Prescot Road, St Helens, Merseyside WA10 3TP	856	Special purpose vehicle
Fen Power 1 Limited	12875930	Salisbury House, Station Road, Cambridge CB1 2LA	874	Special purpose vehicle

Both companies report in British Pounds Sterling. The acquisitions enable SMS to obtain control over the rights required to develop and commission two 30MW grid-scale battery storage sites as part of the Group's investment strategy in Carbon Reduction (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 fair value £'000
Balance Energy 2 Limited	856	—	856
Fen Power 1 Limited	600	274	874
Total purchase consideration	1,456	274	1,730

The deferred consideration of £274,000 for Fen Power 1 Limited is payable in cash upon energisation (after the asset is tested and commissioned and electricity is imported from or exported to the grid).

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:

	Balance Energy 2 Limited £'000	Fen Power 1 Limited £'000	Total £'000
Assets under construction	856	874	1,730
Total purchase consideration	856	874	1,730

11 Investment in associate

On 15 June 2022, the Group invested £2.1m (including transaction costs) to acquire a 25% shareholding in Clenergy EV Ltd, a software business with a Charge Point Operator (CPO) platform focussed 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.

12 The half-yearly financial report was approved by the Board of Directors on 13 September 2022.

13 A copy of this half-yearly financial report is available by visiting our website at www.sms-plc.com.

14 Post balance sheet events

Following the 30 June 2022 period end, the Group acquired 100% of the issued share capital of the following companies:

Name of acquired company	Acquisition date	Cash paid £'000	Deferred consideration £'000	Total fair value £'000
Drumcross Energy Storage Limited	8 July 2022	2,815	—	2,815
Erskine Energy Storage Limited	17 August 2022	2,554	100	2,654

These acquisitions enable SMS to obtain control over the rights required to develop and commission two 30MW grid-scale battery storage sites as part of its ongoing investment strategy in carbon reduction assets.