

Smart Metering Systems plc

Strong H1 performance; confident outlook

Smart Metering Systems plc (AIM: SMS, "SMS" or the "Group"), the integrated energy infrastructure company owning and managing meters, energy data, grid-scale batteries and other carbon reduction ("CaRe") assets, today publishes its half year results for the six months ended 30 June 2023.

H1 financial performance

£'m (unless stated otherwise)	H1 2023	H1 2022	% Change
Alternative performance measures			
Index-linked annualised recurring revenue ("ILARR") ¹	110.0	93.1	+18%
Pre-exceptional EBITDA ²	36.1	29.1	+24%
Underlying profit before taxation ³	11.2	10.3	+9%
Underlying basic EPS (p) ⁴	6.13	5.92	+4%
Statutory performance measures			
Revenue	79.3	62.7	+26%
EBITDA	34.1	25.8	+32%
Profit before taxation	8.0	6.1	+31%
Basic EPS (p)	4.32	3.37	+28%
Dividend per share (p)	22.689	20.625	+10%
Net (debt)/cash	(96.3)	38.6	n/a

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 £110.0m at 30 June 2023, up 13% on year-end (31 December 2022: £97.1m) and up 18% on the prior period (30 June 2022: £93.1m)
- Revenue up 26% to £79.3m (H1 2022: £62.7m)
- Pre-exceptional EBITDA up 24% to £36.1m (H1 2022: £29.1m)
- Underlying profit before taxation up 9% to £11.2m (H1 2022: £10.3m)
- Net debt at 30 June 2023 of £96.3m (30 June 2022: net cash of £38.6m)

Smart meters

- ILARR growth was supported by higher rental per smart meter, driven by indexation and an increased focus on single fuel and Industrial and Commercial ("I&C") smart meter installations
- Smart meter portfolio increased to 2.3 million (31 December 2022: 2.1 million)
- Contracted order pipeline of c.1.95 million (31 December 2022: c.2.17 million), net of c.220,000 smart meters installed during the period
- Significant year-on-year growth in total engineer-delivered works resulting in higher transactional revenues and ILARR growth
- Continued increases to engineering capacity is expected to accelerate the installation run rate in H2 2023; on track to deliver at least 500,000 installations this year

Grid-scale batteries

- Grid-scale battery portfolio increased to 860MW (31 December 2022: 760MW) including:
 - 240MW operational¹
 - 140MW operational during H1 2023; performance within the Board's expected range
 - Additional 100MW operational since H1 2023

- 370MW fully secured, with 50MW expected to be operational in Q4 2023
 - 250MW under exclusivity
- Secured the option to increase the duration of at least 290MW 1 MW/hour sites to 2 MW/hour sites

Developing CaRe assets

- SMS continues to build delivery capability, commercial models and pipelines in developing CaRe assets, strategically aligned with adjacent markets
 - Acquired the domestic services division of Evergreen Energy on 22 August 2023, specialising in the installation and maintenance of renewable energy assets, including heat pump, solar and battery storage for homeowners
 - Development of METIS Energy – currently piloting behind-the-meter CaRe asset solutions to businesses, housing associations and consumers, beginning with domestic EV charging
 - Installed first public EV charging hubs, operated by the Clenergy EV platform

Capital allocation

- The current pipeline⁽²⁾ of smart meters and grid-scale batteries can be fully funded from asset-backed internally-generated cash flows and debt facilities
- Compounding RPI on recurring revenues provides effective protection in a higher interest rate environment
- Notwithstanding this strong position, the Group may consider selective asset recycling to maintain a prudent level of gearing in the medium term and to support future growth

Outlook

- FY 2023 pre-exceptional EBITDA and underlying PBT are expected to remain in line with the Board's expectations
- The Board expects FY 2024 pre-exceptional EBITDA to be marginally ahead of its previous expectations with year-on-year growth of c.20%, and underlying PBT is expected to be in line with the Board's previous expectations
- The Board continues to be confident in the medium-term outlook with the index-linkage of SMS's meter revenues continuing to underpin long-term cash flows
- Dividend growth of 10% to 33.275p per share intended for FY 2023 in line with stated policy of a 10% per annum increase until 2024; expect to continue with progressive dividend policy thereafter

(1) Of the 240MW operational, 50MW is energised and will be trading by the end of September

(2) Current pipelines include the existing c.1.95million meter order pipeline and 620MW 1 hour duration grid-scale battery pipeline.

Tim Mortlock, Chief Executive Officer, commented:

"SMS continues to deliver operationally and financially, with the strength and resilience of our model reflected in the significant growth in ILARR and EBITDA achieved during the first half of the year."

"Our index-linked revenues provide a natural hedge against increased interest rates in the short term whilst significantly benefitting long-term cash flows."

"Our existing pipelines of meters and grid-scale battery assets can be fully funded from our internal cash flows and debt facilities. Delivery of this pipeline is expected to drive further growth, and to more than double the Group's EBITDA over the next c.4 years."

"We are working to expand these pipelines, and to deliver the significant additional growth opportunities that exist within our developing CaRe assets."

"We have always been, and will remain, focused on delivering high quality, safe and secure growth."

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**

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The Company announces that its Joint Broker and Nominated Adviser has changed its name from Cenkos Securities plc to Cavendish Securities plc following completion of its own corporate merger.

Notes to Editors

Smart Metering Systems plc (www.sms-plc.com), the integrated energy infrastructure company owning and managing smart meters, energy data, grid-scale batteries and other carbon reduction assets ("CaRe") to facilitate effective energy management. 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 listed on AIM.

Overview

The Group continued to deliver a strong operational and financial performance during H1 2023; a testament to the resilient nature of our business model underpinned by our index-linked annual recurring revenues, which increased to £110.0m (+13% on year-end 2022). Our operational grid-scale battery portfolio performed in line with expectations, and we continued to make progress in developing other CaRe assets.

In H1 2023, SMS's engineering capability delivered significantly higher volumes of activity compared to the previous period. It fulfilled more transactional callout services alongside a higher proportion of single fuel and I&C installations, which generate a higher average rental per meter. The Group installed c.220,000 smart meters during H1 2023 (H1 2022: c.230,000) and, supported by continued increases to our engineering capacity, expects to accelerate the meter installation run-rate during the second half of the year and to achieve at least 500,000 installs in FY 2023.

The Group's smart meter portfolio stands at 2.3 million (31 December 2022: 2.1 million), with an additional contracted pipeline of c.1.95 million smart meters to be installed by the end of the roll-out programme.

The Group's operational grid-scale battery portfolio performed within the Board's expectations, generating an annualised EBITDA of c.£57,000 per MW in the period. An additional 100MW has become operational since 30 June 2023, bringing the Group's total operational capacity to 240MW. We expect to increase this to 290MW

by year end. The balance of our grid-scale battery pipeline stands at 570MW, of which 320MW is fully secured, with 250MW under exclusivity.

The existing pipeline of meter and grid-scale battery assets is expected to more than double the Group's EBITDA in c.4 years compared to FY 2022.

Notable developments in other CaRe verticals were achieved in H1 2023, followed by the acquisition of Evergreen Energy's domestic services division in August, which will enhance SMS's capacity to deliver an extended range of low-carbon, behind-the-meter energy solutions to the UK's domestic and commercial marketplaces. The Group has been developing its new consumer-facing business – METIS Energy – and pilots have commenced for the delivery of domestic EV infrastructure. We also installed our first public EV charging hubs in Elmbridge, operated by the Clenergy EV platform. These early-stage projects are important to inform the commercial model as we seek to build a diverse pipeline of activity across the UK.

The Board expects FY 2023 pre-exceptional EBITDA and underlying PBT to be in line with its expectations. For FY 2024, the Board expects pre-exceptional EBITDA to be marginally ahead of its previous expectations with c.20% year-on-year growth. Despite the impact of higher interest rates, underlying PBT is expected to be in line with previous expectations. The medium-term outlook remains strong as our index-linked revenues provide a hedge against interest rates whilst significantly benefiting long-term cash flows.

Index-linked annualised recurring revenue

ILARR grew to £110.0m as at 30 June 2023, which includes the annual RPI adjustment. This represents a 13% increase since the year end (31 December 2022: £97.1m).

Category	% Change	ILARR	Portfolio
Smart meters	+ 16.9 %	£71.5m	2.3 million
Data assets	+ 5.6 %	£16.9m	0.4 million
Industrial & Commercial meters	+ 17.2 %	£6.2m	0.1 million
Traditional domestic meters	+ 5.6 %	£11.8m	0.2 million
Third party assets	+3.9 %	£3.6m	1.4 million
Total	+ 13.3%	£110.0m	4.5 million

The Group's ILARR grew in line with the Board's expectations with higher rental per meter, driven by indexation and an increased delivery of single fuel and I&C smart meter installations.

UK smart meter rollout

SMS installed c.220,000 (H1 2022: c.230,000) smart meters during the first half of 2023, increasing the Group's smart meter portfolio to 2.3 million (31 December 2022: 2.1 million). The Group has maintained market share of c.14%, in line with FY 2022.

The UK smart meter rollout continues to present a significant opportunity to grow our ILARR, with a contracted smart meter order pipeline at 30 June 2023 of c.1.95 million meters (31 December 2022: c.2.17 million), net of meters installed in the period. Once fully installed this pipeline is expected to add c.£47m of EBITDA, excluding the impact of RPI. The roll-out programme aims to have at least 75% of all meters exchanged to smart by the end of 2025.

SMS's engineering capability delivered higher volumes of activity compared to the prior period, fulfilling more transactional callout services alongside a higher proportion of single fuel and I&C installations (which generate a higher rental income per meter). The positive net outcome was strong growth in ILARR and higher transactional revenue. We also continued to ensure the efficient overall utilisation of our engineering capacity during this period.

The Group has further increased its engineering capacity and expects the meter installation run-rate to accelerate during the second half of the year as a result; we expect to install at least 500,000 meters in FY 2023.

H1 2023 saw a concentrated drive to recruit and retain skilled talent amidst a competitive engineer labour market, with high demand across the industry. There will be ongoing investment in these initiatives during H2 2023, especially in the southeast of England, to ensure we appropriately and efficiently balance regional engineering capacity with customer portfolios. This, coupled with SMS's strong supply chain and inventory levels, provides the Board with confidence in the Group's ability to deliver successfully its contracted smart meter pipeline.

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 and is expected to continue through the remainder of the year in line with the wider enrolment and adoption programme.

During H1 2023, SMS won a pilot project with Alternative Home Area Network Company aimed at removing the technical barriers for smart meters in 'hard to reach' residential properties, which account for c.4% of UK households. This project builds on our previous provision of test centre facilities for this technical solution, which, alongside the Group's end-to-end integrated platform, provides additional growth opportunities in smart metering.

Grid-scale battery storage

At 30 June 2023, the Group's portfolio of grid-scale battery storage assets totalled 860MW (31 December 2022: 760MW), split as follows:

- 240MW¹ operational
 - 140MW operational during H1 2023
 - additional 100MW became operational in H2 2023
- 370MW fully secured, with 50MW expected to be operational in Q4 2023
- 250MW under exclusivity

Performance of the operational sites in H1 2023 has been within the Board's expected range, generating an annualised EBITDA of c.£57,000/MW. As anticipated, a larger volume of available battery storage capacity across the UK has saturated the frequency market, which was the primary grid service for the Group's portfolio in the prior year. Revenues year-to-date have been largely generated from balancing services, which forms the basis of our long-term expected annualised EBITDA contribution.

The successful energisation and commencement of operations for the additional two 50MW sites in September is a significant milestone for the business as we continue to execute on our pipeline and grow our operational, revenue generating, portfolio. A further 50MW project is in advanced construction and is expected to be operational by year end.

SMS has secured the option to increase the duration of at least 290MW 1 MW/hour sites to 2 MW/hour sites, which will enable the Group to access further revenue opportunities from delivery of balancing and other wholesale services.

(1) Of the 240MW operational, 50MW is energised and will be trading by the end of September

Developing CaRe verticals

Our developing CaRe verticals are strategically aligned with adjacent markets in which we can leverage our closely related technologies, engineering expertise and wider capabilities.

Behind-the-meter

SMS has been actively developing METIS Energy, contributing to the Group's journey to provide behind-the-meter CaRe solutions for businesses, housing associations and consumers, which are critical to the UK's transition to net zero.

The initial focus of METIS Energy will be the delivery of domestic EV charging infrastructure, with the aim of extending this to solar, storage and air source heat pump solutions in the near term. The Group has been operating several pilots and is actively engaging with the market, in particular housing associations and end consumers, to develop the commercial asset models required to scale full operation.

SMS purchased the domestic services division of Evergreen Energy Limited in August 2023, bringing into the Group significant technical expertise in domestic heat pumps, solar PV and battery storage. This strategic

acquisition bolsters the Group's overall capacity to deliver these carbon reduction assets on a wider national scale, to a fast-growing domestic and commercial marketplace.

We have also partnered with Samsung to deliver a UK Government funded heat pump trial in Oxford, comprising 150 heat pumps. This initial project is part of a wider requirement for 30,000 air source heat pumps across the council by 2040 and could be further upscaled nationwide.

Public EV charging infrastructure

The Group has installed its first public EV charging hubs in Elmbridge. The hubs will be operated by the Clenergy EV technology platform, a charge point operator platform which now manages over 3,500 public charging stations across the country. We are working with landlords, businesses, local authorities and fleet operators to build a pipeline of activity in the destination and rapid charging segments of the EV market and early-stage projects like this are important to inform the business case.

This is a developing area of our business and one which is closely aligned to our existing engineering skills and technology platforms, and where we see significant growth opportunity over the longer term.

Energy data management

Earlier this year we were pleased to be the largest independent aggregator of customers into the National Grid Demand Flexibility Service, which we believe is an important precursor to the development of a more flexible energy system - built on the data from smart meters.

As an established provider of accredited half hourly data services to businesses and energy suppliers in the I&C space, we have extended this capability in recent years to ensure we can obtain data effectively from domestic smart meters.

We are, therefore, well positioned as the industry programme to facilitate the mandatory market wide introduction of half hourly settlement to energy suppliers on smart meters progresses. SMS have been accepted as early adopters for the programme, with our METIS data services platform scheduled to participate in system testing in Q4. This programme, once implemented by 2026, will enable a more flexible UK energy system.

Energy Services

As expected, H1 2023 saw continued growth in our traditional consultancy and energy management services compared to the prior period, with ongoing pressures on our Industrial & Commercial customers to reduce costs in response to the current inflationary environment and retail energy prices.

ESG progress and sustainability

During H1 2023, SMS continued to make progress in executing its 2030 net zero roadmap.

Energy-efficiency upgrades are almost complete at one of our major office sites, including the use of solar, batteries and air source heat pumps. Almost one-fifth of the Group's fleet are expected to transition to mild-hybrid (MHEV) vehicles by the end of the year, firmly on track to transition the entire vehicle fleet to fully electric by 2030.

SMS's 'handprint' (carbon emissions mitigated through our customers using our products and services) during the period was twenty-two times higher when compared to our total Scope 1 and Scope 2 'footprint' (carbon emissions generated through our operations for the reasons explained below).

We have also seen continual improvement across our ESG ratings during H1 2023. Notably:

- MSCI – upgraded to AA rating
- S&P Global – increased score of 50 from 39, performing significantly above the average global score of 23
- Sustainalytics – performance in the top 4th percentile for the 'Global Universe' and 'Subindustry' categories
- Moody's – performance above sector average across all ESG performance categories

Capital allocation

The Group's current pipeline of smart meters and grid-scale batteries can be fully funded from asset-backed internally generated cash flows and debt facilities.

The Group has incurred c.£60m of capital expenditure on grid-scale battery storage sites still in construction and not yet operational as at 30 June 2023. Adjusting for this, the Group's leverage ratio is closer to c.0.5x (unadjusted: c.1.3x).

Notwithstanding this strong position, the Group may also consider selective asset recycling to both maintain a prudent level of gearing in the medium term and to support future growth.

Board changes

Mike Winkel was appointed as a Non-executive Director of the Group from 6 June 2023. As former COO of E.ON SE and CEO of its renewables business, Mike has extensive energy industry experience, which will be of significant value to the Group as it continues to build on its established growth platform.

Current trading and outlook

Meters:

- ILARR at the end of August 2023 stood at £111.0m (30 June 2023: £110.0m).
- Expect to install at least 500,000 meters in 2023 with a higher average rental per meter than our previous expectations.

Grid-scale battery storage:

- Two 50MW sites operational in September; further 50MW site expected to become operational by the end of the year.
- Trading performance of the Group's operational portfolio in H2 2023 is expected to remain in line with H1 performance.

Outlook:

- Index-linked revenues provide a hedge against short-term interest rates whilst significantly benefiting long-term cash flows.
- **FY 2023:** The Board expects pre-exceptional EBITDA and underlying PBT to remain in line with its previous expectations.
- **FY 2024:** The Board expects pre-exceptional EBITDA to be marginally ahead of its previous expectations, with year-on-year growth of c.20%, and underlying PBT to be in line with its previous expectations.
- The Board remains confident in both the near-term and medium-term outlook.

Financial review

Revenue

	H1 June 2023	H1 June 2022	
	£m	£m	% Change
Asset management	53.6	44.8	20%
Asset installation	17.6	12.3	43%
Energy management	8.1	5.6	45%
Group revenue	79.3	62.7	26%

Asset management revenues of £53.6m are 20% up on the prior period. This growth reflects the flow-through effect of meters installed by the end of 2022, new assets installed in H1 and the annual RPI uplift which took effect on 1 April 2023.

Asset installation revenues of £17.6m increased 43% on the prior period as a result of increased volume in transactional meter works, including emergency callout services.

Energy management revenues of £8.1m were 45% up on the prior period. This includes £4.0m revenue from our grid-scale battery sites (H1 2022: £2.8m); two further sites became operational in December 2022. Revenue from energy management excluding grid-scale batteries was £4.1m, up 46% on the prior period as

a key customer project in the hospitality sector sustained momentum with a sector focus on energy efficiency. At the beginning of the period, the energy management division also benefited from the successful participation in the National Grid Demand Flexibility Service using our Flexigrid platform.

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 was 93% which is in line with prior period (H1 2022: 93%).

The asset installation segment gross margin was 25% (H1 2022: 14%). As expected, the margin recovered through the second half of 2022 and into H1 2023. H1 2022 margin was depressed by additional one-off costs incurred in the sizeable upscaling of the Group's engineering workforce. Investment in our engineering capacity has continued in H1 2023, whilst ensuring efficient utilisation.

The energy management segment depreciation-adjusted gross margin has slightly decreased to 46% (H1 2022: 49%). This is due to our grid-scale battery sites which generated a 68% depreciation-adjusted gross margin over the period (H1 2022: 75%), impacted by timings as two further sites ramped up revenue-generating activity following completion of construction at the end of 2022. Grid-scale batteries delivered revenue of £4.0m and depreciation adjusted gross profit of £2.7m in the period. The gross margin on the segment's other activities remained broadly constant at 25% (H1 2022: 23%).

Overall, the depreciation-adjusted gross margin at the Group level remained consistent with the prior period at 73% (H1 2022: 73%).

Pre-exceptional EBITDA

Pre-exceptional EBITDA provides a measure of underlying performance that is comparable over time. Pre-exceptional EBITDA of £36.1m is 24% higher than in the prior period (H1 2022: £29.1m).

The £11.8m increase in depreciation-adjusted gross profit is partly offset by a £4.6m increase in net operating costs, excluding depreciation and amortisation. This has been driven primarily by an increase in staff costs, with several reward initiatives delivered in the period in recognition of the sustained inflationary pressures.

IT costs have also increased on the prior period, driven by strategic investment in key technologies and platforms to support growth in both our existing and developing CaRe verticals.

Underlying profit before tax

Depreciation costs on meter assets increased 15% to £15.7m (H1 2022: £13.7m) due to the increase in the meter asset portfolio.

Depreciation costs on grid-scale battery sites increased 275% to £1.5m (H1 2022: £0.4m) as a consequence of the commencement of depreciation on operational grid-scale battery sites at the end of 2022 and into H1 2023.

Depreciation costs on general property, plant and equipment, excluding meter assets and grid-scale battery sites, has reduced by £0.5m to £1.4m (H1 2022: £1.9m) due to some computer equipment and fixtures and fitting now being fully depreciated.

Amortisation costs on our intangible assets of £2.4m (H1 2022: £2.1m) mainly consist of software amortisation and are slightly higher than the prior period as a result of ongoing investment in our IT systems.

Net finance costs increased by £3.0m to £4.6m (H1 2022: £1.6m). Finance costs relating to our loan facility increased £3.1m as we started drawing on the facility in the second half of 2022 and macro-economic conditions have driven up interest rates in the current period. Interest on leases also increased £0.1m in relation to land leases on our grid-scale battery sites. The impact was, however, partly offset by interest income earned.

As a result, underlying profit before taxation increased by 9% to £11.2m (H1 2022: £10.3m).

Exceptional items

Exceptional items of £2.0m (H1 2022: £3.3m) mainly comprise a £1.9m loss on the traditional and first-generation smart meter ('SMETS1') portfolio (H1 2022: £3.3m). 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. Other exceptional operating items amounted to £0.1m (H1 2022: £nil).

Effective tax rate

The Group's capital expenditure on meter assets qualifies for capital allowances, providing the Group with tax relief on this 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 estimate of the effective tax rate on pre-exceptional profits for the full year is 27.41% (30 June 2022: 25.49%). This broadly 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. The increase in the forecast full year effective tax rate is largely attributable to a reduction in the deferred tax asset on the Group's share options.

Earnings per share

Underlying basic earnings per share (EPS), which excludes exceptional items, amortisation of certain intangibles and their associated tax effect, was 6.13p (H1 2022: 5.92p), reflecting the growth in underlying profitability of the Group. Statutory earnings per share increased to 4.32p (H1 2022: 3.37p).

Dividend

A 30.25p per share dividend in respect of FY 2022 was approved at the Group's Annual General Meeting in May, and the fourth and final instalment of this was paid in July 2023. A dividend accrual of £10.1m has therefore been recognised at 30 June 2023 in our interim financial statements.

In line with the Group's policy to grow dividends at 10% per annum until 2024, a 33.275p per share dividend is intended in respect of FY 2023. 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	05 October 2023	06 October 2023	26 October 2023
2	04 January 2024	05 January 2024	25 January 2024
3	04 April 2024	05 April 2024	25 April 2024
4	04 July 2024	05 July 2024	25 July 2024

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

Cash flow and capex investment

Operating cash inflow in H1 2023 was £30.3m (H1 2022: £18.6m). The cash inflow reflects £36.1m pre-exceptional EBITDA, £2.7m of non-cash costs included in EBITDA and a £8.5m 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 drew down a further £75.0m under its loan facility during the period, taking the total facility drawn to £140m.

The cash generated from operations and from our borrowing is funding continued investment in our revenue-generating meter and grid-scale battery assets.

Capital expenditure on property, plant and equipment was £63.0m (H1 2022: £59.1m). Of this, £50.1m was invested in meter and data assets and £10.2m in developing grid-scale battery sites.

Investing activities also include payments of £0.5m to settle deferred consideration on battery sites acquired in prior periods and a further £7.9m of instalment payments for grid-scale batteries which have not yet been

delivered. 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 £2.6m (H1 2022: £1.1m) investment has been made in intangible assets, mainly relating to the development of software to support the metering, data and installations businesses.

Financial resources

Net debt at 30 June 2023 was £96.3m (31 December 2022: £31.2m). This excludes restricted cash and lease liabilities accounted for under IFRS 16.

The Group has in place a £420m debt facility and was fully compliant with all its bank covenants throughout the period. The Group has £45.3m available in cash (31 December 2022: £32.8m) and £280m in unutilised facilities (31 December 2022: £355m) and therefore continues to have the financial flexibility required to deliver growth in a capital-efficient way.

The Group's leverage ratio, calculated as net debt over the 6-month annualised EBITDA, was c.1.3x at 30 June 2023. However, this includes c.£60m of cumulative capital expenditure on the construction of grid-scale battery storage sites that are not yet operational. Adjusting for this, the Group's leverage ratio is closer to c.0.5x.

The Group's current pipeline of smart meters and grid-scale batteries can be fully funded from asset-backed internally generated cash flows and debt facilities. Notwithstanding this strong position, the Group may also consider selective asset recycling to both maintain a prudent level of gearing in the medium term and to support future growth.

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.
Underlying profit after taxation	Profit after taxation excluding exceptional items and amortisation of certain intangibles 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.

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 2023 £m	Period ended 30 June 2022 £m	Percentage change
Index-linked annualised recurring revenue	110.0	93.1	18%
Group revenue	79.3	62.7	26%
Statutory profit from operations	13.0	7.7	
Amortisation of intangibles	2.4	2.1	
Depreciation	18.7	16.0	
Statutory EBITDA	34.1	25.8	32%
Exceptional items ¹	2.0	3.3	
Pre-exceptional EBITDA	36.1	29.1	24%
Net interest	(4.6)	(1.6)	
Share of profit/(loss) of associate	(0.4)	-	
Depreciation	(18.7)	(16.0)	
Amortisation of intangibles included in underlying profit before taxation	(1.2)	(1.2)	
Underlying profit before taxation	11.2	10.3	9%
Exceptional items ¹	(2.0)	(3.3)	
Amortisation of intangibles excluded in underlying profit before taxation	(1.2)	(0.9)	
Statutory profit before taxation	8.0	6.1	31%
Taxation	(2.2)	(1.6)	
Statutory profit after taxation	5.8	4.5	29%
Amortisation of intangibles excluded in underlying profit after taxation	1.2	0.9	
Exceptional items ¹	2.0	3.3	
Tax effect of adjustments	(0.8)	(0.8)	
Underlying profit after taxation	8.2	7.9	4%
Weighted average number of ordinary shares (basic)	133,338,954	133,225,387	
Underlying basic EPS (pence)	6.13	5.92	
Weighted average number of ordinary shares (diluted)	133,911,379	134,030,175	
Underlying diluted EPS (pence)	6.11	5.89	

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.

Consolidated income statement

For the period ended 30 June 2023

		Unaudited					
		Six months ended 30 June					
	Notes	2023 Before exceptional items £'000	2023 Exceptional items ¹ £'000	2023 Total £'000	2022 Before exceptional items £'000	2022 Exceptional items ¹ £'000	2022 Total £'000
Revenue	3	79,307	-	79,307	62,676	—	62,676
Cost of sales		(38,838)	-	(38,838)	(30,834)	—	(30,834)
Gross profit		40,469	-	40,469	31,842	—	31,842
Administrative expenses		(25,783)	(1,984)	(27,767)	(21,330)	(3,325)	(24,655)
Other operating income		344	-	344	532	—	532
Profit from operations		15,030	(1,984)	13,046	11,044	(3,325)	7,719
Share of profit/(loss) of associate		(388)	-	(388)	—	—	—
Finance costs		(5,092)	-	(5,092)	(1,741)	—	(1,741)
Finance income		471	-	471	78	—	78
Profit/(loss) before taxation		10,021	(1,984)	8,037	9,381	(3,325)	6,056
Taxation		(2,746)	464	(2,282)	(2,391)	831	(1,560)
Profit/(loss) for the period and total comprehensive income attributable to owners of the parent		7,275	(1,520)	5,755	6,990	(2,494)	4,496

1 Refer to note 4 for details of exceptional items.

Consolidated statement of comprehensive income

For the period ended 30 June 2023

	Unaudited					
	Six months ended 30 June					
	2023 Before exceptional items £'000	2023 Exceptional items £'000	2023 Total £'000	2022 Before exceptional items £'000	2022 Exceptional items £'000	2022 Total £'000
Profit/(loss) for the period	7,275	(1,520)	5,755	6,990	(2,494)	4,496
Other comprehensive income						
Exchange differences on translation of foreign operations	(1)	—	(1)	9	—	9
Other comprehensive income/(loss) for the period, net of tax	(1)	—	(1)	9	—	9
Total comprehensive income for the period attributable to owners of the parent	7,274	(1,520)	5,754	6,999	(2,494)	4,505

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 2023 Unaudited	Six months ended 30 June 2022 Unaudited
Basic earnings per share (pence)	5	4.32	3.37
Diluted earnings per share (pence)	5	4.30	3.35

Consolidated interim statement of financial position

As at 30 June 2023

	Notes	Unaudited 30 June 2023 £'000	Audited 31 December 2022 £'000
Assets			
Non-current assets			
Intangible assets		25,946	25,832
Property, plant and equipment	7	569,780	533,240
Investments		40	40
Investments in associates		1,551	1,940
Trade and other receivables		20,264	12,347
Total non-current assets		617,581	573,399
Current assets			
Inventories		45,760	37,438
Trade and other receivables		55,552	52,935
Cash and cash equivalents		45,272	32,770
Restricted cash		219	307
Total current assets		146,803	123,450
Assets held for sale		513	513
Total assets		764,897	697,362
Liabilities			
Current liabilities			
Trade and other payables		80,577	69,378
Bank loans and overdrafts		2,920	591
Lease liabilities		718	885
Other liabilities		950	1,388
Total current liabilities		85,165	72,242
Non-current liabilities			
Bank loans	8	138,624	63,349
Lease liabilities		11,105	11,476
Deferred tax liabilities		15,922	13,496
Provisions		2,033	2,033
Other long-term liabilities		1,195	1,280
Total non-current liabilities		168,879	91,634
Total liabilities		254,044	163,876
Net assets		510,853	533,486
Equity			
Share capital		1,336	1,334
Share premium		333,416	332,332
Other reserve		9,562	9,562
Own share reserve		(1,086)	(955)
Foreign currency translation reserve		(37)	(36)
Retained earnings		167,662	191,249
Total equity attributable to owners of the parent		510,853	533,486

Consolidated interim statement of changes in equity

For the period ended 30 June 2023

	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 2022	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
Total comprehensive income for the period	—	—	—	—	—	10,375	10,375
Transactions with owners in their capacity as owners							
Dividends (note 6)	—	—	—	—	—	(10,087)	(10,087)
Shares issued	—	27	—	—	—	—	27
Movement in own shares	—	—	—	(28)	—	(201)	(229)
Share-based payments	—	—	—	—	—	1,245	1,245
Income tax effect of share options	—	—	—	—	—	416	416
As at 31 December 2022	1,334	332,332	9,562	(955)	(36)	191,249	533,486
Total comprehensive income for the period	—	—	—	—	(1)	5,755	5,754
Transactions with owners in their capacity as owners							
Dividends (note 6)	—	—	—	—	—	(30,282)	(30,282)
Shares issued	2	1,084	—	—	—	—	1,086
Movement in own shares	—	—	—	(131)	—	(102)	(233)
Share-based payments	—	—	—	—	—	1,186	1,186
Income tax effect of share options	—	—	—	—	—	(144)	(144)
As at 30 June 2023	1,336	333,416	9,562	(1,086)	(37)	167,662	510,853

Consolidated interim statement of cash flows

For the period ended 30 June 2023

	Six months ended 30 June 2023 Unaudited £'000	Six months ended 30 June 2022 Unaudited £'000
Operating activities		
Profit before taxation	8,037	6,056
Share of (profit)/loss of associate	388	—
Finance costs	5,092	1,741
Finance income	(471)	(78)
Foreign exchange loss	—	(19)
Exceptional items ¹	1,857	3,293
Depreciation	18,651	16,104
Amortisation of intangibles	2,356	2,059
Share-based payment expense	1,186	1,365
Loss on disposal of property, plant and equipment	1,452	892
Loss on disposal of intangible assets	52	—
Movement in inventories	(7,322)	(5,923)
Movement in trade and other receivables	(2,844)	691
Movement in restricted cash	—	(1,655)
Movement in trade and other payables	1,644	(6,398)
Movement in provisions	—	(4)
Cash generated from operations	30,078	18,124
Income tax received	227	503
Net cash generated from operations	30,305	18,627
Investing activities		
Payments for acquisition of subsidiaries, net of cash acquired ²	(543)	(1,655)
Payment for acquisition of new business	—	(1,432)
Payment to acquire interest in associate	—	(2,125)
Payments to acquire property, plant and equipment	(62,985)	(59,119)
Payments on account to acquire grid-scale battery assets	(7,918)	(13,632)
Proceeds on disposal of property, plant and equipment	3,494	1,730
Payments to acquire intangible assets	(2,582)	(1,133)
Finance income received	471	78
Net cash (used in)/generated from investing activities	(70,063)	(77,288)
Financing activities		
New borrowings	140,000	—
Borrowings repaid	(65,000)	—
Principal elements of lease payments	(843)	(719)
Finance costs paid	(2,658)	(1,440)
Net proceeds from share issue	1,086	258
Purchase of own shares	(233)	(166)
Dividends paid	(20,178)	(18,334)
Net cash (used in)/generated from financing activities	52,174	(20,401)
Net (decrease)/increase in cash and cash equivalents	12,416	(79,062)
Exchange gain on cash and cash equivalents	(2)	(1)
Cash and cash equivalents at the beginning of the period	33,077	117,687
Cash and cash equivalents at the end of the period	45,491	38,624

1 Non-cash material exceptional items include £1,857,000 for losses on our meter portfolio (30 June 2022: £3,293,000).

2 Payments for acquisition of subsidiaries comprise £543,000 of deferred consideration from prior period acquisitions settled in the current period. There were no new subsidiaries acquired in the period ended 30 June 2023.

Notes to the interim report

For the period ended 30 June 2023

1 Basis of preparation

This condensed consolidated interim financial report for the half-year reporting period ended 30 June 2023 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 2022.

The financial information for the six months ended 30 June 2023 is also unaudited.

The comparative information for the year ended 31 December 2022 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 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 and the planned roll-out of grid-scale battery storage assets.

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 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.

The Group has a £420m revolving credit facility which matures in December 2025. At 30 June 2023, the Group had drawn down £140m (31 December 2022: £65m) and had a net debt position of £96.3m (31 December 2022: £31.2m).

The Group was compliant with all its debt covenants at 30 June 2023. 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 2023 these stood at 11.79x and 1.28x respectively, 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 balance sheet shows consolidated net assets of £510.9m (31 December 2022: £533.5m), of which £456.4m (31 December 2022: £429.7m) 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 approved a 30.25p per share annualised dividend in respect of FY 2022 and all four cash instalments had been paid at the date of approving the interim financial statements. The Group intends to pay a 33.275p per share annualised dividend in respect of FY 2023.

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.

Significant accounting policies

As required in AIM Rule 18, the interim financial report for the half-year reporting period ended 30 June 2023 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 2023 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 2022, except for the adoption of new standards effective 1 January 2023.

For periods of account commencing on or after 1 January 2023, IAS 12.15 (d) has amended the scope of the Initial Recognition Exemption ('IRE') to prevent its application to deferred tax assets and liabilities arising from a single transaction. The application of this amendment to the Group has been assessed at 30 June 2023 and is not considered to have a material impact on the condensed consolidated interim financial results.

Several other amendments apply for the first time in 2023 but do not have an impact on the condensed consolidated interim financial report for the half-year reporting period ended 30 June 2023.

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 2022.

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 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 2023					
Segment revenue	53,621	46,324	8,057	—	108,002
Inter-segment revenue	—	(28,695)	—	—	(28,695)
Revenue from external customers	53,621	17,629	8,057	—	79,307
Cost of sales	(19,724)	(13,248)	(5,866)	—	(38,838)
Segment gross profit – pre-exceptional cost of sales	33,897	4,381	2,191	—	40,469
Exceptional items (cost of sales)	—	—	—	—	—
Segment gross profit	33,897	4,381	2,191	—	40,469
Other operating (costs)/income	252	—	14	(21,907)	(21,641)
Depreciation	—	(21)	(146)	(1,274)	(1,441)
Amortisation of intangibles	(1,146)	—	(59)	(1,152)	(2,357)
Profit/(loss) from operations – pre-exceptional operating items	33,003	4,360	2,000	(24,333)	15,030
Exceptional items (operating)	(1,859)	—	—	(125)	(1,984)
Profit/(loss) from operations	31,144	4,360	2,000	(24,458)	13,046
Share of profit/(loss) of associate					(388)
Net finance costs: other					(4,621)
Profit/(loss) before tax					8,037
Tax expense					(2,282)
Profit for period					5,755

	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 ¹	(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

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

Depreciation of £15.7m (30 June 2022: £13.7m) 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 £1.5m (30 June 2022: £0.4m) associated with grid-scale batteries has been reported within Cost of sales, in the energy management segment, as the battery assets directly drive revenue.

Within the energy management segment, Revenue of £4.0m (30 June 2022: £2.8m) and depreciation-adjusted Cost of sales of £1.3m (30 June 2022: £0.7m) associated with the grid-scale battery service line have been reported, generating a depreciation-adjusted gross profit of £2.7m in the period ended 30 June 2023 (30 June 2022: £2.1m).

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 2023					
Assets reported by segment					
Intangible assets	14,810	3,497	3,164	4,475	25,946
Property, plant and equipment	456,436	102	102,662	10,580	569,780
Investments in associates	—	—	1,551	—	1,551
Inventories	45,491	269	—	—	45,760
Other receivables	—	—	20,264	—	20,264
Contract assets	—	17	18	—	35
	516,737	3,885	127,659	15,055	663,336
Assets not by segment					101,561
Total assets					764,897
Liabilities by segment					
Contract liabilities	2,323	1,059	38	—	3,420
Lease liabilities	—	—	8,374	3,449	11,823
Other liabilities	—	—	950	—	950
Provisions	—	—	1,963	70	2,033
Other long-term liabilities	626	—	569	—	1,195
Bank loans	—	—	—	141,544	141,544
	2,949	1,059	11,894	145,063	160,965
Liabilities not by segment					93,079
Total liabilities					254,044
31 December 2022					
Assets reported by segment					
Intangible assets	13,550	3,497	3,161	5,624	25,832
Property, plant and equipment	429,709	71	95,225	8,235	533,240
Investments in associates	—	—	1,940	—	1,940
Inventories	37,136	302	—	—	37,438
Other receivables	—	—	12,347	—	12,347
Contract assets	—	10	277	—	287
					86,278
Assets not by segment					697,362
Total assets	13,550	3,497	3,161	5,624	25,832
Liabilities by segment					
Contract liabilities	1,518	1,805	80	—	3,403
Lease liabilities	—	—	8,405	3,956	12,361
Other liabilities	606	—	2,062	—	2,668
Provisions	—	—	1,963	70	2,033
					20,465
Liabilities not by segment					143,411
Total liabilities					163,876

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.

	Asset management £'000	Asset installation £'000	Energy management £'000	Total operations £'000
Period ended 30 June 2023				
Major service lines				
Metering	47,117	—	—	47,117
Data management	6,503	—	—	6,503
Utility connections	—	4,023	—	4,023
Transactional meter works	—	13,589	—	13,589
Grid-scale batteries	—	—	4,010	4,010
Energy management	—	18	4,047	4,065
	53,620	17,630	8,057	79,307
Timing of revenue recognition				
Services transferred at a point in time	—	13,589	1,024	14,613
Services transferred over time	53,620	4,041	7,033	64,694
	53,620	17,630	8,057	79,307

	Asset management £'000	Asset installation £'000	Energy management £'000	Total operations £'000
Period ended 30 June 2022				
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

4 Exceptional items

	30 June 2023 £'000	30 June 2022 £'000
Exceptional operating items		
Losses on the traditional and SMETS1 meter portfolio	(1,858)	(3,292)
Other	(126)	(33)
Total exceptional items	(1,984)	(3,325)

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 2023 Unaudited £'000	Six months ended 30 June 2022 Unaudited £'000
Profit for the period used for calculation of basic EPS	5,755	4,496
Number of shares		
Weighted average number of ordinary shares for the purposes of basic EPS	133,338,954	133,225,387
Effect of potentially dilutive ordinary shares:		
– share options	572,425	804,788
Weighted average number of ordinary shares for the purposes of diluted EPS	133,911,379	134,030,175
EPS:		
– basic (pence)	4.32	3.37
– diluted (pence)	4.30	3.35

6 Dividends

	Six months ended 30 June 2023 Unaudited £'000	Six months ended 30 June 2023 Per share (pence)	Year ended 31 December 2022 Audited £'000	Year ended 31 December 2022 Per share (pence)	Six months ended 30 June 2022 Unaudited £'000	Six months ended 30 June 2022 Per share (pence)
FY21 2nd interim dividend paid	—	—	9,166	6.875	9,166	6.875
FY21 3rd interim dividend paid	—	—	9,169	6.875	9,169	6.875
FY21 final dividend paid	—	—	9,170	6.875	9,170	6.875
FY22 first dividend accrued	—	—	10,087	7.5625	—	—
FY22 1st interim dividend paid	—	—	—	—	—	—
FY22 2nd interim dividend paid	10,088	7.5625	—	—	—	—
FY22 3rd interim dividend paid	10,090	7.5625	—	—	—	—
FY22 final dividend accrued	10,104	7.5625	—	—	—	—
Total dividends	30,282	22.6875	37,592	28.1875	27,505	20.625

Per the Group's dividend policy, a 30.25p per share dividend was approved in respect of FY 2022, payable in four instalments of 7.5625p per share. The final instalment of the FY 2022 dividend was paid on 27 July 2023.

A 33.275p per share dividend is intended in respect of FY 2023 payable in four instalments of 8.31875p 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 2022	2,805	461,340	1,170	8,207	5,131	12,273	—	33,990	524,916
Reclassification	—	—	—	1	—	—	54,048	(54,049)	—
Reclassified as held for sale	(688)	—	—	—	—	—	—	—	(688)
Additions	1,105	105,004	18	994	719	5,509	84	36,251	149,684
Acquisitions	—	—	—	1	—	—	—	15,190	15,191
Disposals	(4)	(20,773)	(2)	(8)	(494)	(785)	—	—	(22,066)
Exchange adjustments	—	—	—	3	—	3	—	—	6
As at 31 December 2022	3,218	545,571	1,186	9,198	5,356	17,000	54,132	31,382	667,043
Reclassification	—	—	—	—	—	—	124	(124)	—
Additions	—	50,086	96	320	2,391	—	—	10,177	63,070
Disposals	—	(12,014)	(5)	(36)	(1,108)	(54)	—	—	(13,217)
Exchange adjustments	—	—	—	(2)	—	(1)	—	—	(3)
As at 30 June 2023	3,218	583,643	1,277	9,480	6,639	16,945	54,256	41,435	716,893
Depreciation									
As at 1 January 2022	851	94,635	994	6,232	3,410	2,893	—	—	109,015
Reclassified as held for sale	(174)	—	—	—	—	—	—	—	(174)
Charge for year	172	28,340	91	1,176	1,038	1,264	994	—	33,075
Disposals	(3)	(7,116)	—	(7)	(391)	(599)	—	—	(8,116)
Exchange adjustments	—	—	—	2	—	1	—	—	3
As at 31 December 2022	846	115,859	1,085	7,403	4,057	3,559	994	—	133,803
Charge for period	79	15,716	30	474	311	632	1,494	—	18,736
Disposals	—	(4,373)	(5)	(36)	(956)	(54)	—	—	(5,424)
Exchange adjustments	—	—	—	(1)	—	(1)	—	—	(2)
As at 30 June 2023	925	127,202	1,110	7,840	3,412	4,136	2,488	—	147,113
Net book value									
As at 30 June 2023	2,293	456,441	167	1,640	3,227	12,809	51,768	41,435	569,780
As at 31 December 2022	2,372	429,712	101	1,795	1,299	13,441	53,138	31,382	533,240
As at 1 January 2022	1,954	366,705	176	1,975	1,721	9,380	—	33,990	415,901

Included within the closing meter assets net book value of £456,441,000 (31 December 2022: £429,712,000) is £9,251,000 (31 December 2022: £11,173,000) relating to the traditional meter portfolio, which will be written down to zero by 1 July 2025. In the H1 2023 consolidated financial statements there was a £2,061,000 depreciation charge recognised on the traditional domestic meter portfolio (H1 2022: £2,581,000). £11,790,000 annualised recurring revenue as at 30 June 2023 (30 June 2022: £11,675,000) 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 2023 as the previous impairment review carried out at 31 December 2022 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 2023 (30 June 2022: £nil). No impairment on other meter assets has been recognised in the period ended 30 June 2023 (30 June 2022: £nil).

8 Bank loans

	Six months ended 30 June 2023 Unaudited £'000	Six months ended 30 June 2022 Unaudited £'000
Current	2,920	—
Non-current	138,624	—
	141,544	—

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 balance as at 30 June 2023 is stated net of £1,376,000 of unamortised transaction costs (31 December 2022: £1,651,000).

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

9 The half-yearly financial report was approved by the Board of Directors on 12 September 2023.

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

11 Post balance sheet events

Following the 30 June 2023 period end, the Group acquired the trade and assets of the domestic services division of Evergreen Energy Limited. Evergreen Energy's domestic services division specialises in the installation and maintenance of renewable energy assets, including heat pump, solar and battery storage for homeowners. The acquisition will enhance SMS's capacity to deliver an extended range of low-carbon, behind-the-meter energy solutions to the UK's domestic and commercial marketplaces.